



Independent Review of Job Network

Draft Report

This is a draft report prepared for further public consultation and input.

The Commission will finalise its report to the Government after these processes have taken place.

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The Productivity Commission

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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Opportunity for further comment

You are invited to examine this draft report and comment on it in writing and/or by attending the public hearings as shown below

Public hearing dates and venues

Location	Date	Venue
Sydney	Commencing 9.30 am Monday 8 April	Rooms 1 and 2, Level 16 Australian Business Centre 140 Arthur Street North Sydney
Melbourne	Commencing 9.30 am Wednesday 10 April	Rattigan Room Productivity Commission Level 28, 35 Collins Street

Commissioners

For the purposes of this inquiry and draft report, in accordance with section 40 of the *Productivity Commission Act 1998* the powers of the Productivity Commission have been exercised by:

Mike Woods

Presiding Commissioner

Judith Sloan

Commissioner

Terms of reference

INDEPENDENT REVIEW OF JOB NETWORK

PRODUCTIVITY COMMISSION ACT 1998

I, ROD KEMP, Assistant Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby refer the Independent Review of Job Network to the Commission for inquiry and report within 9 months of receipt of this reference. The Commission is to hold hearings for the purpose of the inquiry.

Background

2. In the 1996-97 Budget, the Commonwealth Government announced major changes to the arrangements for active labour market assistance in Australia. The changes were comprehensive, involving the most significant reorganisation of labour market assistance arrangements since the establishment of the Commonwealth Employment Service in 1946.

3. The model developed, which includes Job Network, was guided by three key principles:

- a strong focus on outcomes, that is to deliver a better quality of assistance to unemployed people, leading to better and more sustainable employment outcomes;
- to address the structural weaknesses and inefficiencies inherent in arrangements at the time, by changing the role of government to that of a purchaser rather than a provider of assistance; and
- the use of competition to drive greater efficiency for the taxpayer and increased choice for consumers.

4. In announcing the reforms, the Government stated that there would be a full evaluation of the new arrangements. The Evaluation Strategy included a requirement for an independent review of the Job Network's policy framework. It was envisaged that the review would provide an assessment of the strengths and weaknesses of the model for delivering employment services and its application to other types of government services.

Scope of Inquiry

5. Having regard to the guiding principles established by the Government, the Commission is to critically examine and comment on the framework for delivering labour market assistance arrangements including:

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- a) the application of the purchaser-provider model to employment assistance;
- b) the roles of the relevant players including:
- Commonwealth funded employment service providers;
 - training providers utilised by Commonwealth funded employment service providers;
 - Centrelink; and
 - The Department of Employment, Workplace Relations and Small Business, the Department of Education, Training and Youth Affairs and the Department of Family and Community Services;
- c) areas where the model could be improved; and
- d) the possible scope for the model to apply, in full or in part, to other types of Commonwealth Government service delivery.

6. In conducting its review the Commission will have regard to research already undertaken, including that undertaken for the evaluation of Job Network, as well as drawing on community input and call for submissions from interest groups and the broader community.

7. The Government will consider the Commission's recommendations, and the Government's response will be announced as soon as possible after the receipt of the Commission's report.

ROD KEMP

3 September 2001

[received 3 September 2001]

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Abbreviations and explanations

Abbreviations

DEST	Department of Education, Science and Training
DETYA	Department of Education, Training and Youth Affairs
DEWR	Department of Employment and Workplace Relations
DEWRSB	Department of Employment, Workplace Relations and Small Business
FaCS	Department of Family and Community Services
IA	Intensive Assistance
IAC	Industries Assistance Commission
IC	Industry Commission
JM	Job Matching
JST	Job Search Training
NEIS	New Enterprise Incentive Scheme
PC	Productivity Commission

Explanations

Page reference numbers	Because many submissions and documents were originally received as electronic files or downloaded from the internet, the cited page numbers may differ from page numbers in printed copies held by others.
References to Departments	Depending on the particular context, the current name of government departments may be used in the text of this report, even if the reference relates to a predecessor of the department.

OVERVIEW

Key messages

The Job Network's purchaser-provider model is a suitable policy framework for the delivery of active labour market programs.

The effects of Job Network programs on *net* employment outcomes are small, as in past similar programs. However, the total costs are much less than previous programs. Job seekers have some choice of provider, and they and employers are more satisfied. Competition between providers and the use of outcome payments have provided incentives for improving efficiency and achieving better outcomes.

However, not all aspects of the Job Network are working well:

- some programs (the Harvest Program, Self Employment Development and Job Matching) are either poorly targeted or ineffective;
- a significant share of disadvantaged job seekers receives little assistance while on 'Intensive Assistance' — so-called 'parking';
- many job seekers do not choose their Job Network provider. When they do, their choices are often not well-informed by information about providers' performance;
- the competitive tendering process is complex and expensive for providers and disruptive to services, while fixed caseloads frustrate growth of the best agencies; and
- the Department of Employment and Workplace Relations is imposing too many compliance burdens on, and providing excessive direction to, Job Network providers — undermining the desirable flexibility of the system.

While the Commission considers the basic policy framework for the Job Network is sound, it has proposed incremental reforms to address deficiencies. These include:

- removal of subsidies in the Harvest Program and for non-disadvantaged job seekers in Job Matching, and termination of the Self Employment Development program;
- better targeting of the needs of job seekers, changes to payments systems and greater options for re-referring job seekers to other programs so as to alleviate 'parking';
- more options for informed choice of provider by job seekers;
- the use of administrative pricing rather than competitive tendering of prices;
- adoption of a licensing approach with free entry to the Job Network by accredited agencies, subject to periodic assessment to ensure quality;
- abandonment of fixed provider caseloads; and
- mechanisms for better coordination between agencies and over time — including portable case histories.

The success of the Job Network policy framework has lessons for other areas where the Government purchases services.

Overview

The goal of the Job Network

Unemployment has been a persistent and severe social and economic problem in Australia since the 1970s. In January 2002, there were nearly 700 000 unemployed Australians, comprising 7.0 per cent of Australia's labour force. Of these, around 160 000 were long-term unemployed (unemployed for more than a year.)

Unemployment increases poverty and inequality, erodes people's skills and social capital and reduces economic output and national income. Many unemployed people feel demoralised and socially alienated because they cannot get a job. Unemployment is directly associated with poorer health. Its effects reverberate beyond the jobless. Young people with unemployed parents have worse educational and work outcomes compared with their peers. The wider community suffers and there are bigger burdens on the charitable sector and social welfare budgets.

For these reasons, reducing unemployment is one of the most important goals of governments everywhere.

However, doing so is not easy. There are many obstacles — such as poor local labour markets, a mismatch between the skills held by job seekers and those sought by employers, and de-motivation among the long-term unemployed. Imaginative efforts are required, using a variety of approaches.

The Job Network policy framework is a new way of attempting to reduce unemployment — by bringing flexibility, choice and competition to the provision of employment services to Australia's unemployed. *The Commission's view is that the new framework has many advantages and should be retained, but that incremental changes are also required.*

The Job Network

Job Network is a 'managed' market for the provision of government purchased employment services to job seekers. It represents one of the first comprehensive attempts internationally to apply market mechanisms to the provision of subsidised employment services. This quasi-market tries to mimic many of the features of normal markets by providing scope for competition, variable prices, flexibility in the way services are delivered, direct rewards for good providers through higher outcome payments and some degree of choice for job seekers.

With the establishment of the Job Network in 1998, the Commonwealth Employment Service was closed. Most publicly subsidised employment services were contracted out to for-profit and not-for-profit agencies, with the Government-owned Employment National also winning some contracts. Centrelink was established as a Government operated gatekeeper to the system and as the single benefit payments agency.

The creation of the Job Network represents the further development of a process that commenced with Working Nation. For example, under Working Nation, some employment services were contracted out to case managers.

Four main programs are provided under the Job Network:

- *Job Matching*. Providers match and refer eligible jobseekers to suitable vacancies, notified by employers.
- *Job Search Training*. After assessment by Centrelink and the provider, the provider delivers a 15-day job search training program to the client.
- *Intensive Assistance*. Clients receive intensive assistance for a period of 12 months or more. This can include job matching, training, job search assistance, work experience and post-placement support.
- *The New Enterprise Incentive Scheme (NEIS)*, which provides assistance for unemployed people wishing to start their own business, is also under the Job Network umbrella.

There are also two minor programs: *Self Employment Development (SED)*, which allows job seekers to develop a business idea) and *Project Harvesting* (which organises vacancies for seasonal farm work).

Of these, Intensive Assistance is by far the most important as it is targeted at the most disadvantaged job seekers and accounts for around 70 per cent of the total Job Network budget (figure 1). Accordingly, the Commission's analysis of the policy framework pays particular attention to this program.

Providers are paid for their services according to contractual agreements negotiated after tendering rounds. Payments vary according to the service delivered and may also vary between providers. Two rounds of tendering have been held to date — in 1997 and 1999 — with a third round expected to end in February 2003.

Box 1 How the Job Network works

Job Network providers bid in a competitive tender to provide Job Network services. There is usually a number of providers in any one area. Job seekers may choose their provider from these — but if they do not, are assigned one randomly using an auto-referral system run by Centrelink.

Eligibility for Job Matching is open to almost all job seekers at all times, but other programs depend on meeting certain eligibility criteria.

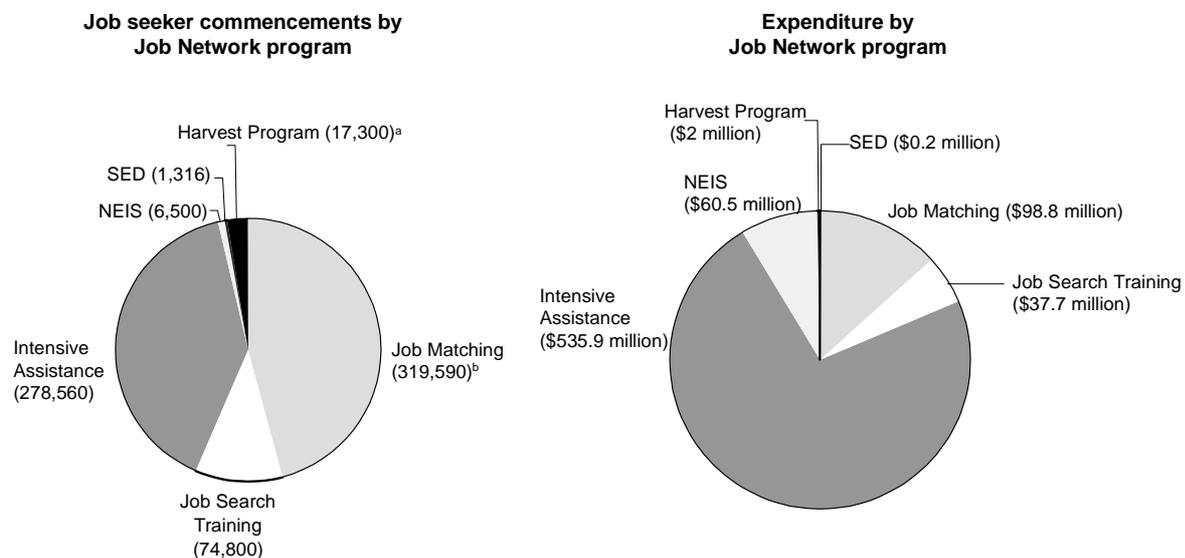
- Typically, job seekers using Job Matching will register with several Job Network providers so as to access the vacancies for which they hold the details.
- All job seekers who have been on benefit for 3 months become eligible for Job Search Training.
- All unemployment benefit recipients are assessed by Centrelink using a profiling instrument — the Job Seeker Classification Instrument — to assess their risk of prolonged unemployment. If their risk is assessed as high they are referred to Intensive Assistance — in two streams, an A or a B, depending on the level of disadvantage. If job seekers have special needs (such as mental health problems) that cannot be met by the Job Network, they are referred to the Community Support Program — outside the Network.

Job Network providers are given considerable flexibility in the services they provide, particularly in Intensive Assistance — the most important service. Providers may also specialise in services for certain disadvantaged job seekers — such as people with disabilities and Indigenous Australians.

The Government rewards providers for outcomes, in addition to paying commencement fees when job seekers start in Intensive Assistance. For example, in Intensive Assistance, a provider will receive an overall payment of over \$9200 if it successfully gets a job for a B-level job seeker that lasts at least 26 weeks, compared with a commencement fee of around \$2000 if no outcome is achieved. Educational participation is also recognised — usually by lower payments.

The performance of providers is monitored by the Department of Employment and Workplace Relations (DEWR) and also rated using a sophisticated statistical model — the ‘star rating’ model. The gross outcomes achieved by different providers are corrected for variations in local labour market conditions and the mix of job seekers who use their programs. Stars are awarded on the basis of ‘value added’. Those providers with high star ratings are generally assured of success in the next tender round.

Figure 1 Expenditure and participation in the Job Network
2000-01



^a Commencements for the Harvest Program are for 1999-00 harvest season. ^b Placements are recorded for Job Matching.

Data source: Chapters 4 and 5.

The Commission's view of the purchaser-provider model

There are good grounds for the application of the purchaser-provider framework to the Job Network.

Delivery of employment services has been hampered in the past by inflexibility, lack of choice and diversity, the absence of competition and unclear objectives and outcomes. The key advantages of a purchaser-provider approach entailing outcome orientation, competition and choice are that it sets out clear objectives, and provides stronger incentives for finding better ways of achieving job outcomes and for cost efficiency.

However, the application of a purchaser-provider model to employment services faces some challenges, particularly because:

- outcomes that can be measured do not incorporate all aspects of what employment services should deliver;
- there is a need for the 'market' to remain highly regulated. This is because the system is funded by taxpayers rather than by its 'consumers' — job seekers. Also, unlike most markets, benefit recipients cannot have full choice (they must abide by certain mutual obligations.) However, the regulations can create

perverse incentives for Job Network providers. Small regulatory changes can have large impacts on the functioning of the market; and

- the introduction of price competition risks poor quality when competing providers are unable to specify accurately in their tender bids the outcomes they are likely to achieve.

Nonetheless, the Commission considers that the advantages of the policy framework outweigh its limitations, especially since there is scope to undertake incremental reforms that address the deficiencies.

Effects of the Job Network

Measuring the effect of labour market programs is very hard because many job seekers would get jobs for themselves even if nothing were done to assist them. Even when assistance does help people to get jobs, it may be at the expense of other job seekers who would otherwise have been successful. Consequently, positions in the unemployment queue may change, but overall unemployment may stay relatively unchanged. Nevertheless, such ‘churning’ can help to reduce long-term unemployment by building up the skills and employability of more disadvantaged job seekers.

