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**Submission to the Commonwealth Government:**  
**REVIEW OF EMPLOYMENT SERVICES**

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## **ABOUT CATHOLIC SOCIAL SERVICES AUSTRALIA**

Representing 64 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 promotes 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 64 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.

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## 1 Introduction

Catholic Social Services Australia (CSSA) welcomes the Government's decision to review the operation of employment services.

We have previously made suggestions about how Job Network could better serve the interests of disadvantaged job seekers in a 2006 paper *A Job Network for Job Seekers* (Murray 2006).

We appreciate this opportunity to comment further on how employment services might be reformed.

This submission makes an argument for significant reform of the employment services system. The paper explains why we believe the current system is flawed and provides the outline of a new program structure and a new rationale for delivering services to job seekers.

The submission also looks at changes that can be made within the existing program structure and includes a number of recommendations that could be implemented in the short term without the need for major restructuring.

## 2 Contract versus Partnership

CSSA's motivation for seeking employment services contracts is not to make a profit or generate surpluses but to advance our mission — “to promote a fairer, more inclusive society that gives preference to helping people most in need.” Over time, it has become increasingly difficult to reconcile this mission with the previous Government's policies, as implemented by what was then, the Department of Employment and Workplace Relations (DEWR).

Staff at our member organisations work directly with disadvantaged Australians. As a result they are keenly aware of the impact of government policies on the lives of individuals. Ideally our organisation would work in *partnership* with government and have an opportunity to be involved in the process of developing policy and deciding on implementation arrangements.

DEEWR Employment Services Programs have insisted on a strict separation of the policy making and service delivery that excludes ‘provider’ organisations from genuine negotiations over the ‘purchaser’s’ changes to policy. This divorces policy making from knowledge about its effects on the lives of job seekers and is a serious problem because over time the Department has increasingly micromanaged the day to day process of delivering employment services.

When plans for the new employment services market were being developed in 1996, the government announced that it would set the objectives but allow providers the flexibility to decide how to achieve them. As Minister Vanstone wrote:

Providers of employment placement services will enjoy far greater flexibility in the means at their disposal to secure sustainable employment outcomes for their clients. Contracts and purchasing guidelines will focus on desired outcomes, avoiding prescriptive input controls. Detailed programme guidelines will be a thing of the past (Vanstone 1996: 23).

Over time, this flexibility has been eroded with increased prescription of *how* job seekers will be processed through the system. Decision making has been separated from practice and the constant intrusion of Departmental requirements into the job seeker/provider relationship causes tension. This is reflected overwhelmingly in some of the comments we have received from member organisations during consultations for this submission. One member remarked that the Department “had become demanding, aggressive, punitive and focussed on input detail rather than client outcomes and progress.”

Our agencies receive funding from a wide range of Commonwealth, State and Territory departments. If they were to rate the quality of these partnerships based on mutual respect and equity, the relationship with DEWR would certainly be ranked lowest.

### **3 What's wrong with employment services?**

#### **3.1 Outcomes are defined too narrowly**

Policy has focused on moving working age people off income support and into work as an end in itself. In combination with the previous Government's workplace relations agenda and income support reforms, employment services took the low road to tackling welfare dependency — cutting wages and conditions, winding back income support entitlements and pushing disadvantaged job seekers into whatever employment was available.

What this approach ignores is that reducing welfare reliance can also be part of an agenda 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, rather than short term employment outcomes.

The lack of concern for job seeker well being is also reflected in the lack of monitoring and evaluation of what happens to job seekers when they are breached when they are suspended from all payments, as has happened to more than 15,000 Australians since the welfare to work policy was introduced.

#### **3.2 Too much red tape and too little flexibility**

With its 'steering not rowing' model, Job Network was meant 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 would weed out poor performers and the outcome payments system would forge a strong link between profits (or surpluses) and performance.

Unfortunately, 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). This meant that providers who added little or no value, were able to 'earn' outcome payments at very low cost.

One of the results of this inadequate system of performance management was 'parking'. Job seekers who were less responsive to assistance often received little attention. 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 undermined the policy's 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 now routinely make decisions about how often providers will meet with job seekers and what services they will receive. A large part of Job Network's funding is tied up in a pool known as the Job Seeker Account (JSKA) with access closely controlled by the Department. Currently administrative arrangements for the JSKA place a very high cost burden upon both providers and the Department.

Staff of Catholic Social Services Australia's member organisations have complained that they have been "turned into bureaucrats." Flexibility and innovation is being lost and the system is 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.

### 3.3 Too much 'hassle' too little 'help'

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 become relatively indifferent to program effects. This has tended to undermine the original rationale for the employment assistance system. Programs such as Job Search Training and Work for the Dole have been used primarily to motivate job search and to deter claims for income support. The Active Participation Model, with its inflexible timetable of activities, is designed almost entirely around the pursuit of compliance effects.

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

In effect, employment services have been captured by the income support system, a system whose focus is to ensure that payments to working age people only go to those who are unable to support themselves through paid work. There has been 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 impacts on mental health, homelessness and child welfare.

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

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

The current system'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. As one of our members puts it:

Given that PSP clients are generally drawn from the more difficult range of the disadvantage spectrum, it makes little sense to fund it so poorly and to provide no additional funding with which to procure specialist counselling, psychological or other social services. To do so suggests that society is not serious about changing the circumstances of its most disadvantaged members.

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.

The employment services system was designed at a time when unemployment rates were significantly higher than they are today. Overall, job seekers who remain unemployed in today's labour market are likely to have greater barriers than those who were unemployed for similar durations in the past. This is why the system's emphasis needs to shift towards disadvantaged job seekers.

#### *3.4.2 Administrative costs*

The increasing administrative costs outlined above are exacerbated by the funding pressure on employment assistance caused by rising costs and the lack of fee indexation over a period of many years. Catholic Social Services Australia's discussion paper *A Job Network for Job Seekers* reported that "Inflationary effects of more than 16% over three years were met with fee increases of less than 2%" (Murray 2006: 5). This problem will be much worse by the end of the current contract period.

