



# **A Future for Employment Services?**

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Submission on the Department of Education, Employment and Workplace Relations' Discussion Paper on Employment Services Reform

**Contact: Frank Quinlan**  
**Executive Director**

Catholic Social Services Australia  
PO Box 326, Curtin ACT 2605  
Telephone: 02-6285 1366  
Mobile: 0409-655 460

# 1 Introduction

Catholic Social Services Australia welcomes the opportunity to comment on the employment services model outlined in the discussion paper *The Future of Employment Services in Australia*. The new model outlined in that discussion paper addresses many of the existing model's most serious problems (see [Attachment A](#)).

This submission offers comments on whether or not the proposed model will address problems with the existing arrangements and provides feedback on the discussion questions raised in the Department's paper. Our response to these questions incorporates feedback from our member organisations.

## 2 Major concerns with the proposed model

### 2.1 JSCI and JCA Reviews

The proposed reforms put great stress on the JSCI/JCA process in its allocation of job seekers to each of the four service streams.

The JSCI score itself, while indicative of the overall disadvantage of a job seeker, is a *risk management* tool not an *assessment* tool, and so it does not identify sufficiently accurately the factors of disadvantage that dictate the assistance required and therefore the cost of intervention:

- As an example, mature age and ethnic background are indicative of labour market disadvantage; however, no intervention can change these for the job seeker. Service emphasis must be placed on "changeable" factors such as skills, knowledge, behaviour and attitudes of the job seeker or community and employer attitudes if placement is to be effected.
- These latter factors dictate the cost of intervention and therefore the appropriate service stream needed.

The JSCI is unable to distinguish between job seekers who need assistance primarily with job search from those who need employability assistance. It does not indicate how responsive a job seeker will be to assistance or which kind of assistance they will respond to.

Associated with this is the historical use of the JSCI as a rationing tool to manage the forced, arbitrary and resource-based distribution of job seeker flows into particular service streams. This means that the definition of what constitutes "disadvantage" varies for reasons other than the needs of job seekers.

In order to better match job seekers to streams and to determine appropriate fees, the Department could consider developing additional instruments. In 2002 the Productivity Commission suggested introducing:

... an instrument that assesses the likely responsiveness of a job seeker to active labour market assistance, rather than just their risk of unemployment if no intervention is undertaken. Such an instrument would try to estimate the efficacy of different interventions for job seekers, so that the type, magnitude and duration of assistance was more evidence-based (Productivity Commission 2002: 8.10).

Currently assignments to streams, the fee structure and the duration of assistance has had a very limited basis in empirical evidence. The percentages assigned to the streams, the fees offered and the durations of assistance allowed, seem to be based more on budget constraints than evidence about the different levels of assistance job seekers need and the likely cost of achieving employment impacts.

In view of the foregoing, CSSA believes that using the JSCI score as the only or primary determinant of stream allocation decisions is inappropriate. What is needed is a more objective means of assigning job seekers to particular service streams such that the funding in that stream reflects the cost of the service interventions necessary to address job seeker needs and achieve sustainable employment and other desirable outcomes.

## 2.2 Categories of job seeker needs

From a practical service perspective, job seeker needs can be categorised as follows.

- **Employment Needs:** Directly related to the normal requirements for choosing, finding and performing a job effectively: appropriate job choice; job search skills; vocational skills/qualifications; and work experience.
- **Pre-employment Needs:** The fundamental pre-requisites for contemporary living and working: English language, English literacy and numeracy skills; basic general education; and life skills.
- **Personal Needs:** Physical, emotional, intellectual, psychological and attitudinal characteristics as well as lifestyles that have a significant impact on getting and keeping a job (mature age, health, addiction, disability, homelessness, criminality and psychological condition).

## 2.3 Streaming job seekers

The professional skill and cost required to deal with the above needs, as a rule, increases in descending order. However, many job seekers possess a mixture of these needs and this makes streaming difficult. Nevertheless, based on the apparent intent of the Work Ready Stream (1) and Disadvantaged Streams (2, 3 and 4) of the proposed reforms, CSSA suggests that:

- Stream 1, as it is meant and funded for “Work Ready” job seekers, should be restricted to those job seekers who require no assistance other than finding suitable, satisfying and sustainable employment. These job seekers would be defined as follows:
  - have a clear employment goal that reflects their personal capacity and potential and is realistically achievable in the local labour market;
  - possess all of the necessary vocational skills, qualifications, work experience/habits to realise the above employment goal locally within three months;
  - have satisfactory job search skills;
  - have no major pre-employment needs; and
  - possess no major personal needs.
- Stream 4, as it is meant to accommodate mainly the current PSP and JPET clients, should be restricted to those job seekers with major personal needs. These would be determined, as is proposed, by Job Capacity Assessments.
- By exclusion, Streams 2 and 3 would receive the job seekers not allocated to Streams 1 or 4. These job seekers would have varying mixes of: no minor or major employment needs; no, minor or major pre-employment needs; and no or minor personal needs:
  - Given the variety of circumstances of this group, it would seem appropriate that the JSCI score would be an adequate proxy for differing needs and funding requirements. Alternatively, the two streams could be merged into a single stream.

### 2.3.1 Streaming profile

Based on the experience of CSSA's services, the streaming profile of job seekers in the Discussion Paper is considered incorrect and inappropriate. Indeed, it gives the impression that it has been based on "resource rationing" principles rather than client needs. In particular:

- a much lower proportion of current job seekers than the indicated 52% are work ready – probably no more than 20% or so; and
- the proportion of job seekers with major personal needs are higher than the 15% indicated – probably 20% to 25%.

Therefore, CSSA recommends that in acknowledgement of client needs at this time, a streaming profile similar to that outlined in the illustration below (see Figure 1) is required to ensure needs can be addressed and both social inclusion and employment outcomes are realised.