Using a variety of assessment methods, the Commission finds that Job Network programs have probably only had modest effects on a job seeker’s chance of gaining employment. This finding is consistent with those for previous Australian and overseas labour market programs, and is in line with realistic expectations about their capacity to reduce aggregate unemployment. Small impacts can still produce valuable social and economic outcomes. Outcomes may also improve over time as poorer quality Job Network providers exit and as providers learn what works best. But measures such as the Job Network need to be accompanied by complementary approaches to reducing unemployment, such as welfare and regulatory reform.

The funding of active labour market programs under Job Network is much less than previous programs, such as those forming part of Working Nation. Yet net outcomes are not noticeably different — suggesting that value for money has increased with the introduction of the Job Network.

Other measures of performance, such as job seekers’ and employers’ satisfaction, suggest that the Job Network is perceived in more favourable terms than prior subsidised public employment services.

The second stage evaluation results published by DEWR estimated that Intensive Assistance had a 10 per cent net impact on unemployment of participants. The

Commission considers that this is likely to overstate significantly the real effects of the core program in the Job Network. For example, the methodology fails to recognise that job seekers may search less intensively for jobs while they are on a long-duration program such as Intensive Assistance. Similar methods used in the past mean that the impacts of previous comparable programs have also been overstated.

Improved data and methods are required to facilitate better understanding of the effects of the Job Network (DEWR is already moving in this direction).

Increased transparency would also help to increase the exposure of the Job Network to the discipline of external scrutiny by independent researchers.

Weaknesses in the system

While the basic policy framework of the arrangements is sound, it has been emphasised by DEWR and other inquiry participants that the Job Network is ‘work in progress’ that needs to evolve as problems are recognised. The Commission has identified three major areas where refinements in approach are required:

- redundant programs;
- the risk of excessive intrusion by DEWR into the activities of Job Network providers; and
- flaws in the operation or design of the evolving Job Network arrangements.

Redundant programs

The Job Network’s purpose is to obtain jobs for disadvantaged job seekers, yet some programs are not well suited to this.

In particular, the rationale for the provision of subsidised job matching to non-disadvantaged job seekers (those with small risks of prolonged unemployment) is weak. Most unemployed job seekers find jobs without Job Network help — through newspaper advertisements, social networks and direct approaches to employers. Subsidised job matching services allow employers to obtain free screening services, thus distorting the broader recruitment market in which agencies are paid by employers to find and screen job applicants. It does this without evident social or economic gains. The Commission recommends retention of a national vacancy database and touchscreens at Centrelink, since there can be efficiency benefits from improving matching of job seekers and jobs. However, the Commission recommends the elimination of subsidies for job matching for non-disadvantaged job seekers.

The Harvest Program is a rural industry assistance program. It does not have a strong rationale in terms of assisting disadvantaged job seekers. Disadvantaged participants account for only a small share of the total (more than 70 per cent of job seekers using the program are unregistered, many of them backpackers). Government subsidies to the program should cease. It is likely that the function would continue, unsubsidised, in private hands, with working holidaymakers and horticulturalists as its major clients.

Self Employment Development is a program with small numbers of participants. It allows unemployed people to develop business ideas, while being exempted from normal activity testing. It provides no services, nor monitoring of the seriousness of efforts by its would-be entrepreneurs. Its outcomes are very poor. It should be abolished. Job seekers can still develop business ideas while being subject to normal activity testing. The New Enterprise Incentive Scheme would also be available for those unemployed intending to start a business.

Micro management

One of the major gains from the Job Network is the diversity of approaches used by Job Network providers. An outcomes-based model allows providers to tailor services to different clients and trial innovative methods for motivating job seekers or for increasing their employability. For example, Job Network providers have provided special-purpose training, wage subsidies, tools and even bicycles for job seekers to increase their employability or gain access to local job markets, thus demonstrating far greater innovation and flexibility than would have been available under previous arrangements.

That said, a few providers have been innovative in ways that have undermined the key objective of the program — for example, by ‘manufacturing’ jobs or recycling a succession of job seekers through the same job to get outcome payments. DEWR has tried to quash such practices. However, its response to the risks of abuse, and an increasing interest in trying to guide the actions of providers, also undermines the flexibility that underlies an outcome-focused system.

Many providers perceive increasing compliance burdens that direct them away from their main goal of placing disadvantaged job seekers in employment. Clearly, there is a need for a balance between an overly prescriptive approach that detracts from efficiency and one that protects taxpayers and job seekers. The Commission considers that better targeted risk management and publication by DEWR of information on the nature, extent and cost of compliance burdens would help to address these problems.

Consistent with the development of a market-based model, contract variations (associated with either a tendering system, as now, or licensing system, as advocated by the Commission) should not be imposed ‘unilaterally’ by DEWR. Proposed variations should be negotiated with the relevant providers or their industry associations. There should be compensation for significant additional burdens placed on providers by DEWR.

Design flaws in the Job Network ‘market’

The Job Network is based around what one participant has called a ‘lego’ market — with many of its features regulated by government. This reflects the need for government to take account of externalities, equity issues and information failures.

However, its design has also been the source of some problems.

Problems for choice and pathways for job seekers

Eligible job seekers are usually required to participate in Intensive Assistance in order to stay on benefits, and are not permitted to choose other mutual obligation options instead, such as Work for the Dole.

They are given the freedom to choose their Job Network provider, but most job seekers do not do so. This partly reflects lack of information and low incentives for Job Network providers to market themselves. Instead, most job seekers are assigned a provider through Centrelink’s automated referral system. Once a job seeker has chosen or been assigned a Job Network provider, they are not generally allowed to move to another one.

Job seekers are increasingly being recycled through Intensive Assistance. Already, most current commencements in Intensive Assistance have participated in this or similar programs previously, with little sustained success.

Coordination and information sharing in the system is limited. Each time a job seeker commences in a new program, the person is treated as a first-time user of employment services. Little use is therefore made of past information to identify the benefits derived from previous services or to avoid wasteful repeated use of services that have shown little success.

Targeting issues

The level of funding for varying degrees of disadvantage is determined by government budget limits and the DEWR-devised Job Seeker Classification

Instrument (JSCI), which is implemented by Centrelink. But the instrument has weaknesses in design and implementation. Many people referred to Job Network providers are unsuited to the programs because of undisclosed problems.

Many job seekers receive little or no assistance while in ‘Intensive Assistance’. This is popularly called ‘parking’ in the industry. It arises for several reasons:

- First, job seekers are very heterogeneous, with different skills, motivation and general readiness for work. The JSCI fails to pick up many aspects of job-readiness, but these are subsequently discovered by Job Network providers. The providers often then direct their services to job seekers who are likely to be responsive to their interventions, but will park those with either insurmountable or high barriers to work (for example, poor motivation) who have low likelihoods of achieving payable outcomes.
- Second, there are only two outcome payment categories in Intensive Assistance (based on risk of long-term unemployment) and funding is limited. There are weaker financial incentives for helping those who are less responsive to assistance in an outcomes-based system, though this does not necessarily imply that an increase in payments for such job seekers would be efficient.
- Third, parking occurs because Job Network providers have limited options for re-referring job seekers to other, more appropriate programs (such as Work for the Dole). Indeed, as long as a provider is not close to its capacity limit, parking offers the slim prospect that job seekers may be able to get jobs (largely) by themselves and earn outcome payments for the provider.

Parking may mean that the net effect of participating in Intensive Assistance is negative for some job seekers, because the level of activity testing in Intensive Assistance is weaker than applies outside the program. Moreover, the job seeker may not know why (or even that) they are being parked, leading to frustration and de-motivation.

Supply side issues

At the commencement of each contract period, Job Network providers are given a fixed quota of Job Search Training and Intensive Assistance places (with a potential to negotiate a small increase during the tender period). The automated referral system randomly assigns job seekers to (generalist) providers that are below a threshold capacity. This penalises those providers with strong growth potential and favours poorer performing providers. The operation of the referral system has been geared more to assisting the viability of all providers in the Job Network industry than to helping job seekers.

Most providers in the Job Network regard the competitive tendering process as expensive and time-consuming. The tender documents are very complex, as are the contracts. The tender process — preparation of tender bids, assessment of bids and finalisation of contracts — disrupted service flows noticeably during the second contract.

Some prices are determined by competitive tender (for example, commencement fees for Intensive Assistance and Job Matching fees) and others through administrative arrangements (for example, outcome payments under Intensive Assistance for employment from 13 weeks to 26 weeks). Intensive Assistance also has a minimum price set by DEWR. It appears that many Job Network providers set their price at this minimum and that, where higher prices are paid, they do not lead to significantly better outcomes.

Commencement fees paid to Job Network providers for signing on job seekers are still a significant share of total income — reflecting the fact that payable outcomes are uncommon. For example, during the second contract, only 15 per cent of commencements achieved interim primary outcomes (usually a job that lasts at least 13 weeks) and a further 8 per cent an interim secondary outcome (a job that still leaves the job seeker on benefits or an education outcome). This means that the non-outcome-based commencement fees account for an average of around 70 per cent of the income of providers. The high level of commencement fees (combined with the fact that most ‘outcome’ payments are paid for outcomes that would have occurred anyway) reduces the financial incentives for providers to achieve additional outcomes.

The success of Job Network providers in subsequent tender rounds will not be determined by the decentralised preferences of ‘happy’ or ‘unhappy’ job seekers, but by tender evaluation supported by a centralised econometric ‘star rating model’. This measures the relative performance of individual agencies by correcting their gross outcomes for differences in local labour market conditions and job seeker mix.

The Commission considers that the star rating model is fundamentally sound, but that it gives too much weight to interim education outcomes and to secondary outcomes generally (jobs with lower pay outcomes and certain training outcomes). Job Network providers do not know the specification of the model — raising transparency issues. Job Network providers are mixed in their understanding of the goalposts. There are cases where the rules have been changed after providers have geared their businesses to meet the original rules. This in turn has impacts on business confidence, certainty and investment.

A framework for better outcomes

Even with its present imperfections, the Job Network is better than previous arrangements, mainly because it incorporates strong incentives for providers to improve their performance without direction by government. But there is scope to change the system to improve outcomes for job seekers and provide better value for money. *Australians Working Together* — a suite of additional social welfare changes announced in May 2001 — has initiated some of these reforms, but the Commission proposes further steps.

Clarifying purpose

If some of the less effective components of the Job Network (such as the subsidies in the Harvest Program and for non-disadvantaged job seekers in Job Matching, and the Self Employment Development program) were terminated, the Job Network could focus on its core function — getting jobs for the most disadvantaged job seekers. The Commission supports the concept that the Job Network should remain a primarily jobs-oriented program. While other programs may have other worthwhile and complementary objectives (such as overcoming youth educational barriers), they should be provided mainly outside the Job Network.

The task of policy is then to design the most appropriate institutional framework for achieving job outcomes. In this draft report, the Commission proposes a number of reforms that aim to:

- increase the net impacts of the program for job seekers, while giving them more choice; and
- introduce more aspects of a normal market, by clearing away some of the regulatory tangle that has enveloped tendering and caseload management.

More choice for job seekers

There is greater scope for informed choice by job seekers. Job seekers should be given more information about the Job Network, the comparative performance and quality of providers in their area, and the sort of questions that will help to guide them to the right provider. Removing the current limits on caseloads of providers would also increase the returns from marketing by providers, so that they in turn would have more incentive to attract job seekers.

However, it should be emphasised that the scope for fully informed choice is always going to be limited by the acute level of disadvantage (low literacy and motivation) that affects some job seekers. Even so, pilot testing of basic provision of

information about Job Network providers to job seekers by Centrelink and Job Network providers has yielded a very high level of choice (though not always highly informed).

Currently, Intensive Assistance is mandatory for many job seekers — even if they believe it will be ineffective for them (because, for example, they have been through it, or similar predecessors, in the past). The Commission considers that participation should be voluntary, with job seekers able to select among Intensive Assistance and other eligible mutual obligations — such as community work.

However, first-time participation in the Job Search Training program should remain mandatory. This is because an important effect of this program is to encourage job seekers who already have obtained (or could easily get) jobs to go off benefit after referral to, but before commencement in, the program — the so-called ‘compliance’ effect.

There also could be some scope for job seekers to move to another Job Network provider if they are not satisfied with their present one. It needs to be recognised, though, that some job seekers could behave strategically to escape rigorous activity testing, or use the threat of moving to gain concessions from providers. However, where a provider does not meet its obligations to the job seeker, or where there is mutual consent by the relevant provider and the job seeker, there should be a capacity for job seekers to change providers.

Better targeted and delivered services

The normal duration of Intensive Assistance should be shortened to six months. This proposal reflects the fact that, currently, activity with job seekers is most intense at the start and end of the program, with weak activity at other times. Limiting the duration would compress much the same activity into a shorter period, and would arrest some of the de-motivation that stems from inactivity. To the extent that the program is not successful in that time, job seekers would need to move onto other interventions, such as community work, Green Corps and Work for the Dole, that are likely to enhance social participation and produce a return to the community and to them.

Activity testing in Intensive Assistance should be consistent with that applying in other mutual obligation activities more generally. This would help to maintain the search intensity of program participants — one of the main predictors of getting a job.

Systems for referral to the Job Network should be culturally sensitive. There are high barriers to the involvement of Indigenous Australians in the Job Network,

particularly in remote Australia. This reflects the acute disadvantages of Indigenous Australians in gaining employment, the disincentives for engagement with a system that is distrusted, and practical obstacles even to commencing in the system (such as lack of transport or even a fully functioning labour market). This suggests the need for a more targeted approach to this group, with changes to processes for referral to Job Network providers. The capacity for introducing outcome payments for shorter-duration jobs under Intensive Assistance (discussed later) may also help Indigenous job seekers, for some of whom full integration into the workforce may need to be a staged and gradual process.

The Commission supports the use of an evidence-based approach, such as a (refined) JSCI, to select job seekers who would benefit most from labour market interventions. Data on the outcomes of program participation should enable the instrument to measure better the sort of job seekers who are at risk of enduring unemployment and are responsive to interventions. DEWR also needs to allow Centrelink to implement the JSCI more flexibly. This would permit Centrelink staff to ask additional clarifying questions were they to suspect that a job seeker did not understand a JSCI question or was making statements inconsistent with other evidence (for example, records held by Centrelink). There is also scope for JSCI payments by DEWR to Centrelink (or, if need be, alternative agencies) to include bonuses for greater accuracy in the appraisal of job seekers.