#### *3.4.3 A work first approach*

The effect of current funding arrangements is to maintain a system which devotes more resources and effort to job search than employability. An employment assistance system which focuses on compliance effects and job search effectiveness is known as a Work First system. This submission will outline a more efficient and more effective approach.

## **4 A new rationale**

Employment services should be more than the compliance arm of the social security system. Employment services providers should act to increase labour market efficiency and improve opportunities for income support recipients and disadvantaged job seekers. Services should also be more open to people who are not currently on income support but are nevertheless disadvantaged in the labour market, or are working at less than their full capacity.

Employment services have been captured by the income support system and its need to deal with the problems of 'moral hazard' associated with payments to working age people.<sup>1</sup> This approach fails to consider the broader benefits that well functioning employment services can offer both the job seekers it assists and the economy more generally.

The reform of employment assistance should begin with a clear understanding of the different objectives that underpin such programs.

#### 4.1 Why provide employment services?

There are three major justifications for providing employment services:

- **Increasing the capability of job seekers:** Employment services can increase an individual's opportunity to live the kind of life they value. This not only includes opportunities for good health, comfortable housing and material consumption, but also opportunities for self respect and greater participation in the life of the community (social inclusion).
- **Labour market efficiency:** Employment services can help make more efficient use of the nation's human capital. By matching job seekers to vacancies and by ensuring that individuals are able to fully develop their potential, employment services can help reduce frictional unemployment and address skill shortages.<sup>2</sup>
- **Protecting the integrity of the income support system:** For working aged individuals without caring responsibilities, income support payments are normally conditional on labour market participation. Recipients must be actively looking for, preparing for, and willing to undertake paid work. Employment services can be used to ensure that income support payments are not available to individuals who are not prepared to meet these requirements. In doing so, employment services reduce the moral hazard associated with income support and reduce the unnecessary burden on taxpayers.

Treasury Secretary Ken Henry has recently argued that government needs to do more about inequality than just redistribute income (Henry 2007). He argues that it needs to address something economist Amartya Sen calls 'capability deprivation'. Sen's terminology is often opaque, but one of his major concerns was whether individuals had the resources they needed to make use of opportunities.<sup>3</sup> For many disadvantaged Australians today, the problem is not a shortage of jobs but their inability to take advantage of these job opportunities.

Increasing job seeker capability means moving away from a system that focuses exclusively on compliance and the integrity of the income support system. This means moving away from the Work First model.

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<sup>1</sup> Moral hazard refers to "The presence of incentives for individuals to act in ways that incur costs that they do not have to bear" (Bannock, Baxter, and Davis 1992: 295).

<sup>2</sup> Unemployment can have a number of causes. Frictional unemployment results from imperfections in the process of matching job seekers with vacancies. Even in a labour market where there are suitable job vacancies for every unemployed job seeker, it will take time for job seekers and employers to find each other.

Structural unemployment occurs when there is a mismatch between what unemployed job seekers can offer and what employers with unfilled vacancies demand. For example, employers may be looking for job seekers with high levels of literacy and numeracy while the available job seekers may have serious literacy and numeracy deficits.

<sup>3</sup> In a 2000 paper on social exclusion, Sen explains why loss of income is only one of the reasons unemployment is so destructive for individuals, communities and nations (Sen 2000: 18-23).

## 5 From 'Work First' to 'Human Development'

It would be better for job-seekers and better for the economy if government moved away from a Work First approach and encouraged providers to embrace a broader capability or 'Human Development' model.

### 5.1 What's wrong with Work First?

Work First is more than just a practical approach to moving people from welfare to work. It is informed by a distinct set of values and beliefs about how the world works. As the Manpower Demonstration Research Corporation's (MDRC) Amy Brown explains:

What defines such programs is their overall philosophy: that any job is a good job and that the best way to succeed in the labor market is to join it, developing work habits and skills on the job rather than in a classroom (Brown 1997: 2).<sup>4</sup>

Under Work First, policy makers start with the assumption that everyone is able to work. When income support recipients join a Work First program, service providers make it clear that all participants will be expected to work and that remaining on allowance to pursue other activities is *not* an acceptable outcome (other activities might include caring for children or undertaking voluntary work).

The first step in a Work First approach is to test the labour market by increasing the intensity and effectiveness of job search. If participants are able to find work through job search alone then they should not receive any additional services. Only participants who make a genuine effort to test the labour market and fail should receive more intensive services such as case management or training.

In a Work First approach, interventions are no more intensive than they need to be in order to move the participant into employment. For example, if a participant is unable to read and write then the program's first goal would be to find them a job where literacy is not required.

Under Work First, providers take no responsibility for helping participants to build skills or advance their careers. Development is the participant's responsibility. If participants find themselves trapped in low-paid, stressful or insecure work, the community has no obligation to help them move on to something better.

Supporters of the Work First approach often argue that education and training programs are ineffective for disadvantaged income support recipients (for example, Saunders 2007).

### 5.2 What is Human Development?

The Human Development approach is based on a more demanding idea of mutual obligation. Individuals, regardless of their abilities or disabilities, their family background or their ethnicity, are entitled to pursue the best employment they are capable of doing. While job seekers have an obligation to work, the community also has an obligation to help individuals take advantage of their potential. By tapping into the potential of all individuals, the approach can benefit the community as a whole.

The approach can be grounded in the capabilities approach of Amartya Sen (for example, see Nussbaum 2003). For Catholic organisations, this approach also has a basis in the Church's social

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<sup>4</sup> The MDRC is a leading non-government evaluation and policy research organisation in the United States.

teaching. According to the *Compendium of the Social Doctrine of the Church*: “Each person must have access to the level of well-being necessary for [their] full development.”

While the Work First approach focuses on identifying the barriers to paid employment that are easiest to address, the Human Development approach looks for opportunities to improve an individual's capability. While Work First attempts to make staying on income support so difficult and unpleasant that recipients will accept almost any job, the Human Development approach attempts to offer something more positive — an increase in the number and attractiveness of job opportunities open to them.