**Figure 1: Indicative Stream Populations**

	Stream 1	Str2	Str3	Str4
<b>Proposed</b>	52%	25%	8%	15%
<b>Needed</b>	20%	32%	25%	23%

<p><b>Work Ready</b></p> <ul style="list-style-type: none"> <li>◆ No major personal or pre-employment needs</li> <li>◆ Appropriate Job Choice</li> <li>◆ Relevant Skills, Qualifications, Work Experience/Habits</li> <li>◆ Job Search Skills</li> </ul>	<p><b>Moderately Disadvantaged</b></p> <ul style="list-style-type: none"> <li>◆ Not Work Ready</li> <li>◆ No major personal needs</li> <li>◆ Low to Moderate JSCI Score</li> </ul>	<p><b>Highly Disadvantaged</b></p> <ul style="list-style-type: none"> <li>◆ Not Work Ready</li> <li>◆ No major personal needs</li> <li>◆ High JSCI Score</li> </ul>	<p><b>Major Personal Needs</b></p>
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Of course, implementing such an approach will have significant resourcing implications – this is dealt with below.

## 2.4 Needs-based service

The services provided in each stream should be based on addressing and overcoming job seeker needs in order to realise economic and social inclusion outcomes. [Attachment B](#) provides a flow chart that summarises the kind of service framework necessary to ensure job seeker needs are addressed appropriately. The key features are summarised below.

### 2.4.1 Stream 1 (Work Ready)

Discussion Paper proposals for this stream are accepted with two exceptions:

- The proposal to assign job seekers to work experience after 12 months in Stream 1 should be based on confirmation of work readiness. Following assessment at the end of 12 months in Stream 1, job seekers considered not work ready should be referred to a higher stream.

- After completion of work experience, any job seekers remaining unemployed should be referred to a higher stream automatically in recognition of the fact that after a long period of unemployment, more intensive assistance is needed.
- Outcomes in Streams 2 & 3 should include achievement of Employment Pathway Milestones (eg: progress with overcoming language or literacy barriers) in addition to employment outcomes.

#### 2.4.2 *Stream 2 (Moderately Disadvantaged) and Stream 3 (Highly Disadvantaged)*

- Job seekers assigned to Streams 2 and 3 should remain in the relevant stream until they become work ready or are assigned to Stream 4.
- Once work readiness is achieved, a period of six months intensive job search should be provided for within the stream to capitalise on the investment already made. Only after that period should referral to work experience occur unless this is an appropriate response to a job seeker's needs.

#### 2.4.3 *Stream 4 (Major Personal Needs)*

- Job seekers assigned to Stream 4 should remain there until personal needs are addressed or it becomes clear that such needs are unlikely to be overcome (confirmed via Job Capacity Assessment):
  - Once personal needs are addressed, these job seekers should be referred to Streams 2 or 3 for addressing of pre-employment and employment needs and placement in work.
  - If a JCA confirms that personal needs are unlikely to be overcome and hence that placement in work is unlikely, these job seekers should be transferred to other allowances and services as appropriate.
- Outcomes in Stream 4 should be heavily focused on Employment Pathway milestones (eg, achieving progressive steps towards overcoming personal needs) rather than on economic outcomes – although the latter could also be encouraged.

#### 2.4.4 *The Length of Support to be provided in Streams 3 & 4 is Inadequate*

It takes time to address the various barriers to employment faced by highly disadvantaged job seekers — problems such as homelessness, drug and alcohol addiction, mental health concerns, poor interpersonal skills, and lack of confidence.

In many cases there is a series of social/personal goals that need to be met before vocational related assistance will be successful and sustainable.

People who are entrenched in disadvantage often have a tenuous relationships with the service system. Building trust and rapport takes time — our experience demonstrates that this process can take up to six months. During this time the underlying causes of a job seeker's disadvantage become clear and the case worker is able to develop strategies to address them.

One member who currently delivers services through PSP estimates that almost 90 per cent of their clients would flow through to Work Experience under the proposed system. Work Experience is likely to be of less value to these job seekers than continued assistance through Streams 3 or 4.

#### *2.4.5 The Intensity of Support to be provided in Streams 3 & 4 is Inadequate*

The level of intensity with which assistance is provided in the prescribed framework (29 hours per person in Stream 4 and 12.25 hours in Stream 3) is inadequate to address the complex needs of the most disadvantaged job seekers.

With many highly disadvantaged job seekers, effectiveness depends on the quality of the relationship between the job seeker and their case worker. This forms a foundation that allows a job seeker to successfully undertake activities such as vocational training and work experience.

#### **2.5 Working within funding limits**

As acknowledged earlier, the above approach would be considerably more costly than the \$3.7bn allocated for these services over their initial three years of operation. It is important therefore that the Government takes one of the following courses:

- Allocate more funds to ensure the needs of all clients are properly addressed; or
- Ensure that the funding available is focused primarily on those job seekers in greatest need by ensuring that the services/funding offered to and numbers of job seekers assisted in Stream 4 and then Stream 3 allow high quality services to be offered to those actually assisted.

While the Discussion Paper proposals may aimed to shift resources to the disadvantaged, CSSA believes that overall services to disadvantaged job seekers will be very much diminished under the model provided because of the structural incentives to “pick and park” described later at 2.7. Furthermore, the current proposals represent an arrangement that leaves providers with a contractual commitment to assist all job seekers but insufficient resources to do so.

If insufficient resources are available, CSSA believes the Government should face that honestly and openly. In this situation, the only job seekers who should be referred to providers are those who bring with them sufficient resources for their needs to be addressed appropriately. Other job seekers should be retained and assisted by Centrelink where the Government can be held publicly and directly accountable.

#### **2.6 Streams 3 & 4 — Ambitious goals but limited resources**

The integration of the Personal Support Program into mainstream employment services will allow providers greater access to resources through the Employment Pathway Fund and make it easier to address job seekers’ employment and non-employment needs in parallel. The new model allows job seekers to maintain a relationship with a single provider as they move towards employment.

While Catholic Social Services Australia welcomes the Government’s decision to pursue employment outcomes for the highly disadvantaged job seekers who will flow into Streams 3 and 4, we are concerned that the Government has not provided sufficient resources to make this goal achievable for more than a small proportion of job seekers assigned to these streams.