Regardless of improvements to the JSCI, some job seekers referred to Job Network providers will be found to have attributes or combinations of attributes — such as motivation, attitude, personality and ability to learn — that make it unlikely that, at current outcome payments, providers can assist them to get job. As noted above, these job seekers are currently parked, but there are several interacting remedies:

- Job Network providers should have the ability at any time to re-refer their parked clients to other programs if they do not think they can help them with their current resourcing. (While there are already processes for re-referring job seekers who have special characteristics — such as addiction or mental problems — to the Community Support Program, this does not extend to job seekers who face particularly steep barriers to finding employment, but lack such specific disadvantages. Australians Working Together introduces some reforms, but they are more limited than those suggested here.)
- The information from such re-referrals can be used to profile parked job seekers and either allow new risk categories to be developed for the JSCI, potentially with higher payments, or for more appropriate referrals to be made in the first place.
- For a selective group of job seekers who have a particular set of obstacles to work, it may be worth referring them to a program run outside the Job Network.

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.

It may be thought that the ability to re-refer job seekers will result in Job Network providers only dealing with the best job seekers (‘creaming’). In fact, the star rating model provides strong pressures for providers to achieve outcomes for disadvantaged job seekers, since high ratings secure future contracts (or, in the Commission’s model — outlined below — ongoing accreditation). Thus, providers are willing to spend money on disadvantaged clients they believe they can help, bidding away the ‘windfall’ gains they have earned from easy-to-place job seekers to get a better performance rating. The rest they will park. The Commission’s view is that it is better to re-refer such parked job seekers than give the pretence that they are receiving aid.

In a similar vein, the Commission considers that recurring participation in active labour market programs by participants who have not benefited from those programs in the past is wasteful and of little genuine help to the job seekers themselves. This report discusses some options for dealing with this problem.

Coordination between programs and over time can be improved by introducing a portable case history — a record of a job seeker’s basic details and involvement with government-funded employment services over a lifetime — that could be passed from provider to provider across the system. This would allow more informed decisions, cut repetitious form filling by frustrated job seekers and help avoid incorrect job referrals. Appropriate protection of privacy would have to be provided and consent given by job seekers.

Better institutional arrangements

Administrative pricing is likely to be superior to competitive tendering. While pricing flexibility is usually good, administrative pricing has advantages where it is hard to differentiate the quality of competing bids.

The Commission has floated the option of supplementing administrative pricing with some new forms of optional incentive contracts that would still allow some pricing flexibility, but without the problems of the present system.

The Commission has not recommended substantial supplementation to current outcome payments, despite the perception by several participants that funding was not adequate for certain effective interventions — such as wage subsidies. A variety of factors — such as the influence of the star rating and heterogeneity among job seekers and among Job Network providers — mean that, while not always apparent,

the incentives to provide high assistance to some disadvantaged job seekers are still present in the existing system.

There is some scope for incremental shifts towards outcome payments and away from commencement fees in Intensive Assistance. However, radical shifts need to be avoided to prevent risks of abuse (for example, outcome payments could get so high that agencies would simply ‘buy’ job outcomes, regardless of whether the job seeker was really suitable for the job). There is a more substantial case for a shift to outcome fees for Job Search Training, since their magnitude would be unlikely to elicit perverse incentives.

Primary interim outcome payments could be paid in two instalments — to recognise that less than 13 week job outcomes are still valuable to job seekers and the community. But interim outcome payments for educational and training outcomes should be abandoned and replaced by a higher final payment when the course has been successfully completed. This is because the benefits to job seekers of half completing a course — without a full qualification — are unlikely to be great. It also removes some incentives for providers to ‘buy’ educational places for job seekers, irrespective of the capacity of the job seeker to satisfactorily complete the course.

The shift to administrative pricing (combined with licensing) would eliminate the need for costly tenders (arising from the complex nature of the tender requirements). The Commission has proposed that, in its place, entry into the industry as a provider of Intensive Assistance, Job Search Training and/or NEIS services should be on the basis of a licensing system. Entry would be permitted at any time by any supplier that meets standards published and developed by DEWR. It would increase competitive pressure and allow continuous contestability even in markets in which there was only one supplier (whereas under the system used in the first and second contracts, the risk of new entry is staggered at three-year intervals). A more efficient entrant could displace a less efficient one at any time.

Licences would be automatically renewed, subject to a requirement that providers achieve a certain performance standard. In the short term, this would rely primarily on the star rating, while in the longer run, the star rating model should be supplemented by broader measures of performance.

Fixed caseloads should be abandoned, allowing higher performing agencies to grow without constraint. The automatic referral system should also be changed so that it favours better performing agencies, rather than randomly sending referrals to all providers.

The star rating model provides an important discipline on the performance of providers. Its specification is currently being examined by another review, which should be made public when completed. The model will require continued refinement. However, interim education outcomes should no longer be given any weight by the model, while the weight given to all secondary outcomes should be reduced, in line with their lower importance in outcome payments. Other facets of Job Network provider performance should also be measured — such as job seeker satisfaction — and, as refined, also used to evaluate renewal of licences.

Several participants suggested that there should be an ‘independent’ regulator to oversight the Job Network, with DEWR only exercising a policy role. The Commission is not convinced that the advantages of establishing such a regulator would outweigh the disadvantages, especially as the industry moves towards one in which tendering is no longer necessary and caseload specification by DEWR ceases. Increased transparency is, however, an imperative.

Lessons for other areas

The success of the Job Network model could have some lessons for other areas where the government purchases services. The model is likely to be most appropriate where:

- program outcomes can be clearly identified;
- those outcomes can be specified in quantitative terms;
- outcomes can be related to the efforts of the provider;
- process specification can be avoided; and
- contracts can be written to avoid unintended consequences.

Even where these features cannot be fully adopted, however, purchaser-provider models that meet some of these could prove worthwhile.

Draft recommendations and requests

[Note: 3.1, for example, refers to the first recommendation in chapter 3.]

Is a purchaser-provider model justified?

- 3.1** The Commission recommends that a purchaser-provider model for employment services be retained, with a continued strong focus on outcomes, competition and choice.

Employment outcomes and costs

- 5.1** The Commission recommends that DEWR collect further information on compliance effects, the longer term effects of participation on a job seeker's employment history and the quality or suitability of the jobs obtained.
- 5.2** The Commission recommends that consideration be given to establishing an independent panel of researchers to advise on the data needed to evaluate the Job Network programs.
- 5.3** The Commission recommends that all de-confidentialised data on Job Network programs be made available for independent scrutiny by other researchers as soon as is practicable after they are produced.

What services should the Job Network provide?

- 7.1** The Commission recommends that the payment of a job matching placement fee for 15 or more hours work be terminated at the conclusion of the second contract period.

The Commission recommends that the role of Government in job matching for non-disadvantaged job seekers be limited to the continued maintenance of an internet website and Centrelink touchscreens for access to Job Search Australia (the vacancy database) and other simple self-help facilities such as fax, resumé and photocopy services.

Job matching for disadvantaged job seekers should remain an integral part of the assistance provided to job seekers eligible for Intensive Assistance, but should no longer attract a separate fee.

- 7.2 The Commission recommends that Job Search Training be retained.
- 7.3 The Commission recommends reducing the period of assistance afforded to Intensive Assistance clients to six months.
- 7.4 The Commission recommends that the Government mandate that the activity test requirements for Intensive Assistance participants be consistent with activity tests that apply under other labour market programs.
- 7.5 The Commission recommends that the New Enterprise Incentive Scheme be retained.
- 7.6 The Commission recommends that the Self Employment Development program be terminated.
- 7.7 The Commission recommends that subsidies be removed for Project Harvesting Services.

Job seeker choices

- 8.1 The Commission recommends that provision of information to job seekers about the Job Network and the associated referral system be enhanced to allow greater scope for informed choice.
- 8.2 The Commission recommends that entry into Job Search Training remain mandatory for eligible benefit recipients. Entry into Intensive Assistance should be voluntary for eligible benefit recipients rather than mandatory, provided they participate in some activity that meets mutual obligations.
- 8.3 The Commission recommends that there be some scope for job seekers to change their Intensive Assistance Job Network provider, but that portability should be limited to:
 - (a) a short period at the commencement of program participation; or
 - (b) where a Job Network provider has failed to meet reasonable obligations to the job seeker; or
 - (c) where mutual consent is given by the job seeker and current and prospective Job Network providers.

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- 8.4** The Commission recommends that job seekers be able to exit Intensive Assistance if a Job Network provider's reasonable obligations to a job seeker have not been met, provided that they participate in some activity that meets mutual obligations.

Targeting

- 9.1** The Commission recommends that a pilot be undertaken to test the benefits of the flexible implementation of the Job Seeker Classification Instrument by Centrelink.
- 9.2** The Commission recommends that the Job Seeker Classification Instrument not be used to manage the workload within the Job Network.
- 9.3** If the Government does not implement recommendation 9.5, the Commission recommends that charges only be imposed on Job Network providers for re-assessment of job seekers' special needs if Centrelink or an independent assessment organisation establishes that the clients do not have special needs.
- 9.4** The Commission recommends that there be a target maximum delay associated with special needs re-assessment, subject to automatic penalty payments to Job Network providers if this period is exceeded.
- 9.5** The Commission recommends that where a Job Network provider considers that Intensive Assistance is unlikely to generate an outcome for a job seeker:
- the Job Network provider have the capacity to re-direct job seekers to Centrelink for referral to other programs;
 - mutual obligation and activity tests generally be maintained for re-directed clients; and
 - the characteristics of re-directed job seekers be assessed, recorded and analysed, so as to improve future profiling of clients prior to commencement with Intensive Assistance and potentially to increase outcome payments in selective instances.
- 9.6** The Commission recommends that if recommendation 9.5 is adopted, then DEWR develop criteria to detect the possible strategic use of re-referrals.
- 9.7** The Commission recommends that consideration be given to mechanisms that prevent wasteful recurring participation of job seekers in programs that have proven ineffective for them.

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- 9.8** The Commission recommends that Job Network providers be able to choose whether they wish to offer any combination of generalist and specialist services.
- 9.9** The Commission recommends the continued use of an evidence-based system — such as the Job Seeker Classification Instrument — as the basis for determining the outcome payments that should be attached to particular groups of job seekers.
- 9.10** The Commission recommends that the New Enterprise Incentive Scheme be targeted at disadvantaged job seekers who would not otherwise have started a small business, but for whom there is a reasonable prospect of success.

Pricing

- 10.1** The Commission recommends that default prices for Intensive Assistance be set administratively, but with the possibility of trialing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default.
- 10.2** If recommendation 7.1 is not implemented, the Commission recommends that Intensive Assistance providers should not be required to also supply Job Matching services.
- 10.3** The Commission recommends that there be more outcome payment categories for Intensive Assistance to take account of existing special groups of job seekers, but that further payment categories should only be created if the supporting Job Seeker Classification Instrument classifications are sufficiently reliable.
- 10.4** The Commission recommends that interim outcome payments for educational and training outcomes be abandoned and replaced by a higher final payment when the course has been successfully completed.
- 10.5** The Commission recommends that primary interim outcome payments should be split into two instalments made at the 7 and 13 week periods of a job.
- 10.6** The Commission recommends that the existing 28 day cut-off for verification of outcomes be removed.
- 10.7** The Commission recommends that the payment structure for Job Search Training be shifted more towards outcome payments.

Industry dynamics

- 11.1** The Commission recommends that competitive tendering be abandoned as the method for provider entry and contract renewal in the Job Network. It should be replaced by a licensing system that allows:
- free entry at any time to any supplier that meets DEWR's accreditation standards; and
 - automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.
- 11.2** The Commission recommends that there be no regulated limits on caseloads and/or the absolute number of payable outcomes for individual Job Network providers in subsequent contracts.
- 11.3** The Commission recommends that the auto-referral system be changed so that it favours Job Network providers that are more successful in achieving outcomes for job seekers.
- 11.4** The Commission recommends the retention of the star rating model as a basis for assessing the performance of Job Network providers, but it should be subject to continuing refinement.
- 11.5** The Commission recommends that DEWR generally publish:
- star ratings at the Employment Service Area level and at the site level where the estimates are reliable; and
 - some indication of the reliability of the published estimates.
- 11.6** The Commission recommends that:
- no weight in the star ratings be given to interim education and training outcomes, but that final outcomes continue to be recognised; and
 - secondary outcomes receive a lower weight in the star ratings than primary outcomes, consistent with the payment system.
- 11.7** The Commission recommends that the full details of the star rating model be made publicly available, including any assessments made of its technical validity.

Contract monitoring and compliance

12.1 The Commission recommends that in developing a risk management approach to contract monitoring and compliance that encourages innovation and minimises costs, DEWR adopt and apply the following principle in round three of the Job Network:

- monitoring and compliance activity be the minimum necessary to ensure accountability in the expenditure of public funds and the achievement of clearly specified objective outputs and outcomes.

12.2 The Commission recommends that DEWR openly negotiate all contract variations with relevant providers, or their industry associations. Providers should be financially compensated for any significant additional administrative or compliance burdens placed on them by the Department.

12.3 The Commission recommends that when dealing with identified unsuitable behaviour or unintended consequences, DEWR avoid, to the extent possible, imposing additional compliance costs on providers whose behaviour has been acceptable.

12.4 The Commission recommends that DEWR collect and publish relevant data about the nature, extent and cost of its contract and compliance monitoring activities, as well as information about provider behaviour (such as cases of fraud found and errors made in claims).

Competitive neutrality issues

13.1 The Commission recommends that the Government require that any Job Network business accepted by Employment National after the second Job Network contract period expires be on the basis that it expects to achieve commercial rates of return for that business as a whole averaged over several years.

The roles of the Job Network players

14.1 The Commission recommends that DEWR, in consultation with Centrelink, NESAs and the Privacy Commissioner, develop a protocol for the storage and sharing of relevant personal information between DEWR, Centrelink, Job Network providers, and between Job Network providers themselves.

Extending application of the model

- 15.1** The Commission recommends that in applying the purchaser-provider model to the delivery of social services to the community, government agencies actively consider the advantages of adopting features of the Job Network model: that is, basing a substantial proportion of payment to providers on defined outcomes (or outputs), contestability among providers and choice for consumers.
- 15.2** The Commission recommends that DEWR and Centrelink negotiate an appropriate set of key performance indicators on which a substantial proportion of payment from the Department to Centrelink should be based.
- 15.3** The Commission recommends that DEWR and other government agencies be given the freedom to obtain services from providers other than Centrelink, if they judge that offers better value for money at acceptable risk.