In practice, the Human Development approach uses a wide range of interventions. For some job seekers an unskilled job is the best way for them to learn new skills and reconnect with the community. For others, formal education and training will be better options. Individuals are not necessarily encouraged to accept the first available job, but to find a job that will best help them develop their abilities and move them closer to their own goals. Naturally this approach needs to be realistic. Participants are not allowed to hold out indefinitely in the hope of finding the perfect — but probably unattainable — first job.

A key idea in the Human Development approach is tailoring. Job search is not necessarily the best first activity for all participants. As Julie Strawn and Karin Martinson write:

Welfare-to-work programs offering a mix of job search, education, training, and work experience have been more effective with the harder-to-employ than programs offering primarily either job search or basic education (Strawn and Martinson 2000: 50).

Writing for the MDRC, Strawn and Martinson recommend a range of approaches including combining “substance abuse, mental health, and counseling services with work or with activities that prepare individuals for work.” To make the approach work, providers need the resources and flexibility to deliver the customised assistance each individual job seeker needs.

### 5.3 Why move from Work First to Human Development?

There are three reasons for moving away from Work First and towards a Human Development approach:

- **Effectiveness:** Research shows that the most effective welfare to work programs combine job search assistance with education, training and other supports. While a pure Work First approach might produce results more quickly, a mixed approach is likely to be more effective in the medium to long term (Michalopoulos and Schwartz 2001).
- **Labour market efficiency:** Under Work First, employment services function almost exclusively as an arm of the social security system. Their job is to minimise the moral hazard associated with income support payments and to improve the efficiency of the system by targeting payments to those who are unable to make ends meet without them. However, employment services can also act as an instrument of labour market policy by alleviating skills shortages, better matching people to jobs and careers, and maximising the potential contribution of each job-seeker.
- **Social justice:** All Australians should be able to develop their potential and take advantage of opportunities the economy has to offer. A disability, a disadvantaged background or a personal misfortune should not hold an individual back. The freedom to choose an occupation should not be restricted to those born into fortunate circumstances.<sup>5</sup>

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<sup>5</sup> See Catholic Social Services Australia's discussion paper on mutual obligation (Catholic Social Services Australia 2007).

## 6 Reforming employment assistance: A new vocational access system

The major problems with the current model are its narrow focus on compliance effects, its inflexibility and its lack of support for employability assistance.

The challenge of reform is to ensure that the needs of job seekers are at its heart, that the integrity of the income support system is maintained and that service providers use any additional flexibility to improve performance rather than generate excess surpluses or profits. This is not an easy mix of goals to achieve.

Experience has demonstrated clearly that different aspects of the overall assistance system demand different staff skill sets, staff attitudes and organisational cultures that loosely can be divided into three areas: administration; marketing; and intensive assistance. It is difficult to integrate all three aspects into one entity; however, a single entity with separate organisational streams in these areas can work satisfactorily.

Importantly, many organisations offer a clear preferential focus in one or other of these areas and therefore any desire to draw the best expertise into the industry must allow prospective providers to specialise in some aspects of the service and not others. A compulsory single integrated service is not appropriate.

### 6.1 Expanding eligibility

The restriction of the current system to allowees should change. A 'human development' focus aimed at social and economic inclusion should be open to:

- Allowees (compulsory participation for most);
- Unemployed non-allowees; and
- Employed and under-employed non-allowees seeking to upgrade their skills and employment, especially those considered 'working poor'.

### 6.2 Moving beyond work first to human development

The limiting focus of the current system on 'any job' should change to a broader concept of 'human development.'

A "human development" focus should aim at realising the nation's human potential, enhancing lives and improving future society and productivity. It would do this by achieving the best possible outcome for each job seeker whether that is an immediate job, progress towards an improved future job or progress towards overcoming an employment or personal barrier that is obstructing progress towards future employment.

### 6.3 Four functions of a reformed employment services system

To protect the integrity of the income support system, promote labour market efficiency and improve the capability of job seekers, the *Vocational Access System* needs to fulfil four functions:

- **Gateway:** job seekers need an initial point of contact where they can be assessed and referred to appropriate services. This function should be independent of service provision;
- **Employment access:** job ready job seekers should receive services which promote job search intensity and effectiveness;

- **Education and training access:** training ready job seekers should be able to receive services which improve their employability through investments in education and training; and
- **Specialised intensive assistance:** job seekers with significant employment and personal barriers who need specialised services in order to benefit from job search assistance, education or training should receive intensive support through a system of case management and referral to appropriate external services.

We acknowledge that the income support system needs to ensure that recipients meet the conditions for payment and are not able to defraud the Commonwealth or bring the income support system and its beneficiaries into disrepute. However, this is a function of the income support system rather than the employment assistance system.

Three 'vocational service' streams are needed to achieve these functions. These streams should operate interactively with the education and training sector to achieve the "human development" focus that will lead to social and economic inclusion.

- **Centrelink (supplemented by Job Capacity Assessors):** This stream would continue to exercise the primary "administrative" processes of the system by making allowance payments (unemployment and education) and administering compliance provisions for those receiving allowances, as well as by acting as the gateway to services in the other two streams. To ensure independence in assessing needs, organisations providing Job Capacity Assessment services should not be permitted to provide services in the other two streams, but should be required to broker and provide the information other streams require to maximise their effectiveness;
- **Employment and Training Access Services:** This stream would carry out the fundamental "marketing" role of the overall system, offering job and training referral services as well as job and career search services to fundamentally job ready and training ready job seekers. The service would integrate existing services such as: Job Placement; Job Search Services; Job Search Training; Work Experience Program (remodelled CWC, Green Corps and Voluntary Work Initiative); and former DEST programs such as New Apprenticeship Centres; and
- **Case Management Services:** This stream would focus on all job seekers considered disadvantaged offering "intensive assistance" in a highly flexible, individually-tailored manner and specialised. It would integrate: ISca; DEN (Capped and Uncapped); VRS; PSP; and JPET. While case management services (open to all disadvantaged job seekers) would be provided for, specialisation in particular client groups would be encouraged in this service to ensure that available expertise is tapped to the full. Providers of these services would be issued with Job Placement licences to encourage employment placement wherever possible.