Catholic Social Services Australia is concerned that the Government’s goals are too ambitious given the limited resources it has allocated for employment services. If providers attempt to provide services to all highly disadvantaged job seekers, they may not be able to provide enough assistance to any of them to make a difference. If they attempt to maximise their effectiveness by targeting assistance to the most responsive job seekers they may end up ‘parking’ a large share of their case load (that is, providing only the minimum level of service specified in the contract).

## **2.7 Picking and parking**

While it is possible to achieve sustainable employment outcomes for many of the most disadvantaged job seekers, it is not possible to achieve them without an adequate investment of resources.

If a service provider does not have sufficient resources to serve everyone at an effective level, they are likely to adopt a 'pick and park' strategy — picking the clients most likely to respond to assistance and parking the rest. This would have its most negative impacts on the most disadvantaged job seekers.

Our initial analysis suggests that the proposed service fees are not adequate to fund the intensity of service needed to work effectively with highly disadvantaged job seekers. In such an environment maximising the number of outcomes for highly disadvantaged job seekers may mean focusing resources on some job seekers while providing only the contractually required services to others.

Job seekers in Stream 4 are likely to face a range of non-vocational barriers that cannot be overcome simply by purchasing a series of one-off services through the Employment Pathway Fund. And unless a provider can make enough progress with a job seeker to get them within striking distance of employment, the investment will have no pay off for the provider.

In a quasi-market where providers must compete with each other on outcomes to hold onto their business, parking is inevitable if resources are inadequate. If the department attempts to limit parking by becoming more prescriptive about service levels, either effectiveness will fall or providers will become overstretched. Inevitably the Department will strengthen the provider compliance regime that is already excessive and that the Discussion Paper proposes to reduce.

## **2.8 Requirement to deliver all four Streams**

Working with highly disadvantaged job seekers requires specialist skills and experience and needs to be supported by a particular kind of organisational culture and working environment. Mainstream providers without this experience are likely to have less success with job seekers in Streams 3 and 4.

Under the current proposal, there is a risk that many of the smaller providers currently delivering PSP will not be in a position to tender — the transition to new services will require too much capital and too much organisational change. While some organisations may enter partnerships or sub-contracting arrangements with larger providers, there is a significant risk that much of this expertise will be lost to job seekers in need.

The Government should consider allowing specialist organisations to tender separately for Streams 3 and 4.

## **2.9 Economic outcomes fail to recognise and reward progress**

The combination of low service fees and a 12 to 18 month limit on assistance means that employment outcomes will not be possible for a large proportion of job seekers referred to Streams 3 and 4.

To discourage providers from parking the most difficult to assist job seekers, the Department should consider a system that monitors and rewards social outcomes achieved in the *progress* towards economic outcomes. In 2002 the Productivity Commission suggested using such a 'milestone' payment system:

For a selective group of job seekers who have a particular set of obstacles to work, it may be worth referring them to a 'milestone' program. This would tackle each of a set of identified obstacles to

work, with payments to service providers for overcoming individual obstacles (such as poor literacy), rather than a job per se (Productivity Commission 2002: XXXVIII).

A milestone payment system combined with more adequate funding levels and timeframes could significantly reduce the risk of parking.

## **2.10 Work Experience as a 'parking lot'**

Over time many of the most difficult to assist job seekers will flow through to Work Experience and accumulate there. Managing these job seekers is likely to impose an ever-increasing administrative burden on providers accompanied by less and less resources to assist them.

With no time limit on participation some job seekers may become attached to their work experience placement and their job search effort is likely to decline. Experience with Work for the Dole suggests that the attachment effects of work experience programs can be significant. According to a departmental net impact study "the outcomes of [Work for the Dole] participants tend to be lower relative to the comparison group for the duration of the programme" (DEWR 2006).<sup>1</sup>

The proposed system appears to rely on Streams 2, 3 and 4 for program impacts while using Work Experience to achieve compliance impacts. The assumption seems to be that once a job seeker has progressed through one or more streams and then exited without an employment outcome, further assistance is unlikely to improve their employability.

## **2.11 Ensuring that funding benefits the most disadvantaged job seekers**

It is highly likely that funds that are notionally allocated for servicing the most disadvantaged job seekers will be diverted to meet other contractual requirements and to pursue easier to achieve impacts.

Over time the requirement to maintain increasing numbers of job seekers in Work Experience may drain resources from Streams 3 and 4. Unless contractually required activities are adequately funded through service fees providers may limit spending on other activities over which they have discretion. This will mean reduced services to job seekers.

To prevent this, the Department must set performance indicators that reward providers for prioritising services to the most disadvantaged.

## **2.12 Outcome fees**

The Department's star ratings system recognises that gross outcomes are a poor measure of provider performance. Job seeker characteristics and the state of the local labour market both have a powerful effect on outcome levels.

Outcome payments are not an effective form of payment-for-results. To a large extent, they reward factors which are beyond their control. There is no easy way to reform the outcome payments system so that it rewards providers for impacts rather than gross outcomes.

Paying providers a higher fee when they place a job seeker in employment through direct methods such as reverse marketing will not solve the problem. This is because one of the most efficient ways of achieving results for disadvantaged job seekers is to train and motivate them so that they are better able to search for employment independently.

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<sup>1</sup> The department's net impact study used a matched comparison approach which attempts to estimate the impact of assistance by comparing participants' outcomes with those of a comparison group who have not participated. The methodology is outlined on pages 7 and 8 of the department's report (DEWR 2006).

Offering lower outcome fees for 'Found Own Employment' outcomes may discourage providers from supporting independent job search and encourage them to become involved in employment placements for job seekers who might otherwise have found employment on their own.

### **2.13 Business reallocation**

Certainty about future business levels encourages investment. By increasing the risk that providers will have to scale back their operations or withdraw from the market, business reallocation discourages investment. Providers are less able to offer staff job security, less willing to invest in staff training or IT systems.