Specific requests for further information and comment

The Commission seeks feedback on whether personal job accounts along the UK Enterprise Zones approach would be worth adopting for the Job Network. [chapter 7]

The Commission seeks feedback on the desirability of requiring guaranteed levels of service or expenditure for job seekers who have had their duration of Intensive Assistance extended. [chapter 7]

The Commission seeks feedback from participants on whether the existing complaints mechanism is effective at enabling job seekers to air their grievances, and if not, to suggest alternative mechanisms. [chapter 8]

The Commission seeks feedback on the use of minimum expenditure, exit fees or alternative incentive mechanisms for Job Network providers to appropriately re-refer clients that they would otherwise park. [chapter 9]

The Commission seeks feedback on whether an intensive milestone-based program — outside Job Network Intensive Assistance — is a useful auxiliary approach for certain categories of job seekers. [chapter 9]

The Commission seeks feedback on the desirability of limiting the repeated use of Job Search Training. [chapter 9]

The Commission seeks feedback on the desirability of small adjustments to primary outcome payments. [chapter 10]

The Commission seeks feedback from other participants on the weaknesses and strengths of the ACOSS mixed funding model. [chapter 10]

The Commission seeks feedback on the feasibility of an automated verification system. [chapter 10]

The Commission seeks feedback on whether speedier referrals — being trialed as part of the Streamlined Job Network Access and Referral Process Pilots — will produce significant benefits for job seekers and taxpayers. [chapter 11]

The Commission invites participants to provide their views on whether the advantages of an ‘independent’ regulator would outweigh the costs, the areas which could be oversighted by such a regulator and on other options, such as increasing the role of the ANAO or the Ombudsman. [chapter 14]

The Commission seeks views on whether restrictions on simultaneous participation in DEST, FaCS and Job Network programs are appropriate. It also seeks views on any problems of overlap between Job Network and these other programs. [chapter 14]

The Commission invites participants to identify relevant State/Territory labour market programs, and comment on their interaction with the Job Network, including information about overlaps, omissions and adverse interactions. [chapter 14]

The Commission invites participants to comment on issues relating to the role of Job Network providers in linking job seekers to education and training. [chapter 14]

1 Introduction

Unemployment is a severe and persistent social and economic problem for Australia. There were 694 000 unemployed Australians in January 2002, comprising 7.0 per cent of Australia's labour force. The Government uses many different approaches to reduce unemployment. Job Network is one of these. It aims to improve the effectiveness of job search and employability of job seekers. It is particularly targeted at disadvantaged job seekers — such as the long-term unemployed or those who face high barriers to getting a job.

Major changes to arrangements for active labour market assistance were announced in the 1996-97 Budget. These changes resulted in the closure of the Commonwealth Employment Service (CES) in 1998, with most employment services contracted out. There are currently about 200 private sector (for-profit and not-for-profit — charitable, religious, community) Job Network providers, together with the government-owned Employment National, operating from more than 2010 sites. There are about 1100 sites outside capital cities and more than 250 localities have an employment service where none previously existed. Specialist services are offered in 110 sites, around one-third of them servicing Indigenous job seekers. Job Network arrangements serve as the broad framework for delivering labour market assistance programs in Australia. In this process, the Government has become a purchaser, rather than a provider, of employment assistance.

As part of the reforms, the Government put in place an evaluation strategy that provided for ongoing monitoring. It also provided for an independent review of the Job Network's policy framework to be undertaken some years after its commencement. This is the review currently being undertaken by the Commission. The terms of reference are included at the front of the report.

1.1 A snapshot of the Job Network

Centrelink, established in 1997, serves as a gateway for the unemployed seeking labour market assistance. Centrelink is under a contractual relationship with the Department of Employment and Workplace Relations (DEWR, previously DEWRSB) — the main regulatory body for Job Network — to provide these gateway services. After assessment by Centrelink, and usually placement on

Newstart or Youth Allowance, eligible job seekers are referred to Job Network providers.

There are three main services offered by Job Network providers, according to the assessed requirements of job seekers:

- **Job Matching.** Providers match and refer eligible jobseekers to suitable vacancies offered by employers.
- **Job Search Training.** After assessment by Centrelink and the provider, the provider delivers a 15-day job search training program to the client.
- **Intensive Assistance.** This can be provided at either of two levels depending on an assessment by Centrelink. Clients receive intensive assistance for a period of 12 months or more. This can include job matching, training, job search assistance, work experience and post-placement support.

Other Job Network programs include Project Contracting of Seasonal Harvests, Self Employment Development and the New Enterprise Incentive Scheme. Related programs outside the formal Job Network framework include the Community Support Program and Disability Employment Services. Indigenous job seekers can also participate in Community Development Employment Projects and other special programs.

Intensive Assistance accounts for about three quarters of Job Network program expenditure. Accordingly, it receives the greater share of consideration in this report.

Job Network providers are paid for their services according to the contractual agreements negotiated after tender rounds. Payments vary according to the service delivered and may also vary between providers. Two rounds of tendering have been held to date — in 1997 and 1999 — with a third round expected to end in February 2003 when current contracts expire. All contracts expired at the end of the first round. In contrast, it is expected that about 60 per cent of second round contracts will be rolled over in to the third round.

1.2 Scope of the inquiry

The inquiry focuses on the policy framework underlying the Job Network in meeting the three key principles identified by the Government (see paragraph three of the terms of reference):

- delivering better quality of assistance with better and more sustainable employment outcomes;

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- changing the role of government from provider to purchaser; and
 - the use of competition to improve efficiency and consumer choice.

Particular issues in the scope of the inquiry are (see paragraph 5 of the terms of reference):

- the application of a performance-based purchaser-provider model to employment assistance;
- the roles of service and training providers and the major government agencies involved in the Job Network system;
- areas where the model could be improved; and
- the possible scope for the purchaser-provider model to apply, in full or in part, to other types of Commonwealth Government service delivery.

The distinctive feature of Job Network is the elaborate market that has been created for the delivery of active labour market services through purchaser-provider contracts. The purchaser — the organisation that ultimately pays for the services (in this case DEWR) — contracts with one or more others — the Job Network providers — to produce labour market services. These contracts are supported by other institutional arrangements — a profiling instrument administered by Centrelink under contract to DEWR to determine which job seekers are eligible for entry into the system, a referral process to maintain caseloads for Job Network providers and a ‘star rating’ model that measures the performance of providers. This artificial market has been referred to as a ‘Lego’ market because its structure, incentives and dynamics are largely determined by rules set down by DEWR.

Much of this report is concerned with the general applicability of the purchaser-provider model to labour market services and assessment of the particular configuration of the model that has been used.

Another important aspect of the inquiry is the effectiveness of active labour market programs in assisting job seekers. However, it is important at the outset to be realistic about the capacity of active labour market policy and job matching services to reduce unemployment. International studies of the effects of such programs suggest they have variable, but usually small, effects on the employment and earnings of participants (Heckman et al. 1999). Once displacement and substitution effects are considered, the overall effect on aggregate unemployment is often much smaller. Even so, small aggregate effects can still equate with large absolute numbers of people helped and have other benefits through a reduction of those who are unemployed over the long term and through improved social integration. It is against this benchmark that the performance of Job Network should be measured.

An apparently small effect should not, therefore, necessarily be seen as a criticism of the model of program delivery employed by the Job Network, but as testimony to the limits of any one instrument in reducing unemployment. This is why unemployment policy also applies other generic tools, such as welfare reform and changes to labour market regulation.

Active labour market policies should be targeted efficiently at sub-groups that can benefit from them, be delivered cost effectively and be open to innovations that increase their effectiveness. Given that a small effect produced more efficiently may well have a substantial public benefit, a central part of this inquiry is about the degree to which the performance-based approach has yielded efficiencies.

There are some areas about the provision of labour market assistance which this inquiry does not consider. First, the inquiry is not about social welfare policy in general. Second, although coordination with other program is relevant, the inquiry does not consider the nature, extent or effectiveness of non-Job Network programs.

1.3 Structure of the report

The report is structured as follows. Since any evaluation must ask the fundamental question of why intervention is justified in the form it takes, Chapter 2 discusses the rationales for providing labour market assistance. Chapter 3 examines the broad applicability of the purchaser-provider model to active labour market services, compared with direct government provision and other delivery models.

Chapters 4 to 6 describe the functioning and effects of the Job Network:

- how it is structured and operates (chapter 4);
- its usage and impacts on tangible employment and training outcomes (chapter 5); and
- how it affects the experiences of job seekers and employers (chapter 6).

The remaining chapters are policy-oriented — analysing strengths and weaknesses of different aspects of the Job Network and suggesting possible policy reforms.

Chapter 7 assesses what services should be provided by the various sub-programs in the Job Network — and indeed whether some sub-programs should exist at all.

Chapter 8 examines the role of job seeker choice in the Job Network and the degree to which it can be extended.

Since job seekers are highly heterogeneous, a prime function of the Job Network is to efficiently target job seekers needing particular types of assistance. Chapter 9 analyses the present targeting arrangements.

Chapter 10 examines how services are priced under the purchaser-provider arrangements.

The factors that affect the dynamic aspects of the industry — entry, growth, exit and performance appraisal — are considered in chapter 11.

Government has a major role in overseeing the operation of the Job Network. These compliance and monitoring issues are analysed in chapter 12.

Job Network brings together government, private for-profit agencies and not-for-profit agencies. This raises questions about competitive neutrality (chapter 13).

Arrangements for helping the unemployed are complex, with many different institutions and programs inside and out of the Job Network. This provides scope for coordination problems, as well as questions about which agencies should perform what roles. Chapter 14 deals with the roles of the players and with coordination issues.

Finally, chapter 15 examines the scope for the purchaser-provider model to apply to other areas of Commonwealth service delivery, concentrating on the labour market and related social welfare areas.

1.4 Participation

To facilitate participation in the inquiry and to allow the maximum degree of public scrutiny, the Commission:

- held informal discussions, in all states and territories, and in metropolitan regional and rural areas, with 51 organisations and individuals that have a range of interests and perspectives on the Job Network;
- held six Value Creation Workshops around Australia to gain first hand views, opinions and ideas from job seekers about their experiences in the Job Network (chapter 6);
- released an issues paper in September 2001 to assist those wishing to make written submissions;
- invited written submissions — 50 were received prior to the release of the draft report in February 2002.

Appendix A lists organisations and individuals who have participated in the inquiry.

This draft report is being published to allow an opportunity for further public comment before the final report is prepared and submitted to the Government. To this end, the Commission invites further submissions from interested parties and participation at the public hearings arranged to consider the draft (see ‘opportunity for further comment’ in the accompanying circular).

2 Rationales for labour market interventions

Box 2.1 Key messages

There are good rationales for assisting unemployed job seekers through certain active labour market policies, such as those provided by the Job Network.

The focus of concern should be on the most disadvantaged unemployed (such as the long-term unemployed or those at risk of long term unemployment).

Labour market interventions (and their evaluation) have to take account of the importance of:

- the heterogeneity of the unemployed, some of whom will respond differently to interventions than others or face different incentives to find jobs;
- raising employability in securing long term gains in employment; and
- the impact of the *prospect* of participation in labour market programs on unemployment (so-called 'compliance' effects).

2.1 Introduction

The Job Network spends around \$750 million annually on trying to assist unemployed Australians. In that context, it is important to understand the underlying rationales for the interventions that are used. Accordingly, this chapter assesses the rationale for government subsidisation of the types of services provided by the Job Network.

Active labour market policies aim to improve the employability of the unemployed, increase the efficiency of job searching (in contrast with passive policy — which provides benefits for those without work), secure job outcomes and improve equity.

On the face of it, the Job Network's goal of providing improved assistance to the unemployed to increase their employment chances requires no justification. Unemployment has been a persistent and severe social and economic problem in Australia and most other developed economies, particularly since the first oil shock in the 1970s (box 2.2). Unemployment reduces economic output and national

income, increases poverty and inequality, and erodes human and social capital. Many unemployed people feel demoralised and socially alienated because they cannot get a job. Unemployment is directly associated with poorer health. Its effects reverberate beyond the jobless. Young people with unemployed parents have worse educational and work outcomes than their peers. The wider community suffers through increased crime, social disharmony and bigger burdens on the charitable sector and social welfare budgets. Taxes have to be levied to fund benefits, producing second round inefficiency costs because taxes distort economic decisions.¹

However, while unemployment is clearly a severe social and economic problem, the rationale for any *particular* form of assistance still requires a conventional assessment of whether it is likely to be appropriate, effective or efficient. As Webster (1997, p. 10) argues:

Many reports on labour programs move straight into the stated objectives without apparent cognisance that ... the justification for labour market programs resides in the strength of arguments in favour of labour market failure.

It is now generally argued that unemployment is an outcome that reflects the interplay of many factors. Of these, the most significant are overall economic growth, the wage determination process, skill deficits and mismatches, industry structural change and incentives for job searching (which themselves rely on factors such as demoralisation, benefit duration and generosity). Governments around the world — including in Australia — apply a range of policy instruments directed at these specific sources of the problem, such as macroeconomic management, industrial relations reform, subsidies for job training, mobility and searching, and social welfare reform.

¹ There is an extensive worldwide literature on the social and economic impacts of unemployment. For example, see Chapman et al (2001) and Papps and Winkelmann (2000), on the links between unemployment and crime; Johnson (1995) on the relationships between unemployment and poverty/inequality; Roed (1996) on the decay in human capital associated with unemployment (hysteresis); Flatau et al. (2000) and Mayer and Roy (1991) on the effects of unemployment on mental health and wellbeing; Banks and Ullah (1987) on decreased motivation among the unemployed with increased unemployment duration; Ahlburg (1986) on the general social costs of unemployment; Kelleher and Jean (1999) on generational impacts; McClelland (2000) and Hood (1998) for the effects of unemployment on families and Atkinson and Hills (1998) on the relationships between unemployment, opportunity, inequality and exclusion.

Box 2.2 Australia's unemployment record: a snapshot

Definition of unemployment

The ABS defines an unemployed person as someone aged 15 years and over who was working less than 1 hour a week in the survey week, had been actively looking for work and was currently available for work. The definition is different from unemployment beneficiaries because :

- on the one hand, some unemployed may not be eligible for benefits because of asset tests, partner income and breaching of benefit conditions; and
- on the other, people can have a part-time job, be looking for more hours of work and still qualify for social security benefits.

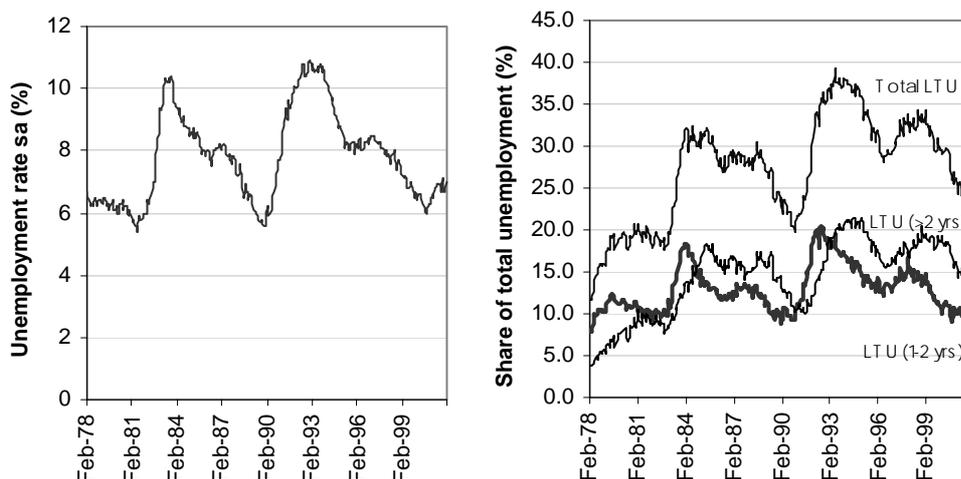
Since the early 1990s, the number of unemployment benefit recipients has exceeded the ABS definition of unemployment (OECD 2001, p. 69) — although the series follow similar patterns over time.