These services should be clearly distinguished with contracting arrangements making it clear which service providers are responsible for delivering which functions. Performance management should be clearly linked to each of these functions. For example, providers who accept responsibility for coordinating education and training access should be held responsible for improvement in their clients' skill levels and qualifications, *not* for achieving compliance effects (which are cheaper and easier to achieve).

### Employment services functions

Function	Responsibility	Activities	Funding model	Performance Management
<b>Gateway</b>	- Centrelink (inc. external JCA providers)	- Assessments and re-assessments - Referral to services - Ensure all providers have access to relevant and up to date information	- Existing model	- Correctness of assessment/re-assessment and service referral/re-referral
<b>Employment Access</b>	- Employment & Training Access Service	- JSS, JST and less intensive forms of case management.	- Service fees - Outcome payments	- Benchmarked revised Star Ratings system
<b>Education and Training Access</b>	- Employment & Training Access Service	- Negotiating education and training agreements with clients - Delivering or coordinating the delivery of education and training - Providing support to clients during education and training	- Service fees - Outcome payments	- New benchmarked Star Ratings system based on success at increasing job seeker skills and qualifications and at addressing local skill shortages
<b>Intensive Assistance</b>	- Case Management Service	- Development of approved case-management plan Case management model with activities customised to job seeker needs - Referral to other services where appropriate (eg, mental health)	- Service fees inc. sufficient funds to purchase a wide range of external services (eg, mental health places)	- Achievement of progress against agreed plan milestones and objectives - Success in overcoming identified barriers and achieving employment & training outcomes where appropriate

### Income support function

<b>Compliance</b>	- Centrelink	- Investigation - Acting on participation reports - Coordinating Mutual Obligation requirements - Maintaining information systems for better coordination	- Existing model	- Success in service engagement by clients referred
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Under this model:

- Centrelink would act as the gateway to other services, coordinate assessments, oversee reassessments and transfers from one service to another and ensure all providers have access to relevant and up to date information. As the agency responsible for allowance payments, Centrelink must retain ultimate responsibility for case coordination (at least for

allowees) to ensure services to individual participants remain relevant to their needs and hence are more likely to succeed:

- Such functions (including income statement lodgement, job seeker diary supervision) should not be outsourced to service providers as they inevitably lead to downgrading of these services into those focused on “compliance effects”;
- Nevertheless, the benefits providers see in handling such functions (eg, improved information on their job seekers) should be attended to by improved provision of relevant and timely information to providers.
- Providers should be able to access/purchase elements of assistance from other streams as needed to meet job seeker needs. While Centrelink should not be required to approve or process all such transfers, it should monitor such activity.
- The separate Star Ratings for Employment Access and Education and Training Access are designed to avoid the risk of some providers overly stressing training as a means of achieving simple, quick outcomes.
- The wide range of individual circumstances involved in delivering Case Management Services militates against development of a defensible universal Star Ratings system for this service.
- Centrelink and not employment services providers would be responsible for income support compliance functions.

## **7 Recommendations and comments on specific issues raised in the Minister’s letter**

### **7.1 Intervening early**

**Ensure that early interventions minimise the number of long-term welfare dependent Australians of working age (including a review of the Job Seeker Classification Instrument).**

#### *7.1.1 Early intervention*

Employment services are poorly placed to deliver early intervention. By the time job seekers have become unemployed or long term unemployed, most opportunities for genuine early intervention have passed (eg preventing young people from leaving school early, early treatment of mental illness). This is particularly true for the Personal Support Program (PSP). As a manager of one of our member organisations put it:

When speaking about PSP, the term ‘early intervention’ rings a little hollow because, as most people would know, PSP has become the program of last resort into which many job seekers fall once all else has been tried. It has become a ‘too hard basket.’

Employment services need to be supported by a whole-of-government response to early intervention which integrates State, Territory and Commonwealth programs. Some of our members already run State funded programs such as the NSW Government’s Transition to Work (TTW) program for year 12 leavers with a disability. By intervening early, these programs can take pressure off Commonwealth programs such as the Disability Employment Network (DEN).

Catholic Social Services Australia (along with Jesuit Social Services) has supported a whole of government approach through its involvement in the *Dropping Off the Edge* report (Vinson 2007).

### 7.1.2 *The Job Seeker Classification Instrument and Job Capacity Assessments*

Australia is a world leader in the use of statistically based profiling tools. And while the Job Seeker Classification Instrument (JSCI) can be further refined, it remains a worthwhile tool for identifying those job seekers who are likely to have the most trouble finding and keeping work.

As a tool for *targeting* assistance, however, the JSCI is limited. All that it predicts is the risk that a job seeker will become long term unemployed — it does not indicate which job seekers will benefit most from employment services or what kind of assistance they should receive.

There may be some job seekers who have a relatively low risk of long term unemployment but who can still be assisted in a cost effective way. Likewise there are some job seekers who are highly likely to go on to long term unemployment but are not ready to participate in employment services. These job seekers are more likely to benefit from pre-employment services delivered through measures such as the Personal Support Program (PSP). A small proportion have such serious chronic problems that they will continually cycle between employment and welfare reliance until their reach retirement age. For this group employment outcomes may always be temporary.

Job Capacity Assessments (JCA) are an essential tool for identifying job seekers who are unlikely to benefit from Job Network services in isolation. However, screening tools and assessment processes rely heavily on the skills of those who administer them. Job seekers will not always disclose barriers and assessors may not always be qualified to assess the impact of a particular barrier. For this reason providers should always be able to facilitate re-classification with appropriate safeguards.

The current JSCI cut-off score for Highly Disadvantaged status is too low resulting in job seekers being denied early access to ISca.

**Recommendation 1.** The JCA process could be improved by ensuring that job seekers with a particular barrier (eg a physical disability) are sent to an assessor who is specialised in that area.