After a number of iterations, ranking providers and then culling the poorest performers is unlikely to improve the system's overall performance. Eventually, the performance of providers who take over the business will be little better than those they replace. There is a risk that the market will become dominated by a small number of large providers who will focus more on streamlining administration than they will on innovating.

If a provider becomes dysfunctional and is grossly underperforming then, obviously, the Department should step in to reallocate its business. But relative underperformance by an organisation which is otherwise well managed and meeting its contractual obligations could be treated differently.

Underperforming sites could be offered a period of time in which to lift their performance. Providers could then decide whether to take action such as replacing key staff or changing servicing strategies or to give up the business.

A possible alternative to moving existing job seekers to new providers, would be for the Department to confine reallocation to the flow of new job seekers. Nevertheless this is considered inappropriate in the three year contract time limit. Except in extenuating circumstances, the end of the contract is the appropriate time to withdraw business from underperformers.

## **3 Comments on individual discussion points**

### **3.1 Discussion point 1:**

*In addition to the development of job seekers job search techniques, training and work experience, are there other activities that should be approved as an intensive activity?*

Yes. Rather than having a list of approved activities, the Department should adopt a principle-based approach. Any activity which identified as beneficial to a job seeker's employment prospects following a skills assessment should be approved provided it meets or contributes to the intensity requirement.

Providers should have a reasonable amount of discretion. For example, some job seekers in the 'work ready' stream may benefit from activities designed to address specific non-vocational barriers. These might include counseling or help with anger management. Other job seekers may suggest a self-directed activity and their compliance can be monitored using a diary system.

While some activities might not be intensive enough to meet the 60 hours requirement on their own, they could count towards it.

*How should we best balance the need to ensure a job seeker receives assistance appropriate to their needs with the provider's responsibility to manage funds effectively across their case load?*

As noted above, the Government should refer to providers on those job seekers for whom adequate funds are provided to address need.

The 'skills assessment' should examine a broader set of opportunities than opportunities to improve vocational skills. The appropriateness of assistance will depend on the thoroughness of the assessment.

### **3.2 Discussion point 2:**

*Employment service providers will be given flexibility to determine the frequency of their contacts and other activities in accordance with the needs of the job seeker. However, to ensure a reasonable level of service, providers will be expected to meet regularly with job seekers and this will be reflected in the job seekers EPP.*

*Should there be a minimum contact requirement? For example, should providers need to meet with job seekers at least once per month?*

There should be a minimum contact requirement and for most job seekers a minimum of one meeting a month would be reasonable.

However, providers should have some discretion to vary the contact regime for job seekers whose circumstances warrant it. For example, the contract requirement might be applied as an average (12 contacts within 12 months) so that meetings can be scheduled around milestones in an employment participation plan.

With some job seekers providers may need to suspend contact to accommodate periods of illness, participation in residential rehabilitation programs etc.

In some circumstances contact may not need to be face to face. For example, if contact is used to monitor progress with full time study.

### **3.3 Discussion point 3:**

*What are the practical administrative issues that will need to be resolved in order to ensure the streams are as effective as possible?*

Timely access to Job Capacity Assessments would help ensure that job seekers are able to move between streams in response to changing circumstances. Long waiting periods for assessments have the potential to disrupt client servicing.

### **3.4 Discussion point 4:**

*What should and should not be able to be purchased with the EPF?*

The EPF should fund any purchases which have the potential to improve a job seeker's prospects for employment as long as these are linked to an agreed Employment Pathway Plan. This includes driver's licenses, working tickets, work clothes and equipment and books needed for training courses.

The EPF should also be available for items which address non-vocational barriers. For example, medical fees, sessions with a psychologist, medication and drug and alcohol rehabilitation.

*Which is preferable, a principles-based approach to prohibited items or an exhaustive list of prohibited items?*

A principles-based approach is preferable. If a provider has a reasonable expectation that a purchase will improve a job seeker's prospects of employment the onus should be on the Department to explain why it should be prohibited.

*Is there anything about the proposed EPF that may contribute to it being under-utilised?*

An overly restrictive list of prohibited items might lead to under-utilisation.

A set of principles which are unclear or difficult to apply might discourage effective use of the EPF.

***At what level should purchases be permitted on the basis of a simple invoice and without the need for detailed case by case justification?***

An invoice should be sufficient for purchases up to \$200. The Department would need to implement some mechanism for preventing large claims from being artificially broken down into a series of sub-\$200 claims.

### **3.5 Discussion point 5:**

***How can the legitimate interests of a job seeker to choose a service provider be balanced with the need to provide certainty for providers?***

Job seekers could be offered the option to exclude a particular provider rather than be asked to nominate preferences.

### **3.6 Discussion point 6:**

***Are there any further improvements that can be suggested to deriving and paying service fees? Are there alternatives to claw back mechanisms?***

Claw back mechanisms impose an administrative burden on providers and discourage up-front investment. It may be possible to pay service fees as milestones are reached. For example, at commencement, development of an EPP and then at six monthly intervals. If a job seeker exits before a milestone is completed only a portion of the payment should be made.

***How should fees be shaped to discourage parking?***

Job seekers vary in their responsiveness to assistance. In any group of job seekers with similar JSCI scores, some can be successfully assisted at a lower cost than others (ie they have a lower 'cost per impact').

Given that the star ratings system (or its replacement) encourages providers to maximise impacts within resource constraints, parking is a signal that resources are inadequate. Parking can be reduced by increasing the overall level of funding and linking payments to the achievement of milestones.