The ABS data

694 000 Australians were unemployed in January 2002, while the unemployment rate was 7.0 per cent. This was up somewhat from the recent business cycle low of 6.0 per cent in September 2000, but still well below the peak of 10.9 per cent in December 1992 (in seasonally adjusted terms).

Figure 2.1 **Unemployment rate and ratio of long term unemployed**

Seasonally adjusted, quarterly data, February 1978 to January 2002



Data source: ABS (various issues) *Labour Force, Australia*, Cat. 6203.0.

Box 2.2 **Continued**

With the exception of recessions, aggregate unemployment rates tend to change slowly over time. However, gross inflows into and out of unemployment are high as a share of total unemployment. For example, around 43 per cent of unemployed people in July 2001 had either got a job one month later (19.9 percentage points) or left the labour force (22.5 percentage points).

The biggest concern is long-term unemployment (defined as continuous unemployment of one year or more), because the social and economic problems of unemployment increase with the duration of unemployment. Key concerns of policy are to find jobs for this group and to prevent long term unemployment by targeting assistance at newly unemployed people who are at risk of becoming long term unemployed.

The long term unemployed accounted for 23.3 per cent of all unemployed people in January 2002 (seasonally adjusted). This was down significantly from a high of 37.9 per cent in June 1993, but still above the 19.8 per cent level achieved at the top of the peak of the last business cycle in November 1990. A significant number of people experience very long-term unemployment, with 14.6 per cent of the unemployed being jobless for 24 months or more (seasonally adjusted) in January 2002.

Particular groups are at much greater risk than others of being unemployed. These include people aged 15-19 years (with an unemployment rate of 15.5 per cent), Aboriginal and Torres Strait Islanders (23 per cent), lone parents with younger children (15.3 per cent) and people with disadvantages stemming from disability, poor English proficiency and limited literacy and vocational skills.

Income support for the unemployed is a very significant budget item at around \$5.8 billion in 2000-01 and projected to be around \$6 billion in 2001-02.

Sources: ABS (various issues), Labour Force, Australia, Cat. 6203.0 and Commonwealth Budget Paper No. 1, Budget Strategy and Outlook, 2001-02.

2.2 The connection between improved ‘search effectiveness’ and unemployment

In the context of labour market interventions, the underlying rationale of the Job Network is to overcome the passivity and de-motivation that may develop with long term spells of unemployment, remove other job-seeker-specific obstacles to employment and quickly orient benefit recipients to jobs. This reduces social security outlays, raises economy-wide productivity and improves equity.

Most resources in the Job Network are targeted at improving the job search skills and employability of job seekers. This encompasses:

-
- placement services (such as availability of information on vacancies and a screening service);
 - job search training (such as how to look for a job, approach an employer, write a resume and present in an interview)
 - improving job-relevant soft skills (such as motivation, communication abilities, team work capacities, turning up on time, people skills and personal presentation);
 - upgrading hard skills (such as numeracy, literacy and particular vocational skills, such as fork lift driving or security training); and
 - overcoming practical obstacles to enduring employment, such as lack of transport, child care arrangements or work-specific equipment that often otherwise lead to constrained job choice or premature work separations.

These aspects of the labour market are grouped under the general term of ‘search effectiveness’ (Layard et al. 1991, pp. 216ff) — because they deal with anything that affects the speed with which the unemployed get jobs.

There are several reasons why improved search effectiveness could help reduce unemployment or produce positive equity effects.

An increase in the ‘effective’ supply of labour?

Many longer term unemployed people tend to have low skills (or ones that are ill-matched to existing jobs), poor work experience, inadequate job search skills and few financial resources to gain training or move to better labour markets. They face other personal barriers to employment, such as low motivation.

This makes them different from most people that are employed. At existing minimum wages, employers may not regard many such job seekers as potential employees (especially if it is difficult to distinguish high quality job candidates from poorer ones in the pool of the long term unemployed). In that sense, while they are *recorded* as part of the labour supply, such job seekers are really outside the ‘effective’ labour supply.

Measures to improve the employability of such job seekers or to improve screening processes can therefore move some long term unemployed into the effective labour supply. In the long run, it is the effective labour supply that determines the level of employment, not demand. This is why unemployment rates do not rise with population growth over the longer term. As noted by Layard et al:

... in fact, demand can easily be changed. What puts a limit on feasible demand is feasible supply. Labour market policy only works if it affects the economy's supply potential. And if it does that it cannot fail to have an effect, since in the long run the supply side rules (1991, p. 477).

Accordingly, to the extent that the programs cost effectively raise employability, and therefore effective labour supply, then they should beneficially lower aggregate unemployment.

Churning?

Of course, if programs do not directly raise employability, as might sometimes occur with wage subsidies, then the programs may have little effect on aggregate unemployment. But even then they might create 'churn' among the unemployed, reducing average unemployment duration and alleviating some of the social consequences of unemployment.

This may also increase efficiency to the extent that longer spells of unemployment are also associated with degradation of skills and motivation (as set out in the hysteresis literature). However, it should not be presumed that churning *necessarily* has these desired equity or efficiency effects.

Faster job matching?

Improved effectiveness increases the probability that a given vacancy will be filled more quickly by an appropriately matched job seeker. This occurs because the search is conducted in a more systematic and intensive way, matching is more efficient (for example, because of more comprehensive listing of and information on vacancies is provided to job seekers) or because the employability of the job seeker has been improved.

Decreased wage pressure?

The ability of workers to bargain for higher wages (wage 'pressure') is greater if there are few substitutes for existing workers. As unemployment rises, it creates a pool of substitute workers, improves employers' bargaining power, reduces wage pressure, and thereby increases employment (Layard et al. 1991).

However, if the unemployed are not close substitutes for existing workers (ie they are not in the effective labour supply) then unemployment does not have this wage restraining effect. By raising the substitutability of the unemployed, improved

employability and job search effectiveness increases the downward pressure that unemployment has on wage determination, which then reduces equilibrium unemployment.

The wage pressure effects of active labour market policy are likely to be weaker at the lower-skill end of the labour market because this is where regulated minimum wages most bind. However, Webster and Summers (1999) have found (small) effects of labour market programs in reducing wage pressure in Australia.

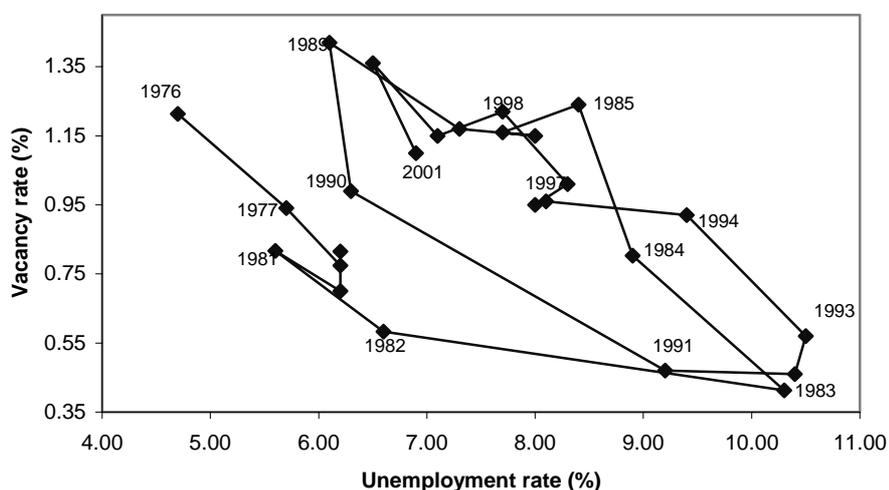
Evidence

The movement of vacancies over time relative to the number of unemployed (the Beveridge curve) provides the clearest evidence on the role played by search effectiveness in determining unemployment (Layard et al. 1991, p. 217). As unemployment increases it would be expected that there would be more people chasing fewer jobs, so that vacancy rates would be anticipated to decline. However, in Australia (and most other OECD countries), there have been considerable changes in the rate of unemployment at given vacancy rates. For example, in Australia the vacancy rate for 1977, 1990, 1994, 1997, and 2001 are very similar, but unemployment rates vary by as much as 100 per cent. Movements outwards of the Beveridge curve have often been interpreted as a deterioration in the employability and search effectiveness of the jobless, particularly associated with a growing number of long term unemployed whose skills and work readiness erodes with unemployment duration.² Fahrner and Pease (1993) find evidence that employability and search effectiveness declined in the 1970s and again in the 1980s in Australia — pushing the Beveridge curve out.

Active labour market programs and placement services, such as the Job Network, are intended to shift the curve back in — and indeed some assessments of the effectiveness of such policies rely on testing this (Webster 1999).

² Other factors, such as greater degrees of skill mismatch (which might reflect technological and structural change) and the impacts of employee protection policy, can also shift the curve.

Figure 2.2 The vacancy/unemployment relationship (Beveridge curve) for Australia^a
1976 to 2001



^a The vacancy rate is measured as the number of vacancies divided by the number of employees plus vacancies. The vacancy rate is for May in each year. The data from 1985 to 2001 are from ABS Cat. 6354.0. Another vacancy rate series was constructed for 1976 to 1984 from separate vacancy and employment data (based on ABS estimates in RBA, 2001 and ABS Cat. 6354.0) and this was then used to extrapolate back the first series.

2.3 The rationale for subsidising increased search effectiveness

While better search skills and employability amongst the unemployed are likely to increase equilibrium employment (in the NAIRU sense), the question arises as to why the jobless or their families do not finance the acquisition of these skills on their own account, without a substantial need for government involvement. Indeed, since most jobless people have once had jobs, some of any private investments in increased future employability could occur prior to an episode of unemployment — effectively as private unemployment prevention strategies. A UK Green Paper, for example, urged that, as well as government initiatives:

Individuals should invest in their own learning to improve their employability, professional competence, and earning potential or for leisure (DoEE 1998).

In fact, people do invest substantially in their ongoing employability, both prior to and during any unemployment episodes — to which private investments in training, education and self-improvement are testimony. However, while the bulk of the jobless wish to find jobs and do initiate private efforts to increase their employment

prospects, there are strong reasons to presume that there will be significant under-investment in improving employability and search effectiveness.

First, people without jobs and on government benefits have low incomes and most could not fully finance more effective job search or increased employability — or if they did so, would be made intolerably poor. Financial markets are not likely to rate them as sufficiently credit worthy to extend them loans — especially for those at risk of long-term unemployment where default risk is high. In theory, private insurance markets to which prior contributions had been made might deal with this situation, but there are often imperfections in such insurance arrangements (Stiglitz 1988, pp. 330ff). In any case, there would be a need to look after those with inadequate insurance. If financial barriers were the biggest barriers to the private investment in greater employability, then the policy solution might be a government funded loan scheme with contingent payback provisions, similar in design to HECS. Existing government policy recognises the importance of financial barriers to investments in employability because where these barriers do not exist (the application of the assets or income test), an unemployed person is not eligible for participation in programs like Intensive Assistance.

However, a second obstacle to private arrangements (even one supported by government loans) is that the people with the most pressing unemployment risks are disadvantaged in ways that can reduce their scope for fully informed choices even prior to unemployment. This would be exacerbated for those already unemployed. For example, even if finance is available, a jobseeker suffering low self-esteem and poor motivation after several years of unemployment may still under-invest in activities that increase employability.

Thirdly, and pivotally, some of the costs of unemployment are felt by parties other than the unemployed person, for example, through budget appropriations for welfare payments and increased social costs. Unless these ‘externalities’ are taken into account, the private decisions of jobseekers themselves will tend to allocate too few resources to increasing search efficiency and employability. For example, some unemployed people may want to stay on benefits (for example, reflecting disparities between welfare earnings and the wages and conditions of low skill jobs that might be available). Consequently, active labour market policies offset the effects of other government policies (such as benefit and income tax policy) that might otherwise increase unemployment or its duration.

These factors justify the government purchase of at least some labour market services on behalf of poor jobseekers, but it provides no guidance as to the specific services where positive gains are likely. Nor does a rationale for some government assistance necessarily suggest that all eligible jobseekers should get the same services. An issue in designing measures that increase search effectiveness and

employability is to recognise the heterogeneity of jobseekers. This heterogeneity implies a differential capacity by jobseekers for financing and making informed decisions about employability and a differential capacity by them to benefit from participation in a labour market program. For example, it is not clear that someone who has already participated in Intensive Assistance or Job Search Training without an outcome, will subsequently benefit from participating later.

A further possible rationale for active labour market policy is that where they involve case management of the unemployed client and mandatory requirements to commit to measures that increase potential employability,³ then they generate so-called 'compliance' effects (DEWRSB 2001g, p. 9). Compliance effects arise where, as a result of a referral to the program, job seekers:

- increase their job search activity and find a job rather than actually participate. Such an effect would be strongest for those jobless whose unemployment duration is largely discretionary (they could get a low paid job, but would prefer not to). If the mandatory attendance requirements of a program are sufficiently rigorous, this may then tilt the preferences of such unemployed people to a job, rather than continued reliance on benefits;
- that are not genuinely eligible for benefits (say due to existing employment) do not participate because the monitoring and attendance requirements of the program risk disclosure or are incompatible with their current employment arrangements. Of course, the benefit from this compliance effect is through reduced budget outlays (and therefore lower inefficiencies from tax collection) and gains in the probity and equity of the scheme, rather than improved employment outcomes.

Even if labour market programs lack any of these effects, it might be argued that something must be done. Thus, Webster (1997) argues:

Nevertheless, labour market programs appear to have intrinsic worth as an equity instrument, for they provide hope and opportunity to the most disadvantaged of all job seekers (p. 3).

This may be the case, but the challenge of an evaluation strategy is to identify and support those programs that offer the greatest effectiveness and efficiency, and to call for the termination of those that do not even offer hope and opportunity.

³ As separate from activity tests, which could be implemented independently of job placement services and active labour market programs.

3 Is a purchaser-provider model justified?

Box 3.1 Key messages

Just because the Government funds employment services does not mean that it is best that they also provide them.

Direct delivery of such services has been hampered in the past by inflexibility, lack of choice and diversity, the absence of competition and vague definition of objectives and outcomes.