**Recommendation 2.** That Job seekers referred to a Job Capacity Assessor (JCA) as a result of the Job Seeker Classification Instrument (JSCI) be removed from the continuum whilst being referred and assessed.

**Recommendation 3.** Reduce the Highly Disadvantaged (HD) cut-off score and introduce a disadvantaged category (D) below the HD score range (see Murray 2006).

### 7.1.3 *Dealing with non-vocational barriers*

For highly disadvantaged job seekers, intervening early in an episode of joblessness can mean coming to terms with problems such as mental or physical illness, learning disabilities, substance abuse and homelessness. Most of these problems fall outside of DEEWR's direct area of responsibility and the Department has repeatedly demonstrated that it is unwilling to fund interventions which do not lead to immediate employment outcomes.

The specialised case management approach outlined here would allow case managers to maintain contact after specific interventions or outcomes in order to ensure that issues and re-lapses are identified early. In this way the impact of natural set-backs is minimised and assistance is available quickly, rather than requiring re-assessment and re-referral. Case management may also need to deal with issues from other portfolio responsibilities (eg Housing) so joint funding opportunities will exist between departments.

## 7.2 Tailoring services to job seeker needs

**Ensure that employment services are relevant to the circumstances and needs of the job seeker.**

Providers need more flexibility in order to tailor services to job seeker needs. Flexibility needs to be combined with an effective performance management regime — a regime that rewards providers for *impacts* on employment and employability rather than raw outcomes and compliance with detailed service delivery requirements.

New arrangements should drop automatic requirements for participation in JST and the compulsory activity requirements for ISca. Along with inflexible Mutual Obligation requirements these processes are oriented towards obtaining compliance impacts.

Using employment assistance interventions purely as compliance measures undermines incentives to tailor assistance and offer a service that improves job search effectiveness and employability. Emphasis should shift away from wasting the job seeker's time in the hope that they will make more of an effort to find work. There are cheaper and more transparent ways of achieving this goal and job seekers are entitled to more.

Rather than focusing on delivering services, Job Network providers are forced to devote significant resources to chasing up job seekers. This is the compliance function and it belongs with Centrelink rather than employment services providers.

The high proportion of funding tied up in outcome payments and the Job Seeker Account limits flexibility in service provision.

**Recommendation 4.** To improve flexibility, funds should be shifted from outcome payments and the Job Seeker Account into up front payments for the provision of case management services for disadvantaged job seekers<sup>6</sup>.

**Recommendation 5.** To improve flexibility, Job Search Training (JST) should be abolished as a separately funded program component. Individual providers should be able to decide which job seekers are likely to benefit from this activity.

- If JST is to remain, early JST clients should have an IS start date and warrant a payable outcome.

**Recommendation 6.** That the compulsory 3 days activities a week for 13 weeks for ISca clients be abolished, leaving providers to decide how best to service clients in order to get an outcome

## 7.3 Intensive assistance for the most disadvantaged

**Ensure job seekers with higher levels of disadvantage receive intensive assistance.**

Because of the way Job Network is funded, providers have a limited capacity to deal with job seekers who are not job ready and not ready to undertake training. For job seekers in ISca the Job Seeker Account (JSKA) cannot be used to pay for assistance that is not directly related to a job seeker securing an employment outcome. For job seekers in PSP, there is no source of discretionary funding.

Because the cheapest and easiest impacts come from increasing job search intensity and effectiveness, it is not surprising that the most common kind of training funded through the Job

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<sup>6</sup> For a more detailed discussion of outcomes payments see (Murray 2006).

Seeker Account is training in job search skills (Cameron et al. 2006). The Department's 2006 best practice study reports that the average length of all courses was three days. For vocational courses this suggests that training is probably more oriented towards ticking the boxes needed to obtain credentials such as forklift driving licenses than in genuine skill development. The same study shows that the most common form of 'professional services' purchased under the Job Seeker Account was 'reverse marketing.' Given that reverse marketing is a core part of employment services for job ready clients it should be funded through service fees rather than the Job Seeker Account.

The defining feature of highly disadvantaged job seekers is that they are not ready for immediate placement in work. The pattern of expenditure from the Job Seeker Account strongly suggests that the needs of disadvantaged job seekers are being neglected in favour of those who are already or close to job ready. As currently contracted, Job Network is oriented towards picking off the outcomes achievable through increases in job search intensity and effectiveness and the removal of minor barriers such as lack of transport, work related licenses, and equipments such as work boots.

This is not 'intensive assistance' and has little to do with improving employability.

**Recommendation 7.** Resources should be shifted towards employability assistance for the most disadvantaged.

**Recommendation 8.** That ex-prisoners automatically be given Highly Disadvantaged status upon referral to a Job Network Member.

**Recommendation 9.** Eligibility for transfer to/from PSP to ISca /DEN other similar services be facilitated and determined on participants' capacity to benefit rather than previous participation periods or quota systems.

**Recommendation 10. (PSP)** Greater flexibility is required to support participants transitioning to complimentary programs/ economic outcomes. Recent procedural and policy changes have made it harder for participants to move back to PSP and six months dual servicing is often not enough to support durable social or economic outcomes. While there is the opportunity to move people back to PSP if an ISca placement is in jeopardy, the process is cumbersome and outcomes which are anchored and not converted negatively impact KPIs. A more flexible approach would facilitate more durable outcomes and smaller investment in the longer term.

**Recommendation 11. (PSP)** Ensure Highly Disadvantaged (HD) status is attached to all PSP participants, including those transferring to ISca. HD status attracts higher brokerage and service fees - an incentive for participants and JN Providers to invest in durable outcomes. Changes in 2004 to HD assessment mean that many are participants have been denied access to goods and services that would facilitate education outcomes or longer term employment placements.

Better definition of a greater range of outcomes and more options for dual servicing to ensure: non vocational barriers do not undermine potential vocational achievements/employment opportunities; more efficient use of program resources

**Recommendation 12.** Disability Support Pensioners should be able to access DEN immediately without fear of losing their pension.