On their own, outcome payments are *not* an effective mechanism for reducing parking. The reasons for this are explained in the Department's 2002 Stage 3 Job Network evaluation. After modeling the incentive effects created by the fee structure the evaluators concluded that:

Perhaps the single largest disadvantage of the current Intensive Assistance payment structure is that there is insufficient incentive for providers to assist the difficult-to-place job seekers. This is largely because of the perceived high costs and low net impacts associated with this client group. It is not clear, however, that changes to the fee structure alone will improve the servicing of these job seekers significantly. If payments are lower than the costs of achieving a marginal increment in participants' chances of achieving a payable outcome, the financial incentive is for a provider to minimise costs, let nature take its course and collect the proceeds from participants finding work largely unassisted. On the other hand, if payments are too high providers may be encouraged to engage in 'artificial' arrangements. This could involve, for example, creating work experience-style jobs or paying individuals a 'wage' to stay off income support for 13 weeks. Alternative structures have been explored in other countries and Australia has varied the ratio of commencement to outcome payments, yet problems with servicing the highly disadvantaged seem to remain (DEWR 2002: p 101).

To some extent this problem has been addressed by the introduction of the Job Seeker Account. However, because much of the assistance job seekers receive is delivered through a case management approach rather than purchased services, the problem of parking remains.

### **3.7 Discussion point 7:**

*Should activity test requirements be made more flexible and responsive to job seekers needs? If so how?*

Yes. The objective of any requirement should be to improve the job seeker's prospects of employment. Ideally requirements should be tailored to each job seeker's needs, interests and capacity.

*The Government has already acted to ensure that job seekers participating in approved training are no longer forced to accept work that would interfere with that training. Are there other areas in which a similar approach should be adopted?*

Yes. In cases where job seekers are receiving assistance to overcome significant non-vocational barriers such as mental health problems or substance abuse they should be able to complete their program of assistance before being required to accept an offer of employment.

*Should job seekers with recognised qualifications or skills be permitted to restrict their job search to their chosen field for a period? If so, for how long, and in what circumstances?*

Yes. Job seekers who have skills or experience in a field for which there is significant unmet demand should be able to restrict their job search for up to six weeks.

Job seekers who have completed training through the Productivity Places Program should be able to restrict their job search to the field in which they have trained for up to six weeks.

### **3.8 Discussion point 8:**

*How can the needs of parents returning to the workforce be balanced with the need for greater employment participation? Should volunteering be incorporated into participation requirements for parents?*

The needs of children need to be balanced against the Government's desire for greater employment participation and reductions in income support payments.

This applies not just to parents but, in some cases, to other family members with caring responsibilities. In some cases grandparents are responsible for caring for grandchildren — a form of unpaid work which may enable their adult children to participate in the labour market.

Volunteering should be an option available to job seekers who are responsible for caring for children.

### **3.9 Discussion point 9:**

*How can universal employment services be better integrated with CDEP and IEP?*

The Department should adopt a flexible approach that allows for differences in local conditions and opportunities.

### **3.10 Discussion point 10:**

*How can best practice be disseminated to encourage adoption elsewhere?*

*How should the success of innovation projects be judged?*

In a competitive environment, there is little incentive for high performing providers to share best practice information (unless the practices are not easily transferable). Large multi-site providers are already able to share information within their own organisations.

The innovation fund creates an opportunity for the Department to identify and disseminate information on innovative practices. However, because the impacts of employment programs are

typically small, experimental or quasi-experimental methods are needed to accurately measure program impacts.

The Department should ensure that all programs supported by innovation funds are subject to a rigorous impact evaluation. The Department should consider contracting an independent research organisation to evaluate and report on innovative projects. The evaluators should have all necessary access to DEEWR data and other resources. Such an approach would assist comparison of projects under the scheme.

Using the resources of the Department it ought to be possible to conduct randomised control trials with job seekers receiving the ordinary level of service as a control group.

### **3.11 Discussion point 11:**

*If a benchmark was adopted, how would it be set? Would each provider's benchmark be the same, or would it differ based on the make up of their case load or the nature of their labour market?*

Benchmarks should be set based on both the make up of the caseload and the state of the local labour market. Because the benchmark must be set in advance it is possible that some providers will be advantaged or disadvantaged because of changes to their case loads and the labour market in which they work. There should be an agreed procedure for reviewing benchmarks when circumstances are likely to change.

*How could the interests of the hardest to place be advanced by the performance management system?*

The Department should consider adopting a separate benchmark for the most disadvantaged job seekers and the most disadvantaged locations. Without such a benchmark there is a risk that providers will shift resources that are notionally allocated to Stream 4 towards less disadvantaged job seekers who are more responsive to assistance.

If the benchmark recognises only economic outcomes there is a high risk of parking. Given that effective assistance to the most disadvantaged job seekers can involve intensive casework over an extended period of time, providers may have an incentive to 'cherry pick' those job seekers who are most likely to deliver an outcome within the 12 to 18 months the Department allows.

In some circumstances employment assistance is 'dose dependent'. As with drug therapies, there can be a threshold of intensity and duration below which assistance is ineffective. For example, some job seekers may require weekly contact to experience any change in their employment prospects.

If resources are insufficient to provide an effective level of service to all job seekers on the case load, then cherry picking and parking are inevitable. This is a consequence of the all-or-nothing nature of economic outcomes.

This problem could be reduced by including measures which recognise progress towards economic outcomes. These could include successfully managing or overcoming vocational and non-vocational barriers because of their highly subjective nature.

*How can the experience of job seekers and employers best be included when assessing the performance of providers?*

Client satisfaction surveys may provide useful feedback on how providers are operating. However, these should not be used as key performance indicators or as part of a star ratings system.

### **3.12 Discussion point 12:**

*How should ESAs be determined and how can they be aligned more closely with natural labour markets?*

Where possible, ESAs should be constructed around natural labour markets. Within ESAs, comparisons of providers can be unreliable when labour market conditions or job seeker characteristics differ significantly in different parts of a single ESA. Therefore, districts with consistent characteristics throughout should constitute ESAs even if this means, in some cases, disaggregating natural labour markets.

### **3.13 Discussion point 13:**

***Should both Centrelink and employment service providers be required to contact job seekers about Participation Reports?***

No. Centrelink should be responsible for contacting job seekers about Participation Reports. To support providers, Centrelink needs to share information about decision making. Both Centrelink staff and Job Network staff should have access to the same training.