One of the key advantages of a purchaser-provider approach that entails outcome orientation, competition and choice is that it can realise some of the benefits associated with normal markets.

However, there are some challenges to the application of such a purchaser-provider model to employment services, particularly because:

- measurable outcomes do not incorporate all aspects of what an employment service should deliver; and
- price competition risks poor quality. This reflects systemic under-bidding when competing bidders are unable to pre-specify the outcomes they will achieve.

Overall, however, the Commission considers that the advantages of the new approach outweigh its limitations, especially since there is scope to remedy many of the problems that have been exposed.

For much of Australia's history, government funded welfare services have been delivered by monopoly government agencies. They have consequently been protected from competition between providers. However, since the 1990s, there has been an increasing trend to outsource the delivery of social services by government — both in Australia (chapter 15) and internationally. This has been motivated by the view that contestability can improve the cost efficiency and quality of services that governments fund, as well as provide greater choice to those requiring assistance.

As noted by Harding (1998, p. 1), the creation of the Job Network represents the continuation of a process that commenced with Working Nation. For example, under Working Nation, some employment services were contracted out to case

managers. However, the Job Network is distinctive in that a complex and highly developed market has been created for the provision of employment services (Considine 2001). This quasi-market formed for the Job Network tries to mimic many of the features of normal markets by allowing scope for competition, variable prices, flexibility in the way services are delivered, direct rewards for good providers through higher outcome payments and some degree of choice for job seekers. Overall, the changes to employment services since the early 1990s that culminated in the Job Network have been far-reaching:

Between 1994 and 1997 two different Australian governments set out to attack the country's high rate of long term unemployment by implementing the most experimental reform of any social program yet attempted ... These included some very complex and demanding alterations in the way services were delivered ... So radically different is the Australian case that it might well be regarded as the most important OECD initiative in social policy in the post-war period (Considine 2001, p. 117).

Most of this report is about whether the particular components that make up this quasi market are functioning well. This chapter asks the broader question of whether employment services fit appropriately into a purchaser-provider model in the first place.

The chapter first considers the objectives that the Government established for the Job Network (section 3.1), examines the traditional delivery model — direct delivery (section 3.2) — and then assesses the purchaser-provider model as an alternative, taking into account the objectives established for it (section 3.3). It then looks at the main challenges to the purchaser-provider model (section 3.4), and draws some conclusions in section 3.5.

3.1 The objectives of the purchaser-provider model

In announcing the reforms to the delivery of labour market services in 1996, the Government stated that it had four key objectives (Vanstone 1996). It aimed to:

- deliver a better quality of assistance to unemployed people, leading to better and more sustainable outcomes;
- target assistance on the basis of need and capacity to benefit;
- address the structural weaknesses and inefficiencies inherent in previous arrangements for labour market assistance, and to put into effect the lessons learnt from international and Australian experience of labour market assistance; and
- achieve better value for money.

In the terms of reference to this inquiry, the Government also indicated that to achieve these objectives the Job Network was guided by three key principles:

- a strong focus on outcomes;
- changing the role of government to that of a purchaser rather than a provider of assistance; and
- the use of competition to drive greater efficiency for the taxpayer and increased choice for consumers.

A performance-based system was perceived to be a way of focusing on outcomes, rather than input processes. In doing so, it also reduced the emphasis on multiple layers of programs with complex bureaucratically-determined eligibility criteria, moving towards a system where service providers tailored assistance to heterogenous job seekers.

3.2 Direct delivery

In assessing the potential gains from purchaser-provider approaches, it is important to understand the strengths and weaknesses of the former dominant approach — direct delivery by government.

Monopoly government delivery has increasingly been challenged as an effective service delivery model. The role of government as the purchaser does not imply that government must also be the exclusive producer.

While government monopolies may sometimes have advantages (such as economies of scale and scope, and strong accountability), they also face some obstacles to delivering services efficiently. If the government agency is not subject to pressure from possible competitors, then incentives for cost minimisation, quality, achieving job outcomes, and meeting the individual needs of clients and innovation are likely to be muted. Access to capital may also be constrained.

Also it may be hard to change public-service wide work practices and inflexibilities, capture by interest groups or other cultural traits inhibiting efficiency. Work practices in non-government bodies are often more flexible, although there has been substantial convergence in managerial approaches by government and private corporate entities in the last decade (for example, performance pay, key performance indicators and accrual accounting).

Finally, the stewardship of public monies and public expectations about the behaviour of government officials encourage risk aversion that limit innovation. For example, some Job Network providers have given second-hand bicycles or even

skateboards to job seekers for transport to jobs. It is hard to imagine that a directly government-owned provider could offer such in-kind services.

Several participants in the inquiry pointed to the inflexibilities and inefficiencies of the CES — the former government monopoly in employment services:

Some of the constraints imposed by virtue of the fact that the CES and its employees were part of the Public Sector had the effect of curbing innovation and the development of effective relationships with job seekers and employers. Whilst many of the employees within the CES were committed, dedicated professional people they were not able for a range of reasons to respond quickly and appropriately to assist individual job seekers and employers, the rules, procedures and administrative law governing the bureaucracy created blockages to innovation (Salvation Army Employment Plus sub. 35, p. 3).

The CES had been established more than fifty years ago. In its latter stages, it had little capacity to respond flexibly to both the demands of today's modern labour market and its employers and to our most disadvantaged jobseekers. It was too process-oriented, not sufficiently outcome-oriented and adopted a one-size fits all approach resulting in relatively poor efficiencies and outcomes (NESA sub. 39, p. 3).

Similarly, expectations that a government agency should provide equal treatment to all clients would reduce the capacity of a CES officer to target a particular assistance measure at a client thought to be responsive to that measure, but not to others. This suggests lesser effectiveness associated with sole provision by government. As argued by the Commission's predecessor in its inquiry into charities:

To ensure transparent and impartial treatment of individuals, governments are normally subject to stringent accountability requirements. These limit to some extent governments' flexibility, discretion and responsiveness, qualities that have an important place in welfare service delivery (IC 1995, p. 7).

Nonetheless, there are some obstacles to external provision that mean government provision is sometimes most efficient or appropriate. For instance, services can be limited to government by constitutional, legal or international commitment obligations (PC 2000, p. 8), although these constraints do not seem to apply to Job Network services.

It is sometimes argued that where a service is a natural monopoly there are grounds for government provision, because the problems of regulating an external monopoly may also involve serious distortions (such as cost-padding). However, the concept of contestability has challenged many traditional natural monopolies, while developments in contracting arrangements and procurement (such as franchise bidding and high powered incentives — Laffont and Tirole 2000) have increased the potential for external provision of natural monopoly services. In any case, while there are economies of scale and scope in the provision of employment services,

these will shape the structure of the maturing market, but do not warrant the assumption that it is a genuine natural monopoly.

More generally, whether an activity is appropriately undertaken in a public or private sector agency is akin to defining the appropriate boundaries of a firm. Outsourcing depends on the respective capacities for dealing effectively with the costs associated with internal versus external transactions. Many of these transactions costs arise from ‘principal-agent’ problems — the difficulty of ensuring that the goals (determined by the principals — the Minister and senior bureaucrats) of an organisation are actually put into effect (by its agents).

Of course, sometimes the problem is not that a principal’s goals are inadequately met by an agent, but that the principal’s goals need to be limited and should have some stability. A potential advantage of contracting out is that it may reduce the ability of certain principals to exert decision-making power in areas where that is not appropriate and discourage them from knee-jerk changes in goals or processes.

Outsourcing difficulties largely stem from the problems (and costs) of imperfect monitoring and the difficulties in enforcing agents’ outcomes and actions. For example, when there are multiple goals reflecting multiple principals (for example, more than one responsible Minister or Department) and sufficiently weak verification of actions and outcomes, then external contracting involves high transactions costs. Contracts would be overly complex, unenforceable or/and the principal(s) might have to agree to cost-plus contracts, which would then lead to cost padding. In this instance, principals are more likely to manage agents internally to ensure compliance and flexibility, and to use other means — such as raising idealism and professionalism to create the right incentives among staff (Dixit 2000). In general, coercive functions (defence, policing, taxation¹) remain under government control, although some governments have attempted outsourcing even in these areas (private jails and contract arrangements for detention centres).

3.3 The purchaser-provider approach

An alternative to direct government supply is provision by an external agent/s. This can be achieved through many mechanisms — such as licensing, competitive tenders, vouchers and franchising, with each having advantages and disadvantages, depending on the characteristics of the particular service and associated market. It can involve one or many external agents.

¹ Although not always its collection.

An immediate advantage of external contracts is that it forces policymakers to specify explicitly policy objectives and performance criteria that may have been rather vaguely defined in-house.

External contracts are most appropriate where performance outcomes are cheaply verifiable. Garbage collection and cleaning services are obvious examples. It is also then possible to generate competition, with its benefits for efficiency and responsiveness to clients' needs.

In many instances, it may not be easy to categorise a service into one obviously suited to either internal or external provision, in which case tradeoffs among the various costs and benefits have to be made. In its inquiry into Competitive Tendering and Contracting by Public Sector Agencies, the Industry Commission (1996) derived a practical checklist for determining when to contract out (box 3.2), but indicated that the model should be applied on a case by case basis (through market testing).

The Job Network is a particular expression of purchaser-provider arrangements with three central pillars:

- a focus on outcomes;
- competition between providers; and
- choice for users.

None of these are inherent to the purchaser-provider model, but they are all key elements identified by the Government for the Job Network contract (section 3.1).

The outcomes focus

Job outcomes (and to a lesser extent, certain training and educational outcomes) are rewarded through outcome payments and through positive performance assessments that assist subsequent bidding success. There are several advantages to an outcome orientation in employment services.

Clear objectives

First, it makes clear that the overriding function of labour market assistance is for the unemployed to achieve a work placement of a minimum (defined) duration, rather than the supply of welfare services per se. In terms of objectives, it places employment services on a conceptual footing that is closer to the health system: the objective is to allocate a finite budget to those individuals where interventions are effective and socially beneficial.

Box 3.2 Checklist for appraising the appropriateness of a purchaser-provider model

Service-specific factors

Are there any accountability, privacy, security, consumer protection, access and equity or other policy considerations that cannot be addressed satisfactorily through contract specification and contract management and performance monitoring? The less difficult these considerations are, the greater is the case for external provision.

How easy is it to specify the service (particularly in terms of outputs rather than inputs), measure the output of the service and measure the performance of the contractor? The easier these things can be done, the greater is the case for external provision.

How serious are the consequences of service interruption arising from failure of external purchasing arrangements? How likely is such a failure and is there any way to minimise this likelihood or the costs of interruption? The less important these factors are, the greater is the case for external provision.

Market-specific factors

Is there an established market for delivery of the service and what is the level of competition or potential competition in that market? The stronger an established market is, the greater is the case for external provision. If there is not an established market, assess the likelihood of a market developing and its competitive strength.

How easy is it to penalise contractors or replace them for unsatisfactory performance without significantly interrupting service delivery? The easier it is to penalise or replace contractors, the greater is the case for external provision.

Agency-specific factors

Does the agency have, or have access to, the skills required to manage purchaser-provider provisions. For example, where competitive tendering is the approach, are they able to competently draw up specifications, evaluate tenders and manage the contract? The case for external provision is greater where those skills are available or can be obtained.

What are the likely industrial relations implications of moving from direct government delivery to external provision? External provision is easier to implement where it is less likely to cause industrial disruption.

Would external provision reduce the management resources used in providing services that are less important in achieving the agency's goals? Where the service takes up a disproportionate amount of management resources, the case for external provision is stronger.

Weighing the costs and benefits

Assess the likely full costs of external provision, including the costs of service delivery, transition costs and contract monitoring and management costs.

Make an overall assessment of the costs and benefits of external provision compared with other service delivery options. This comparison should be made on a net present value basis.

Source: IC 1996, p. 259.

By definition, this implies that services will be tailored and that costly interventions will not be applied to job seekers who are unlikely to respond to them. The health system, in the main, does not impose ineffective treatments on very sick people because they are very sick. Nor should an employment service knowingly provide ineffective services to disadvantaged job seekers because they may be the most disadvantaged. Disadvantage demands a search for effective interventions, and payments for outcomes (by disadvantage) provides an incentive to search well.

With the inception of the Job Network, case managers were less oriented to advocacy of client rights per se and much more focused on achieving off-benefit (payable) outcomes — the external manifestations of the stated objectives of the program (table 3.1).

Table 3.1 Changing attitudes and focus of case managers

	<i>Pre-Job Network (1996)</i>	<i>Post-Job Network (1999)</i>
	%	%
<i>Attitudes:</i>		
Share of case managers that agreed they were advocates of job seekers' rights	78	59
Share of case managers that saw shifting the maximum number of clients off-benefits as their prime motivation	46	72
Share of case managers who thought it was advisable to organise their work according to those actions with clients that will generate a payable outcome	17	78
<i>Proportion of case manager's time spent on:</i>		
Job seekers	53	46
Employers	11	19
Others ^a	10	5
Administraion	26	30

^a Others includes education, welfare or health organisations.

Data source: Considine (2001, pp. 136-7, 140).

Flexibility

Second, an outcomes orientation does not specify *how* a provider is to help job seekers, but leaves them free to develop methods that might work. This was a major reason given by the Government for an outcomes approach:

It was envisaged that Job Network members would have a far greater degree of flexibility than contracted case managers or the CES. Contestability, competition and performance-based funding were intended to ensure that services were efficient, effective and of high quality. Based on these mechanisms, there would be little need for the purchaser to closely prescribe how the service was delivered. Given greater

flexibility, the Government expected providers to pursue more innovative solutions to problems faced by job seekers in securing employment (DEWR sub. 43, p. 18).

A number of inquiry participants indicated that it was a central part of the new system:

An individually tailored plan of support which allows the flexibility to vary assistance in accordance with emerging needs has proven to be more effective than requiring unemployed people to attend training for the sake of training or simply to fill purchased courses. (Salvation Army Employment Plus sub. 35, p. 9).

The main innovation and key advantage of the Job Network model is outcomes-based funding. This gives providers greater flexibility than in the past to adjust their services to the individual needs of job-seekers, and provides a clear incentive for them to improve employment outcomes. Few, if any, community services funding programs outside the employment services sector fund to outcomes ... Prior to the introduction of the Job Network, the bulk of the funding for employment assistance services was tied up in programs which offered job seekers a pre-determined package of assistance, such as a wage subsidy or a training course. ... The principal role of case managers was therefore one of referring job seekers to programs. (ACOSS sub. 32, p. 4).