## 7.4 Improving employability

### **Ensure incentives for training which will improve the employability of job seekers (including incentives for long term training and education to address labour market needs.**

Under a human development approach, assistance with employability should not be confined to job seekers who are not job ready. Job seekers who are able to benefit from education and training and address local skill shortages should be able to access assistance.

Assistance with education and training should be provided through a separate contract and performance management regime. The emphasis should be on skills development rather than employment placements or credentialing (eg short courses oriented towards obtaining a ticket rather than the acquisition of significant new skills).

For highly disadvantaged job seekers, improving employability will often involve improvements in 'soft' or 'employability' skills as well as 'hard' skills.

Hard skills include basic skills such as literacy and numeracy and more specific vocational skills such as fork lift driving. Soft skills are more difficult to define, but are in high demand from employers. They include the ability to relate to customers and co-workers, deal with emotions constructively and meet employer expectations for punctuality and personal presentation. From an employer's point of view, soft skills are often more about attitude and motivation than technical ability. Employers generally feel more able to provide new employees with hard skills, provided they already have achieved adequate soft skills to sustain their participation in the workplace.

While hard skills can usually be taught in a formal setting like a classroom or in the workplace, soft skills improvement often requires a different approach. Obviously issues like low self confidence or difficulty dealing with anger or anxiety need to be handled sensitively. Sometimes the best approach is an individualised one-on-one technique that is part of meetings between a case manager and a job seeker. At other times it may involve a referral to professional services.

For some job seekers this kind of one-on-one approach will be far more cost effective than formal training. However, it will not generate an outcome payment in the same way as the successful completion of formal training will. Funding for pre-vocational services needs to allow for greater investments in staff to client ratios, staff development and opportunities to link with professional services for problems such as depression, anxiety, substance abuse and homelessness.

**Recommendation 13.** Programs designed to address the needs of highly disadvantaged job seekers should not be capped. PSP, DEN, JPET and similar programs should be made available to all who are assessed as needing them.

**Recommendation 14.** PSP needs to be adequately resourced. Service fees should support smaller case loads and providers should have access to a flexible pool of funds (or an increase in fees) that they can use to effectively address job seeker barriers. This is a preferable alternative to referring clients to ISca in order to access the Job Seeker Account.

## 7.5 Training

### **Ensure job seekers receive appropriate training.**

Job seekers who are interested in improving their skills and qualifications should have access to a dedicated education and training stream within employment services. Access and resources should be rationed according to the job seeker's capacity to benefit rather than their level of disadvantage.

Policy makers should distinguish between job search training and credentialing and training which adds to the job seeker's productivity in the workplace.

Policy makers often conflate employability with participation in formal accredited training. Because participation in accredited training courses is easy to measure, governments are tempted to use it as a proxy for improvements in employability. There is a temptation to address skill shortages by directing disadvantaged job seekers into training courses regardless of their level of interest or capacity to benefit.

The indiscriminate use of low cost and inappropriate vocational training was one of the motivations for the creation of Job Network. The 1996 evaluation of Working Nation reported that:

Case managers did not believe that providers of occupational training such as JobTrain were sufficiently focused on the severity of the barriers faced by case managed jobseekers to participating in training and employment, nor did they think that training providers offered sufficient flexibility to allow tailoring of courses to individual needs. A poor understanding of jobseekers' needs leads to programs that do not provide appropriate combinations of occupational training with remediation (DEETYA 1996: 27).

Education and training have an important place in employment services system, however they should be carefully targeted and oriented towards labour market efficiency rather than savings on income support.

**Recommendation 15.** Education and training should be available to all job seekers who have a capacity to benefit from them. Access to education and training should not be restricted to job seekers who are classified as disadvantaged.

**Recommendation 16.** Work for the Dole should be replaced with a work-based program designed to develop skills and employability.

Government should consult with the community and current Community Work Coordinators on the design and implementation of a replacement scheme. The scheme should have a new name that reflects its purpose.

## 7.6 Managing performance

**Ensure performance management principles (including star ratings and business reallocation) that support sustainable outcomes and promote quality service delivery.**

The current performance management system is skewed towards the pursuit of compliance effects and low cost impacts from job search. It provides little recognition for providers that devote significant resources to improving employability.

Business reallocation increases the risks of participating in the employment services market and discourages investment. Employment services providers must compete with other organisations for skilled staff. There is a risk that skilled and experienced staff will gravitate towards jobs with better security and more rewarding working conditions. The short effective period of contracts (ie 6 months) provides no certainty to providers or their employees and has drastically undermined the entire industry.

Each of the functions of the employment services system requires its own separate performance management regime. Education and training access must be held accountable for increasing employability through skills. Case Management Services must be held accountable for preparing clients for either job search or education/training. Employment access services must be held accountable for raising the effectiveness of job search and improving the quality of employment for job seekers.

Where there is a demonstrated relationship between a particular output and employment impacts, provider performance can be measured in terms of outputs.

**Recommendation 17.** The current Business Reallocation Process used for Job Network and other programs should be abandoned and replaced with a system based on the following principles:

- The end of the three-year contract is the appropriate occasion for the Department to reward high performers and dispense with under-performers. Given the relatively short-term nature of the current three-year contracts and the substantial investments required of providers in property (usually 5 year leases or longer), systems and staff development, the risk of business reduction or termination creates disincentives to invest appropriately in services and creates barriers to recruiting and retaining staff. These impact on the quality and effectiveness of services. Once again, this policy would be consistent with the new Government's undertakings in relations to a "Compact" with the non-government sector (Gillard and Wong 2007; Stephens 2007);
- Performance reviews should continue on a six-monthly basis and be aimed at encouraging improved performance. Very poor performers and other providers demonstrating other serious shortcomings (such as serious Code of Practice breaches) should be managed closely by DEEWR until the situation is addressed.
- Contract termination should be a "last resort" measure and restricted to exceptional circumstances when action taken under the previous measure has failed repeatedly to deliver improvement, or where there is evidence of fraud and/or gross misconduct.