### **3.14 Discussion point 14:**

***Remembering that the comprehensive compliance assessment is an opportunity to identify barriers or service options, what number of Participation Reports submitted in a particular timeframe trigger an assessment?***

***Should the trigger be the same for rapid reconnection failures as for No show, No pay failures?***

### **3.15 Discussion point 15:**

***What should happen if the job seeker re-engages through participation in an intensive activity but then again fails to meet their requirements (a persistent no show)? Should payment be lost on a No show, No Pay basis or should the job seeker, at some point, become fully precluded from income support for a period?***

We prefer the proposed ‘No show, no pay’ system to the 8-week mandatory penalties which it replaces however we believe the implementation of any new system must be focused on maintaining connection with job seekers and avoiding financial penalties. Non-compliance should be used as an opportunity to re-assess job seekers and to identify previously unmet and/or unidentified needs. Except in cases of fraud, there is no justification for mandatorily precluding someone’s payment.

***If a job seeker is unable to undertake intensive activities for 50 hours per fortnight due to personal circumstances, what is an appropriate activity for them to undertake?***

These cases should be considered on a case by case basis including an assessment and transfer to an alternative payment, if appropriate.

### **3.16 Discussion point 16:**

***Based on your experience with previous transitional periods, what are the key issues that you believe will need to be managed? How can we learn from what has worked, and what hasn’t worked, in the past?***

All significant changes can lead to unintended consequences. As a result the Department may need to make adjustments to the fee structure and policy settings to remove perverse incentives and ensure that providers remain viable.

Under ESC1, there were serious problems with the fee structures for Job Matching and Intensive Assistance. Many providers found that Job Matching services cost more to provide than they generated in income, while Intensive Assistance providers discovered that the fee structure created a strong incentive to ‘park’ job seekers rather than assist them.

Information from publicly released departmental evaluations and external reviews has encouraged ministers and program managers to deal with design flaws in previous versions of the employment services market. This kind of transparency helps reduce conflict between providers and the Department and de-politicises the issues. Transparency discourages the Department from denying that problems exist and discourages providers from making exaggerated claims in the media.

During the transition period, providers will need to train staff in new policies, procedures and IT systems.

Providers and the Department need an agreed process for reviewing policies and procedures if the initial arrangements are not working adequately. There should be agreed criteria which will automatically trigger a review.

Former PSP providers may be particularly vulnerable under the new model. Many may fail to tender, while others may seek work as sub-contractors. There is a high risk that much of their experience and expertise in assisting highly disadvantaged job seekers will be lost.

### **3.17 Discussion point 17:**

*How can we best ensure the new employment services system retains specialist providers?*

DEEWR should consider allowing providers to tender for Stream 4 (or Streams 3 and 4) separately. This would allow agencies which specialise in areas such as homelessness to offer a comprehensive package of assistance to highly disadvantaged clients.

*Is there anything DEEWR can and should do to assist providers in delivering a quality service for the remainder of this contract period?*

### **3.18 Discussion point 18:**

*Are there any specific issues you would like addressed as part of the DEEWR information technology information sessions?*

Better opportunities for correcting data entry errors.

An improved diary system.

Better access to departmental data is required to enable providers to plan future service delivery.

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# Attachment A

## Problems with the existing employment services model

In our earlier submission to the Review of Employment Services, Catholic Social Services Australia identified four problems with the existing employment services model:

- The outcomes are too narrowly defined.
- Red tape and lack of flexibility limits providers' ability to tailor assistance to job seeker needs.
- There is too much 'hassle' and not enough help. The system focuses too heavily on compliance effects and not enough on employability.
- There is a lack of resources available for assisting the most disadvantaged people.

### Narrow definition of outcomes

Outcomes are defined too narrowly under the existing Job Network model, which focuses almost entirely on achieving income support savings by moving recipients into employment.

Welfare reliance can also be part of a broader agenda for social inclusion which aims to improve the lives of disadvantaged Australians. There has been little, if any effort to evaluate the effect of these policies on job seeker well being. The model is heavily weighted towards employment outcomes.

Ideally, employment services should be integrated into a whole-of-government agenda for social inclusion — an agenda which recognises that inclusion and participation are about more than participation in the market place.

### Red tape and lack of flexibility

With its 'steering not rowing' model, Job Network was designed to end bureaucratic control over the day to day process of assisting job seekers. The Network was meant to be driven by financial incentives. The star ratings system was to weed out poor performers and the outcome payments system would forge a strong link between profits (or surpluses) and performance.

However, the original Job Network model relied on a poorly designed pay-for-performance model which paid providers when job seekers found and retained employment. The model failed because paying providers when job seekers find and keep work is not the same thing as paying providers for the value they add. Evaluations show that the majority of these employment outcomes will occur with or without employment services (DEWRSB 2000: 87). Under the existing model providers who add little or no value, are able to 'earn' outcome payments at very low cost.

This inadequate system of performance management has led to 'parking'. Job seekers who are less responsive to assistance often receive little attention. In earlier contract rounds it was more profitable for providers to minimise costs rather than maximise outcomes (DEWRSB 2000: 87-89).

The failure of the pay-for-performance system undermines the rationale for allowing providers a high level of autonomy and flexibility. As it became clear that the system was failing, control over the *process* of assisting job seekers was clawed back from providers. Departmental managers began to make decisions about how often providers met with job seekers and what services they received. A large part of Job Network's funding was tied up in a pool known as the Job Seeker

Account (JSKA) with access closely controlled by the Department. Administrative arrangements for the JSKA place a very high cost burden upon both providers and the Department.

In a survey conducted for Jobs Australia and the Brotherhood of Saint Laurence, the most common suggestions for improvement were suggestions about how to reduce administrative burden (Jobs Australia and Brotherhood of St Laurence 2005). Staff of Catholic Social Services Australia's member organisations share these concerns. As one member put it they feel like they've been "turned into bureaucrats." Flexibility and innovation has been lost and the system has become increasingly dominated by administrative requirements. This is ironic because Job Network was deliberately designed to overcome the problem of excessive central planning and control. Combined with the rigid timetabling of Active Participation Model and its Mutual Obligation requirements, the current employment services model suffers from the same inflexibility and inefficiency and lack of client focus of the pre-1998 system.