It appears that case managers in the Job Network believe they have more autonomy in dealing with their clients than those in several other countries (table 3.2).²

Table 3.2 The importance of central rules and regulations to case managers' decisions

Perceptions of case managers

	<i>To a lesser extent</i>	<i>Neither</i>	<i>To a greater extent</i>
Australia ^a	38	19	43
Netherlands	25	20	56
New Zealand	10	13	77
United Kingdom ^b	7	12	82

^a Considine also reported that Australia and the Netherlands — the countries with the greatest autonomy also had less routine interactions with job seekers (p. 103).^b The UK system is closely akin to the one that was replaced by the Job Network.

Source: Considine (2001, p. 57).

Despite its advantage, an outcomes focus also has some major limitations, once defects in the measurement of the appropriate outcomes are taken into account (section 3.4). And flexibility in the Job Network appears to have broken down somewhat in practice (section 3.4 and chapter 12).

² And this also appears to be correlated with a measure of job satisfaction, which was also highest among the Australian case managers (Considine 2001, p. 51).

Competition between providers

This can encourage good performance if competition is based on achieving outcomes while providing high quality service. It may also increase efficiency by driving out poor performers.

The discipline on poor performers imposed by competition was seen as significant in the Job Network compared to traditional funding models:

Major problems with these traditional funding models include their failure to eventually replace poor performers with organisations that could offer a better service, and the arbitrary and non-transparent nature of many discretionary funding decisions (ACOSS sub. 32, p. 17).

Another aspect of competition has been a renewed focus by service providers on relationships with employers — in order to acquire vacancies and to establish reputations as good screeners (table 3.1). A survey of employers suggests that competition between providers and the level and range of services supplied have increased substantially under the Job Network (ACCI sub. 40, app. 1, p. 4).

Competition can assume different forms. In Job Network, there is:

- contestability. Many different firms have the ability to bid at the time that contracts are let and can do so again when the contracts expire; and
- contemporaneous competition, with most employment service areas having multiple competing agencies, which permits choice by job seekers.

In implementing both aspects of competition, the Job Network departed from similar experiments in the application of the purchaser-provider model to employment services overseas. For example, in the UK Employment Zone model, Wisconsin's W2 program and the US Arizona Works program, competing agencies bid for a (temporary) local monopoly.³

However, despite appearances, the ways in which Job Network providers compete is more constrained than might be apparent at first glance:

- there is some scope for competition through price and quality at the time of the contract, but floor prices on IA limit the degree of price competition in this service (an issue examined later);

³ See UK Department for Works and Pensions at www2.dfee.government.uk/employmentzones/livesite/key.htm and Finn (2001, pp. 18ff) on the Employment Zones program. Franciosi (2000) and Phillips and Franciosi (2001) and Arizona Department of Employment (www.de.state.az.us/links/reports/az_works.html) describe Arizona Works. Seefeldt et al.(1999) describe Wisconsin's W2 arrangements.

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- the potential for growth between tenders is limited by quantity caps (chapter 11); and
 - the competitive influence of choice is reduced by various design flaws — chapters 8 and 11.

The principal way in which agencies actually compete is by earning a sufficiently high performance rating that they are likely to win the next contract (with potentially greater caseloads).

Further, despite generally positive views by participants, the use of competitive arrangements has not gone unchallenged (box 3.3). In particular, the central concern of many participants, including the administering department (DEWR sub. 43), is the extent to which price competition is desirable. These pricing issues are explored in section 3.4 and chapters 10, 11 and 13.

Choice

The Job Network gives job seekers an initial choice of provider under IA and JST and the scope to use multiple providers under JM. Choice by job seekers has potentially powerful impacts on the incentives of providers, while also empowering job seekers. However, the need to approach multiple providers to find job details also imposes costs on job seekers, while there are potential costs from lost economies of scale if employment services are provided through many small agencies.⁴

In any case, as noted above, the actual scope for choice is limited. Design features of the Job Network — the auto-referral system, quantity caps and poor information provision to job seekers (chapters 8 and 11) — mean that most job seekers are assigned randomly to Job Network providers. Even where choice is exercised, it does not appear to be highly informed.

3.4 The main challenges to the purchaser-provider model

The provision of employment services through purchaser-provider arrangements faces some challenges.

⁴ In a market context, this is not a problem because consumers tradeoff convenience and diversity against the costs that may occur from lost economies of scale. However, for social services where the consumer does not pay, it is government that must make this tradeoff rather than individual consumers.

Box 3.3 Participant's views on non-price aspects of competition

To some extent that [the goals of the Government] has happened as competition encourages innovation, keeps the focus on outputs rather than process and has agencies engaged in developing new programs and strategies which will help give them a leading edge (Salvation Army Employment Plus sub. 35, p. 7).

Employers in the NT report good satisfaction with Job Network services and appreciate the benefits of competition such as the greater range of choice and competitive services (NTACC sub. 36, p. 3)

Because the Commonwealth has purchased under contract services for taxpayers (the consumers) the Job Network does not work as a free marketplace and competition has only been partially successful in driving performance (JobNet Tasmania sub. 16, p. 1).

In regard to local-choice driven competition between multiple providers BAKAS believes further study needs to be taken on service delivery models. The maintenance of offices in Employment Service Areas (ESAs) adds to the cost structure of service delivery and in all but the largest metropolitan labour market are seen as unnecessary. An outreach office should be sufficient infrastructure in some ESAs (BAKAS sub. 8, p. 3).

Competition and choice have been enhanced in Alice Springs and in part of the broader region. There is no doubt that a lot of Aboriginal people finally appreciate having their own "black CES". They feel that the service is designed for them, and meets their needs better (Tangentyere sub. 13, p. 2).

... there is considerable duplication of costly job matching infrastructure. This is likely to raise the overall cost of these services to the public purse ... The high turnover of services after the second tender round of the Job Network caused so much disruption to services that the overall performance of the system was significantly impaired (ACOSS sub. 32, p. 17).

... we now have a total of eight (8) Job Matching providers operating within our shire which has a population of approximately 17,000 people... this is an example of where the government's competition policy becomes detrimental rather than beneficial, as the situation becomes unprofitable and operations become non-viable, particularly for organizations with only a Job Matching contract (Innisfail JOB Centre sub. 5, p. 2).

It would be ideal if Job Network providers all worked towards the common goal of finding jobs for the unemployed, however they are less likely to work together because they are in direct competition with each other (WISE Employment – Certain Employees sub. 24, p. 14).

[There has been] a decreased focus on organisational networking, information exchange and collaborative processes in an environment characterised by competition (Office of the Public Advocate sub. 26, p. 3).

Difficulties with an outcome focus

Problems in specifying relevant outcomes

External provision must specify key performance indicators as the basis for licence or contract renewal and payments. However, such indicators may only capture some

dimensions of the desired outcomes, thereby biasing the actions of the contracted agency.

The behaviour of a profit maximising contracted agency is to get the best outcomes as measured by the contract indicators, but not necessarily the best overall outcomes:

In any system designed around outcome payments, providers will work to the incentive structure built into the contract. Ideally therefore the contract should incorporate all important outcomes. This is not always easy to achieve. For example, it may be difficult to specify or measure an outcome or to balance one outcome against others (FaCS sub. 42, p. 14)

... competition for 'stars' [is] continuing to take the focus away from 'what is best for the client' and instead emphasising 'how can I get a payable outcome?' (Mission Australia sub. 44, p. 5).

There are many possible manifestations of this in the Job Network.

Where there is any discretion in taking or subsequently excluding clients, then incentive payments based on simple performance outcomes may lead to taking on those job seekers most likely to achieve payable outcomes — 'creaming'.

In addition, providers may avoid job placements that last less than 13 weeks for Intensive Assistance clients or less than 15 hours for Job Matching clients, these being the relevant thresholds for outcome payments specified in the contract.

Job Network providers may also have incentives to manipulate the system by 'parking' (providing little assistance to) clients with low employment probabilities, creating temporary artificial jobs that maximise placement payments, and rotating people through them (chapter 12). Job outcomes per se may under-emphasise or ignore the wage level, duration or quality of a job. Considine (2001, p. 183) perceives this to be a critical test of the performance of outcomes-focused models:

An enterprising spirit that looks no further than the dumping of these already demoralised clients into the worst, most dangerous and unrewarding posts is bound to earn contempt.

To some degree, it is possible to overcome these incentive problems through monitoring or by specifying different payments for different types of outcomes (chapter 10), but it is likely that some degree of divergence between specified contract performance and program objectives will persist.

In any case, as in other sectors, such as nursing homes (PC 1999), there are a range of business models and management strategies adopted by charitable and not-for-profit providers, only some of which are focused on profit maximisation. In addition, case managers may have their own professional and ethical reasons for

deviating from purely profit maximising strategies, regardless of the type of Job Network provider.⁵

Equity and outcome specification

The comments from some participants, including ACOSS and FaCS, suggested that in some cases it may not be sensible or possible to base payment to providers wholly on defined *quantitative* outcomes. They were concerned about the inherent ‘quality’ of service provided to each program participant, rather than just maximising the aggregate number of outcomes overall. The quality of job seekers experiences — even if they do not get jobs — is still an important dimension of an employment service. To put this in context, in many normal market transactions (such as buying a meal in a restaurant), the quality of the customer service, rather than the ‘outcome’ alone (food in this case), is central to the value of the transaction.

There is also a tension between an outcomes focus that leads to the allocation of resources to those where interventions are most effective for the service provider’s bottom-line and the potential for some clients to feel socially alienated and demotivated because they receive little or inappropriate assistance. This concern is more pronounced for already marginalised job seekers. FaCS, for example, indicated it was concerned that the Job Network provides ‘fairly for disadvantaged job seekers’ (sub. 42, p. 14), while Goddard considered that there was an imperative to avoid harm to vulnerable job seekers:

... there is a strong argument for a principle that says interventions, especially mandatory interventions, purporting to assist long-term unemployed individuals should not significantly add to the psychological distress or be harmful to these individuals (sub. 2, p. 4).

ACOSS (sub. 32, p. 20) emphasised the need to enhance ‘social capital’ among the unemployed rather than just helping them in one aspect of their lives.

In part, these issues can be resolved conceptually by seeing social integration and other social capital as a valuable output in its own right, but practically measuring this and incorporating it formally into a payments process may be difficult. The Job Network’s design partly addresses these issues (such as the Declarations of Intent in contracts, the Code of Conduct and the existence of payments that are not dependent on outcomes). It may be possible to incorporate further quality assurance

⁵ As noted in Dixit (2000), the operation of the Job Training Partnership Act provides a revealing US case study of the clashing goals of case managers (motivated by ethics and professionalism) and their employers (with a greater commercial focus).

or other assessment of quality into performance measures (an issue taken up in chapters 8 and 12), but this involves a trade-off with the risk of micro-management.

However, it might be argued that where job seekers are not likely to receive a job outcome, then it is not appropriate to provide ineffective interventions in the Job Network, but to refer them elsewhere (an issue taken up in chapter 9). Policy makers would need to decide whether this was acceptable. If not, outcomes might need to be more broadly specified or processes set down by government so that assistance is also directed to those less likely to be assisted.

Clients that need complex interventions across the system

In typical market transactions, the ability of sovereign consumers to signal their preferences through payments means that very complex tailored services can be coordinated, without central control. As noted in chapter 2, poverty, misperceptions and externalities stemming from the effects of benefit payments suggest that it is not appropriate or feasible for disadvantaged job seekers to exercise full sovereignty in labour market services. This does not present a significant problem for an outcomes-based system where relatively simply-specified outcomes meet the needs of job seekers.

However, some job seekers face multiple and complex interacting obstacles to securing work, which require interventions by multiple service providers. It may be hard to specify which party has contributed to the outcome and to create the right incentives for referral and cooperative interventions (Office of the Public Advocate sub. 26, p. 3 and FaCS sub. 42). As noted by FaCS:

Services required to achieve the desired outcomes may not be available from a single provider or there may be a need to engage a provider over a lengthy period of time. Desired outcomes for disadvantaged and vulnerable people are likely to be complex. The outputs to be produced may change over time and may not be known in advance. Specification of outputs in a single contract may be very difficult. In these circumstances a more complex relationship with some service providers may be necessary than applies with competitive or strict outcome funded models. A balance between input, output and outcome funding may therefore be the best option (sub. 42, p. 10).

It is notable that time spent by Job Network case managers consulting with external agencies — such as health and welfare agencies — appears to have declined significantly compared with past arrangements (table 3.1).

Information about what works

An outcomes-based approach does not need to specify what processes are used by providers to get jobs for their clients — as competition over time should shift providers to the best methods. However, it may still be in the interest of the purchaser to discover what processes are actually most effective and to diffuse these results among their suppliers (an issue examined further in chapter 14). While DEWR has conducted a best practice study, in general, there is relatively poor publicly available information about what Job Network providers actually do with their clients — with these methods widely described as a ‘black box’. On the other hand, staff turnover is high, which should help diffuse best practice in a decentralised fashion.

The purchaser does not know how much it is buying

The application of the purchaser-provider model to employment services is different from that of many other services and these differences affect the applicability of competing models of service delivery. For example, in a service such as garbage collection, it is possible to define closely the nature, quantity and quality of service outcomes because the supply function is well-specified.

However, in employment services, not only is it somewhat difficult to describe all the dimensions along which outcomes are defined (as discussed above), but even when these outcome dimensions are defined, it is also difficult to define the *quantity* of outcomes that government desires because the supply function is not well understood (that is, the relationship between different prices paid by government for outcomes and the overall outcome level attained). For example, the government could not readily specify that it wants 30 per cent of Job Network clients to get a job within 12 months and for Job Network providers to tender on that basis. It cannot do this because:

- it is not clear that such a specific outcome is feasible;
- even if it were, it is not remotely clear how much this would cost; and
- it might be difficult politically for government to specify explicitly a modest employment target.

Neither bidders nor purchasers know much about the degree to which higher prices (or underlying investments in the employability of job seekers) will yield greater gross outcomes. They know even less about net outcomes.

Consequently, in the Job Network, the purchaser assesses bids based on expected capacity to generate job outcomes and a price (for IA, commonly the DEWR floor

price). *In theory*, this would imply that contractors with higher past performance levels can command premiums and/or earn higher quotas of clients, driving others out of the market. If this process were to continue, then, in the long run, the maximum price would be set at the level where there would be no gain at the margin for a contractor to bid more to get higher employment outcomes — reflecting the purchaser’s revealed (but not stated explicitly) preferences for this tradeoff.

In reality, it is likely that the inherent unpredictability of outcomes confuses the usual trade-off between price and quality (in this case, a higher quality provider is one with greater expected outcomes). It is very hard to differentiate objectively providers that have different capacities to generate outcomes. Even past performance is unreliable, because actual outcomes achieved depend on many — and sometimes random — factors (and net outcomes are unobservable).