#### 7.6.1 *Why outcome payments do not reward performance*

Outcome payments were supposed to eliminate the need for Departmental control over processes. However, gross outcomes do not represent performance because most outcomes will occur whether or not job seekers receive assistance (these outcomes are known as the 'deadweight'). In the absence of other incentives, this means that the most profitable strategy can be to claim payments for the deadweight and to minimise expenditure on assistance.

The Department's 2002 Job Network evaluation modelled the incentive effects of the fee structure and reported:

The modelling indicated that, compared to doing nothing, wage subsidies or skills training would be unlikely to increase provider profits. It suggests that the outcome payments under the current Intensive Assistance fee structure provide little monetary incentive to *improve* the outcomes of clients via such types of assistance (DEWR 2002: 98).

The evaluators concluded that "The high costs of achieving an increase in clients' employment prospects make it difficult to design an outcomes-based payment arrangement for labour market assistance which would not have potentially perverse effects (DEWR 2002: 100).

This finding is consistent with international research on performance management systems in employment services and CSSA's own analysis (Murray 2006). It is difficult to create a system that rewards results because results are almost impossible to measure directly. Policy makers rely instead on proxy measures and these measures are the source of most of the perverse effects.

This problem is well documented in the literature. For example, a study of assistance funded under the US Job Training Partnership Act (JTPA) found that the program's "performance standards do not promote efficiency because the short-term outcomes they rely on have essentially a zero correlation with long-term impacts on employment and earnings" (Heckman, Heinrich, and Smith 2002).

Even with the funding now available from the Job Seeker Account, the incentives provided by outcome payments are weak. Providing effective services for highly disadvantaged job seekers involves costs (eg recruiting, developing and retaining specialised staff) that cannot be recouped

through the Job Seeker Account. In addition, accessing the account brings significant administrative costs.

Another negative effect of the outcome payments system is that it diverts funding away from areas of low employment where outcomes are difficult to obtain and towards areas of higher employment where outcomes are easier to obtain:

- Almost 50% of fees (excluding the Job Seeker Account) are Job Placement and outcome fees;
- Providers achieving the same level of employment impact (value added) will receive different levels of outcome payments depending on the labour market they operate in. The Department acknowledges this in its star ratings system;
- This means that providers in high employment areas will receive a higher level of funding per job seeker than providers in low employment areas.

This is why shifting funds from service fees and the Job Seeker Account into outcome payments is unlikely to improve performance. The effect would be to exacerbate the regional biases of the existing system. A pay-for-performance system can only work if funders are able to measure and compare performance accurately.

**Recommendation 18.** The Department should undertake a review of international experience with pay-for-performance systems in employment services and welfare to work. The review should pay particular attention to the correlation between provider profitability and *net impacts* for disadvantaged job seekers.

The review should examine alternative performance management systems which reward activity that is likely to have a strong connection to impacts.

**Recommendation 19.** If the system of outcome payments is to be retained then it needs to be reformed. To avoid a bias against areas of lower employment opportunity, the level of outcome payments should reflect the state of the local labour market. Similar labour markets should be clustered and rewarded relative to each other (eg metropolitan, regional, remote), rather than via a single national outcomes system.

### 7.6.2 *The star ratings system*

The star ratings system offers a better measure of provider performance than gross outcome measures. This is because it attempts to correct for the influence of local labour market conditions and job seeker characteristics.

However, the star ratings system's focus on simple employment outcomes makes it an inappropriate tool for measuring the performance of programs which aim at improving skills or preparing job seekers for job search assistance.

Employment and training interventions and customised, case managed pre-vocational services need separate performance measures. Applying measures designed for job search programs will undermine efforts at improving employability and encourage providers to pursue short-term compliance effects. In practice this means that many of the most difficult to assist job seekers will receive only token assistance.

According to some of our members, an increasing focus on inappropriate employment outcomes is also undermining staff morale in PSP. One manager argues that staff members:

...feel somewhat betrayed by the system because they are being forced to do a task (strive for economic outcomes) that their program was never designed to do with clients who are largely

unlikely to achieve these goals to any significant degree (in the short to medium term, at least) and to work in a way (being forced to punish highly disadvantaged people via participation reports and inflexible client management arrangements) that they never expected to when they took on the role.

Currently the star ratings system does not measure the absolute performance of individual providers. Instead, providers are rated against each other's performance. This makes it difficult for providers to predict the relationship between additional investments in service delivery and additional stars.

Providers would be more likely to enter the market and invest in employment services if the relationship between (absolute) performance and effort was more certain.

Furthermore, several factors known to affect relative provider performance are not included in the star ratings regression formula. For example:

- population mobility especially in remote areas leads to high staff turnover and dilution of skills.;
- the degree of mismatch between available jobs and the skills and attributes of local job seekers is not factored into the measures for the state of the local labour market.

These factors have a particularly negative effect on the measured performance of some providers especially in remote areas. Some remote areas have low rates of unemployment due to mining industry jobs but large Indigenous populations with extremely low levels of work experience, education and skills.

**Recommendation 20.** Review the application of the star ratings system in affected Employment Service Areas and set benchmarks that take account of excluded factors.

**Recommendation 21.** Providers should know in advance what level of outcomes they need to reach in order to earn a particular number of stars. Star ratings should be made against objective benchmarks rather than relative rank.

### 7.6.3 *Managing performance in case managed assistance (PSP, DEN etc)*

Outcomes for PSP are poorly defined. For example, two years of participation in PSP is recognised as a social outcome while completing a NEIS placement is not recognised as an outcome when it is an obviously more valuable result.

**Recommendation 22. (PSP)** The current definition of outcomes for PSP should be reviewed. Outcomes should reflect progress in improving job seeker employability. For example, social outcomes include two years participation in the program which can result in counterproductive incentives:

- Redefined social outcomes could include: transfer to a non employment program (eg FaCSHIA Personal Mentoring) other state funded program; and transition to a more appropriate payment type for voluntary participants who no longer wish to participate in PSP.
- Economic outcomes should include NEIS.