### **More 'hassle' less 'help'**

The existing Job Network system relies heavily on 'compliance effects'. Too little attention is paid to improving job search effectiveness and improving employability.

There are three major ways to improve employment outcomes:

- **Increase job search intensity:** Without assistance, job search intensity tends to decline over time. Job seekers can become discouraged and pessimistic, they can procrastinate, develop poor routines and become disorganised. Compliance monitoring, mutual obligation requirements and encouragement from employment services are designed to keep job seekers motivated to search for work.
- **Increase job search effectiveness:** Job seekers are likely to be more successful if they have a clear idea of which jobs to search for, have a well prepared and up to date résumé, and have the skills they need to cold canvas employers, write applications and perform at interview. Employment services can teach job search skills, 'reverse market' job seekers to employers, help prepare applications and résumés and offer incentives to employers.
- **Increase employability:** Job seekers are more likely to be successful if they have the habits, attitudes, skills and knowledge that employers are looking for. Employment services can work with job seekers to overcome health and personal problems, develop 'employability' skills and undertake education and vocational training.

The easiest and cheapest employment impacts come from increases in job search intensity. In a strong labour market, extra paperwork, regular appointments with Centrelink, or referrals to Job Search Training or Work for the Dole, can all motivate some job seekers to search for work more intensely, to become less selective about the jobs they will accept, and to declare earnings from cash-in-hand jobs.

The impact of increasing the requirements placed on job seekers is known as the 'compliance effect' of assistance. These requirements are a way of making sure that job seekers are complying with the eligibility conditions of income support. Providers can also increase job search intensity with more positive forms of encouragement — helping job seekers stay motivated despite continued rejection by employers and the lack of any tangible return for their efforts.

Increases in job search effectiveness are the next cheapest impacts. Some clients are good workers but poor job seekers.

The most difficult and expensive employment impacts come from improvements in a job seeker's employability — their personal characteristics, health, habits, knowledge and skills.

The impact of helping job seekers to search for work more effectively or to become more employable is known as the 'program effect' of assistance.

Over time, policy makers have increasingly focused on compliance effects and became relatively indifferent to program effects. This undermined the original rationale for the employment assistance system. Programs such as Job Search Training and Work for the Dole were used primarily to motivate job search and to deter claims for income support. The Active Participation Model, with its inflexible timetable of activities was designed almost entirely around the pursuit of compliance effects.

This focus on compliance undermined the effectiveness of programs originally designed to improve job search skills and employability. The latter have either been underfunded (eg the Personal Support Program) or micromanaged so that they maximised the amount of "hassle" for job seekers (eg Job Search Training).

In effect, employment services have increasingly become an arm of the income support system. Their primary focus is to ensure that payments to working age people only go to those who are unable to support themselves through paid work. There is an unwillingness to invest resources in the development of job seekers unless the costs of assistance are fully offset by savings on income support.

This approach ignores other benefits that flow from employment and social inclusion. Assisting job seekers into sustainable employment can have a positive impact in areas outside of DEEWR's area of responsibility. This includes social outcomes such as impacts on mental health, homelessness and the wellbeing of children.

### **Lack of resources for the most disadvantaged job seekers**

#### *Emphasis on short term job outcomes rather than improvements in employability*

The Job Network's emphasis on short term job outcomes diverts resources away from efforts to improve the employability of the most disadvantaged job seekers and to improve longer term outcomes. This is particularly the case for the Personal Support Program where providers have no access to a Job Seeker Account or its equivalent to support job seekers.

The practice of capping services for highly disadvantaged job seekers (eg PSP) reinforces the message that some highly disadvantaged job seekers do not deserve assistance.

#### *Administrative costs*

Increasing administrative requirements accompanied by rising costs has put pressure on employment service providers. Government funding has not kept pace. Catholic Social Services Australia's discussion paper *A Job Network for Job Seekers* reported that "Inflationary effects of more than 16 per cent over three years were met with fee increases of less than 2%"

#### *A work first approach*

The current funding arrangements, put in place under the previous government, have created a system which focuses far more on job search than employability. An employment assistance system which focuses on compliance effects and job search effectiveness is known as a Work First system.

## **How effectively does the proposed model address these problems?**

### **Definition of outcomes**

Many of the job seekers who enter Stream 4 are unlikely to achieve an outcome within 12 to 18 months. Restricting the definition of outcomes to economic outcomes means that many of the hardest-to-assist job seekers will be parked. Unless outcomes can be achieved within the time and resource constraints imposed by the Government, providers have an incentive to divert resources to job seekers whose outcome rates can be improved more easily.

The Department should consider establishing outcomes and performance indicators which recognise a job seeker's progress towards an economic outcome. Experience with Job Network and the Personal Support Program clearly demonstrates that it is unrealistic to expect sustainable employment outcomes within 12 to 18 months. Some job seekers need a comprehensive package of assistance which provides help with accommodation, mental health problems, drug and alcohol abuse and domestic violence.

According to the Government's recent green paper on homelessness:

Reaching the goal of improved participation requires investment. Effective responses must meet all clients' needs, including safe and secure housing, addressing health and personal problems, improving life skills for people who don't have them, and developing vocational and employment skills. Different and separate services must be delivered in an integrated way that reflects their essential inter-dependence. Some clients who have particularly complex needs will need ongoing support to maintain their accommodation, their relationships and their engagement with the community (Australian Government 2008).

To avoid parking, the Department should establish realistic and achievable outcomes measures for homeless and other vulnerable job seekers. These measures should track the job seekers' progress towards economic outcomes and could include milestones such as successful treatment for drug or alcohol abuse, entry into stable accommodation, or successful management and stabilisation of a mental disorder.

### **Red tape and flexibility**

The discussion paper outlines a model with the potential to significantly reduce red tape and improve flexibility. However, the new model's scheduling of an 'intensive activity' at three months and 'work experience' at 12 months restricts providers' ability to tailor assistance to job seeker needs — as does the 12 to 18 month limit on participation in Stream 4.

The extent to which the new model's potential for flexibility is realised depends on how departmental staff manage contracts.

In an earlier paper Catholic Social Services Australia argued that reductions in the unnecessary administrative burden associated with departmental requirements could generate efficiencies for providers and cost savings in departmental running costs. Less red tape means that fewer departmental staff would be required (Murray 2006).

### **Help versus hassle**

The proposed model retains a strong focus on compliance outcomes. The 'intensive activity' and 'work experience' requirements appear to be oriented towards compliance rather program effects.

## **Resources for highly disadvantaged job seekers**

For many of the most disadvantaged job seekers (such as those currently in PSP), a successful outcome depends on the relationship between the job seeker and a case worker. Often it takes many hours of contact over an extended period of time to establish an effective working relationship.

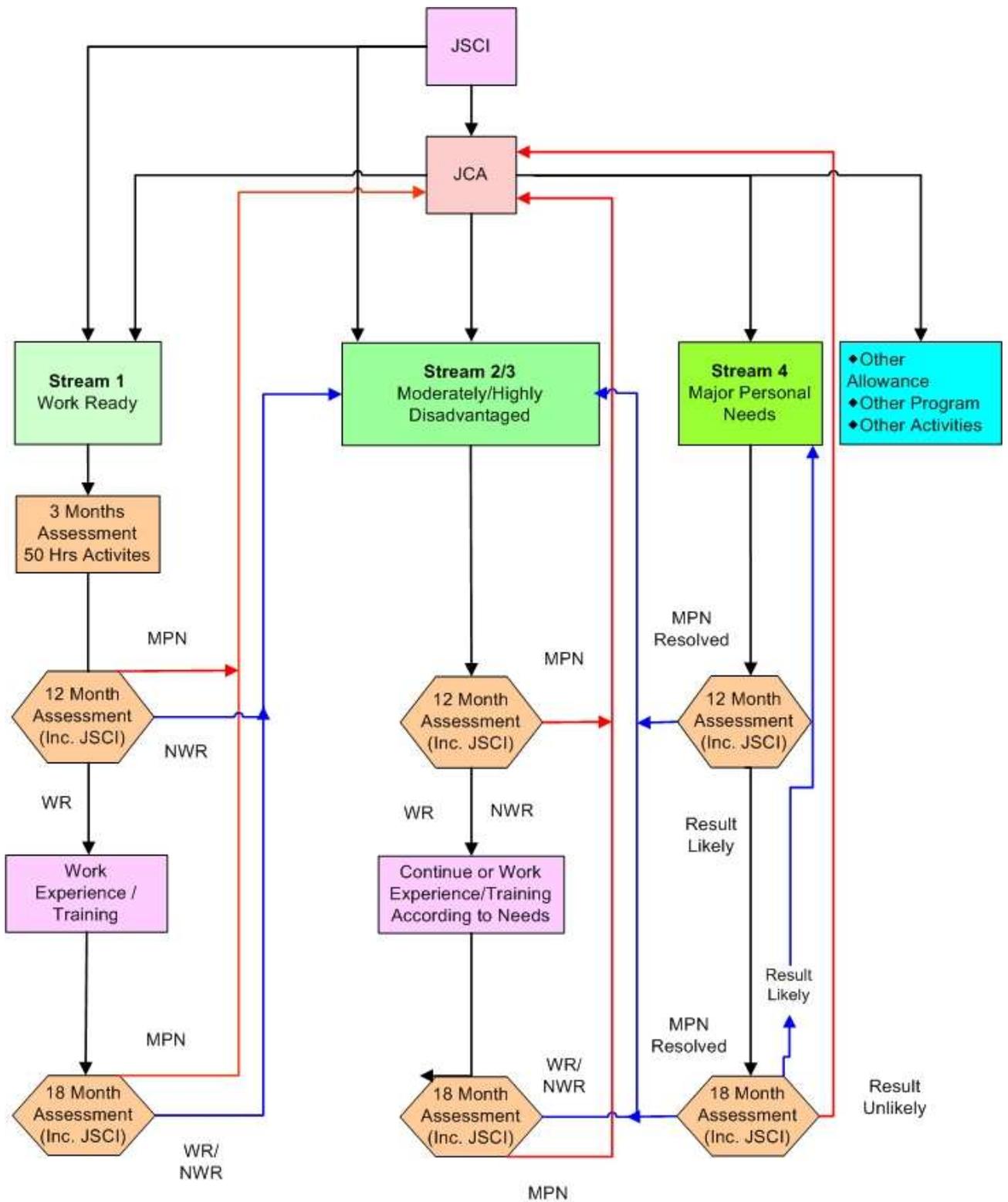
Regular face to face contact between job seeker and case worker forms the foundation for effective assistance. While extending the Employment Pathway Fund to job seekers in Stream 4 will help case workers to assist these job seekers, 29 hours of contact over 12 months is insufficient.

The Work Experience component is poorly resourced and is unlikely to lead to significant improvements in job seekers' vocational skills. In addition the open ended participation requirement will lead to 'attachment' effects. Research suggests that as long as participants in programs such as Work for the Dole are less likely to exit into employment than other job seekers. According to a departmental study:

For programmes with substantial attachment effects like Work for the Dole, the outcomes of programme participants tend to be lower relative to the comparison group for the duration of the programme. The average length of a Work for the Dole project is between 3 and 6 months. After participants exit the programme attachment effects die away and the programme effects become evident (DEWR 2006).

The open ended participation requirement may result in participant numbers building up over time and drawing resources away from more effective forms of assistance.

# Attachment B: NEEDS-BASED SERVICE STREAMS



**LEGEND**

WR = Work Ready

NWR = Not Work Ready but No Major Personal Needs

MPN = Major Personal Needs