**Recommendation 23. (DEN)** Create incentives that encourage providers to assist jobseekers with a disability working 8 hrs/pw when their capacity is 8 -15 hrs. Currently, providers are unable to assist these jobseekers to maintain employment or increase hours.

**Recommendation 24. (DEN)** That both DEN capped and uncapped programs encompass social, education and supported employment outcomes.

## 7.7 Reducing administrative burden

### Ensure the minimisation of time and money spent on administration.

The major drivers of the unreasonable administrative burden providers currently face are the failure of Job Network's pay-for-performance system combined with the former government's decision to use employment interventions to pursue compliance impacts.

To reduce the level of administrative burden the Government must implement a more effective performance management regime — one that does not rely on gross outcome measures and financial payments for outcomes that would have occurred even in the absence of assistance — “deadweight”.

The system must pay more attention to the logic of assistance — the causal relationship between assistance (particularly employability assistance) and employment impacts. Because measuring impacts is difficult, it may be necessary to measure provider performance in terms of outputs — outputs that have a well established relationship with impacts.

An effective performance management system would allow the Department to step back and release its micro-management of inputs and processes with all the associated costs.

Another source of administrative burden is where State, Territory and Commonwealth departments fund employment services with overlapping functions and client groups. Because different departments impose different reporting and administrative requirements, organisations which manage multiple contracts and funding agreements in order to provide similar services often carry an unnecessarily high administrative burden.

**Recommendation 25.** That Australian governments identify areas of duplication and negotiate more streamlined arrangements allowing the same employees to deliver services under different programs.

The process of managing Vocational Profiles and Auto Matching imposes an unreasonably high cost on Job Network members relative to the modest impact generated. A 2005 survey of frontline staff conducted by AC Nielsen for Jobs Australia and the Brotherhood of St Laurence reported that staff found Auto Matching and Vocational Profiles to be among the least valuable tools for assisting disadvantaged job seekers into work (Jobs Australia and Brotherhood of St Laurence 2005).

**Recommendation 26.** That the system generated Auto Matching facility and the Vocational Profile be abolished.

**Recommendation 27.** That the current JCA process be reviewed in order to enhance streamlining between services and to reduce inefficiencies.

Current efforts in having job seekers assessed and putting together documentation for referral to PSP is currently unrewarded financially, but takes considerable time and effort.

**Recommendation 28.** That monitoring of Activity Agreements and Participation Reporting activities are removed from all case management programs. For instance, with DEN:

- These activities take up at least 20 percent of DEN staff's time and therefore move a provider's focus away from service delivery to predominately administrative and compliance tasks that were previously undertaken by Centrelink.
- Involvement in compliance activities changes the nature of the relationship between the provider and the client. It is very difficult to establish a productive rapport with our clients if we are perceived as an 'enforcer.' Under such circumstances, clients can be reluctant to disclose barriers and problems.

**Recommendation 29.** That EA3000 be linked with the Centrelink Client System to allow providers access to necessary information essential for efficient processing and effective servicing.

## 7.8 Additional recommendations

### 7.8.1 *From service provider to partner*

Catholic Social Services Australia is seeking a new kind of relationship between employment services organisations and Government — one where we partner with government to improve the lives of disadvantaged Australians rather than act as 'service providers' who are offered contracts on a take-it-or-leave it basis.

**Recommendation 30.** The currently one-sided contract should be altered to outline the rights, responsibilities and accountability arrangements covering both parties and provide for indexation of fees in line with industry cost movements. This ought to include the principles detailed in the "Compact" being developed as part of the new government's social inclusion agenda;

**Recommendation 31.** Consultation arrangements should be spelled out in the contract both with regard to policy development and program practices, including provision for renegotiation of resourcing provisions when any changes to the contract or administrative arrangements are envisaged; and

**Recommendation 32.** The contract should provide for an independent point of appeal for providers, such as via an industry regulator.

**Recommendation 33.** There is a need to return to the principle that providers should be left relatively free to determine and implement their own service model aimed at realising agreed outcomes. While providers need to be accountable for outcomes and lack of same, the Department should remove itself from the field of monitoring prescriptive processes. This will mean that current systems, such as EA3000 and the Department's National Contract Management Framework, will not need to be as complicated and unwieldy. Efforts can focus on spot audits, and more intensive monitoring of providers deemed to constitute higher risk as a result of such spot checks. The substantial resources saved can be transferred to services through such measures.

The way Activity Agreements are currently administered makes them another source of unnecessary administrative burden.

**Recommendation 34.** Activity Agreement should be reviewed and simplified.

- Activity Agreements should focus on content, not codes.
- Make them really individually tailored not the current one-size fits all with the various codes.
- Activity Agreement should be done by employment and training access services.

### 7.8.2 *Resourcing*

**Recommendation 35.** Fees and payments have been eroded by cost increases. To offset the effects of inflation and maintain the resources available for assisting job seekers we suggest:

- Indexation of fees in line with industry cost movements;
- Reduction in administrative costs including the abolition or substantial reduction of the Job Seeker Account with funds rolled into the fee structure;

- Simplification of the EA 3000 with administrative savings by DEEWR transferred into the fee structure;
- Reduction in DEEWR staffing (limit DEEWR to a fixed percentage of overall funding, eg from the current 15% to 10%) and transfer savings into the fee structure.

**Recommendation 36. (DEN)** We would like to see a funding system that is less cumbersome but incorporates fairer and more valid processes in determining funding for clients.

- The funding formula is overly complex and needs to reflect real costs
- Initial placement costs are under funded for people with intellectual disabilities.
- Maintenance and placement costs cannot be estimated in isolation from each other.
- The billing system is overly complex.

**Recommendation 37. (DEN)** That the DMI and DPI assessment tools be reviewed. The DMI rewards services for the support provided within the last three months to the day that the DMI is authorised. It does not consider the overall support needs of the client. For example a mental health client may have been relatively stable in the last three months but may become seriously ill next week. Support needs in this case will obviously change.

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