Consequently, all bidders will make weakly verifiable claims that they are high outcome providers, creating a noisy measure of claimed quality. If bidders cannot adequately signal and pre-commit (for example, through penalty clauses on their failure to achieve targets) to higher expected outcomes, then the major basis for discriminating between tender bids will be price.⁶ Bidders will realise the predicament of the purchaser — and will have to use price as the main way of competing with each other.

But without a floor on that price, there will tend to be a ‘race to the bottom’ with low prices, but equally poor outcomes — with little ability to test subsequently which providers are more effective than others. The implication is that floor prices may be needed⁷ or that prices should be set entirely through administrative means. As noted by ACOSS:

Price competition can have severe adverse consequences in human services, where the scope for genuine productivity improvements is relatively limited and other factors such as service quality are more difficult to measure and evaluate in tender processes (ACOSS sub. 32, p. 25).

Accordingly, while price competition at the bidding stage can be an important feature of purchaser-provider arrangements, it cannot be given full reign when the purchaser does not know how much they are buying or what the overall quality of the product is — as is the case in an outcomes-based system such as the Job Network.

⁶ Notwithstanding any notional weighting that might be given to ‘quality’ by the purchaser in evaluating tender bids.

⁷ DEWR set IA prices administratively during the first contract and set a floor during the second.

Nonetheless, absence of, or reduced price competition does not mean no competition in other dimensions:

- in an outcomes based system, better performers (as defined by the rules of the quasi-market) get higher payments, even at fixed prices — and will therefore tend to flourish and displace poorer performers; and
- better performers will get higher performance ratings and increase their chance of repeated contracting (or in keeping a licence to operate).

The major casualty of limited price competition is that it weakens the opportunity to discover whether the government purchaser is paying the lowest price for value or even whether higher prices might yield better outcomes (box 3.4). Experiments with different administrative prices (or floors) and different forms of incentive contract might partly alleviate this (chapter 10).

The information deficiencies that underlie problems in price competition do not prevent a purchaser-provider model from producing outcomes that improve over time. It is unlikely that direct provision of employment services by government would better cater for the information problems, and it is even less certain that direct provision would have the dynamic benefits of the purchaser-provider model.

Nor is it the case that eliminating the outcomes-focus of the Job Network would be appropriate though that would resolve some of the contracting difficulties (for example, it is possible to have standard competitive bidding on delivery of highly prescribed inputs, such as literacy training or a course in job search training).

Transaction costs of external purchasing

At the pragmatic level, contract management for labour market services, including probity arrangements, risk management, and performance assessment, can be highly complicated and time consuming to develop, with transitional costs that may be substantial.

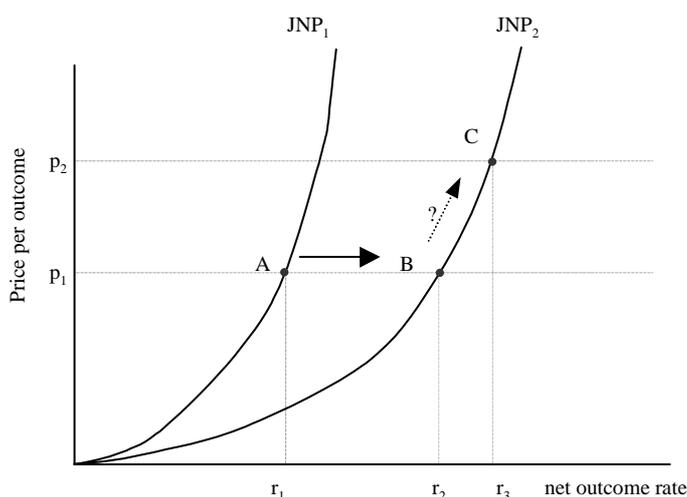
The difficulties with external provision in employment services are revealed by the behaviour of DEWR (the purchaser) in trying to enforce its contract conditions and intentions. As discussed in greater detail in chapter 12, numerous providers have said that, over time, DEWR has imposed more rules about provider conduct, determination of the type and nature of IT systems, oversight of expenditures, and the provision of some training. It has varied contract terms and conditions, including changing the weights given to different outcomes, and is increasingly referring to the ‘spirit’ of the contract when monitoring Job Network provider conduct.

Box 3.4 The impacts of competition on net outcome rates

Different Job Network providers have different capacities to deliver outcomes. For example, in the figure below, at the price p_1 , the expected outcome for JNP_1 is A, which produces r_1 as the net outcome rate (of course, because of unpredictability, it cannot be certain that it will deliver such a rate). It gets expected revenue of $R_1 = u \times C + p_1 \times (r_1 + \varepsilon_1) \times C$ where u is the upfront fee, C are commencements and ε_1 is the difference between the gross and the net outcome rate. By contrast, JNP_2 gets a far higher expected net outcome rate so that, for the same value of ε , would expect to receive far greater outcome payments. All other things being equal, JNP_2 will be more financially viable and by virtue of a higher performance rating by DEWR is more likely to survive. Accordingly, even at a fixed contract price there is a process of competition that will tend to shift the industry towards better performers — along the line from A to B.

The scope to move from B to C — assuming that the Government valued r_3 sufficiently to pay p_2 — is less easy to achieve in a competitive tender because of the unpredictabilities associated with outcomes. However, there is:

- at least some scope for above floor prices, although whether these are negotiated with the ‘right’ providers is uncertain;
- the possibility of experimentation with floor or administrative prices to see what happens to net outcome rates (chapter 10); and
- the possibility of experimentation with different types of incentive contracts that reward Job Network providers that can achieve C, but which are not subject to the signalling problem described in the main text (chapter 10).



DEWR’s contract variation behaviour is a function of being unable to express easily all program objectives as payable outcomes. For example, the performance rating system and incentive payments for Job Network providers recognise job and training outcomes, but not, to any appreciable extent, either greater client

satisfaction with their treatment or increased social inclusiveness. These may also be important outcomes — especially for the most alienated and disadvantaged jobless. Lacking incentives to cater for these, contractors may not meet these less verifiable outcomes as much as is desirable. But while it may be hard to develop a contract that does fully meet client preferences, the counterfactual is a government monopoly, which may meet these needs even less effectively. Job Network providers with imperfect contracts appear to have performed much better on client satisfaction measures than the previous CES.

Thin markets

In some locations, it will only be economically viable to have one contracted provider, so that markets are thin (limited contemporaneous competition) and contract enforcement on failure is largely impractical. However, there is at least scope in such thin markets for temporal competition between agencies bidding for the term of the contract (or continuous contestability in purchaser-provider models that allow free entry). The issue is discussed further in chapter 11.

Distortions from monopsony?

One criticism of the application of the purchaser-provider model to the Job Network is that DEWR displays the usual inefficiencies of a monopsony — that is, as a monopoly buyer of Job Network services. While it is true that there is only one buyer and that this provides it with substantial bargaining power, it is not clear that this results in the usual inefficiencies, such as depressed prices and output lower than is socially efficient. The objective of DEWR — acting in this case as a budget holder — is not to maximise profit, but to maximise outcomes for a given budget. The usual inefficiencies associated with a single powerful buyer disappear in these circumstances. There may be things wrong with the application of competitive tendering to the Job Network that result from the powerful bargaining position of DEWR (such as compliance burdens and unilaterally imposed contractual changes — chapter 12), but formally, monopsony is not one of them. It is not raised further in this report.

3.5 Establishing principles where the purchaser provider model may best apply

The lessons from the analysis of purchaser-provider arrangements versus direct provision (and summarised in box 3.5) are that such a framework is likely to be most appropriate where:

- relevant program outcomes can be defined and reasonably quantified;
- outcomes can be related to the efforts of the provider;
- process specification can be avoided; and
- contracts can be written to minimise unintended consequences.

(Several participants — most notably ACOSS (sub. 32, p. 24) and FaCS (sub. 42, p. 10 — also developed criteria for the application of an outcomes-based purchaser-provider model to human services. Some of the criteria are common with those above, but their views are discussed in detail in chapter 15.)

While none of the above criteria are met perfectly by the Job Network, the application of a purchaser-provider model with an outcomes focus and strong competitive pressures has many advantages in employment services. It tends to:

- increase flexibility and innovation;
- focus case managers on getting unemployed people jobs — rather than on involving them in processes or in welfare services;
- encourage the improvement of net outcomes over time;
- increase efficiency by eliminating poor quality providers; and
- increase choice for job seekers.

A key to defining outcomes and payment structures in a purchaser-provider model is the avoidance of unintended consequences. The complexities of writing contracts and in designing incentives, the lack of information about net outcomes, and other aspects of the design of purchaser-provider arrangements inevitably pose drawbacks. These include:

- ‘parking’ difficult-to-place job seekers;
- substantial difficulties in unfettered price competition; and
- strategic behaviour by some Job Network providers.

As a result of some of these deficiencies (particularly the last), DEWR, through instituting contract variations virtually unilaterally, has tightened up on what providers are permitted to do and, in the process, reduced the flexibility of providers

in providing the services they judge most appropriate for achieving outcomes for individual clients. Job Network providers have indicated that the paperwork has increased significantly. In turn, this has reduced the attractiveness of the current Job Network model. (These issues are discussed further in chapter 12.)

Box 3.5 Potential advantages and disadvantages of payment based on outcomes, price competition and choice		
	<i>Potential advantages</i>	<i>Potential disadvantages</i>
<i>Payment based on outcomes</i>	<ul style="list-style-type: none"> Forces clarification of objectives Better focus on those objectives Greater flexibility Can quantify results Can avoid dissipation of funds on activity which not likely to lead to an outcome Easier to monitor (once performance measures defined) No need to acquit expenditure 	<ul style="list-style-type: none"> Inequity – perceived or real — through creaming/parking Possible focus on short term payable outcomes, which may not align with long term client benefit Loss of accountability for expenditure May need complex payment structures Need to define default provisions Complicated contracts Poor information about what works
<i>Competition between providers</i>	<ul style="list-style-type: none"> Spurs adoption of better practice Possibly lower costs, or serve more clients for the same budget Encourages exit of poorer providers 	<ul style="list-style-type: none"> Possible reduction in quality where competition is mainly based on price Weaker cooperation (including dissemination of best-practice) Possible loss of economies of scale
<i>Choice</i>	<ul style="list-style-type: none"> Allows consumer preference Can choose provider best likely to meet individual needs Rewards provider success Incentives for improvement 	<ul style="list-style-type: none"> Loss of economies of scale Imposes additional costs on clients Possible additional costs for government when client switches May need a default referral mechanism Risk of insolvency Harder to enforce standardisation

Nevertheless, it will be almost impossible to write contracts to cover every contingency. However, it is important to avoid detracting from the advantages that led to the choice of model in the first place when addressing any new loopholes.

Many of the problems that have arisen can be at least be partly remedied through re-design of incentive mechanisms in the Job Network without discarding an overall focus on outcomes, non-price competition and flexibility by Job Network providers. The bulk of the rest of this report is about how to address the deficiencies of the model, while retaining its significant virtues.

DRAFT RECOMMENDATION 3.1

The Commission recommends that a purchaser-provider model for employment services be retained, with a continued strong focus on outcomes, competition and choice.



4 How the Job Network works

4.1 Introduction

One key aim of the reform package embodied in Job Network was the development of a contestable market for publicly funded employment placement services (DEWR sub. 43, p. 11). The advent of the Job Network saw the Government become a purchaser of services, with a significantly reduced service provider role. While there is a market for many employment placement services (executive search, labour hire, etc), there has not been a market for some of the specialised activities now purchased by the Government in the Job Search Training (JST) and Intensive Assistance (IA) programs. In these areas, the Government sets the range and broad nature of services to be provided, and DEWR determines through the tender process which organisations qualify as providers for particular services — in a competitive market these factors are determined by the interaction of market players.

This chapter explores how, in the absence of a competitive market, issues such as price, product mix, and the entry, growth and exit of firms are determined under Job Network.

4.2 Product mix and choice

In most markets, consumers select which services they will purchase by weighing the price of a given service against the benefit it will confer and the benefit of alternative services. In contrast, under Job Network, the Government determines which services will be provided as well as which consumers will ‘purchase’ these services.

The Government encourages job seekers to consume Job Network services through the operation of mutual obligation — participation in the program meets requirements for the receipt of income benefits. If a participant fails to attend courses or interviews while in a Job Network program, they can be breached for non-participation and have welfare payments reduced or withdrawn. As noted by ACOSS:

In contrast to textbook market models, the final consumers of the service - unemployed people - have little market power in their own right and must rely on Government to purchase services on their behalf. Cutting across this quasi-market in employment assistance services is the system of mutual obligation between Government and job-seekers. As a condition of receipt of income support, job seekers are *required* to consume employment assistance services (sub. 32, p. 13).

Product mix

Job Network is comprised of three key employment services — Job Matching (JM), JST and IA. Other services currently available to job seekers include the New Enterprise Incentive Scheme (NEIS), Self Employment Development (SED) and Project Contracting for seasonal harvests. Under the first employment services contract ‘New Apprenticeship Centres’ were also included among Job Network services but this service is now managed by the Department of Education, Science and Training (DEWR sub. 43, p. 24).

While government has determined the broad range of services to be offered, it has not specified their precise nature. Rather, government has specified the desired outcomes for job seekers in receipt of such services — providers are paid according to their success in assisting job seekers to achieve these outcomes. This affords providers a degree of flexibility in tailoring service provision towards the needs of individual job seekers.

Job Matching

JM is a labour exchange service with the dual objective of assisting job seekers to find employment and employers to source appropriate personnel (DEWRSB 2000a, p. 45). Providers are contracted by DEWR to canvass employers for jobs, facilitate job seekers access to vacancy information and match and refer suitable eligible job seekers to jobs. This involves meeting with eligible job seekers, identifying their skills and assisting them to prepare resumés.

Providers must also fulfil administrative requirements such as recording vacancies on the National Vacancies Database,¹ recording placements on DEWR’s Integrated Employment System, and in claiming payment, confirming with employers that the placement has met the minimum requirements for a JM outcome (DEWRSB 1999, p. 27).

¹ Listed vacancies can be either ‘open’ (where job seekers are able to approach the employer directly) or ‘closed’ (where Job Network providers screen applicants on behalf of employers).

Job Search Training

JST is designed to assist work-ready job seekers to obtain employment. The assistance is provided over a period of fifteen consecutive days and is focussed on improving job seekers' job search skills, motivating them to look for work and expanding their job search networks.

Assistance with job search typically involves counselling, providing facilities to assist job seekers with job search activities, training in interview techniques, resumé writing and job search skills.

Additionally, providers are required to negotiate a Job Search Skills Plan with job seekers (which sets out the services to be provided and delivery times for assistance) and maintain attendance records.

Intensive Assistance

Designed to obtain sustainable employment for the most disadvantaged job seekers, IA is the most personalised and intensive form of assistance provided under Job Network. Eligible job seekers can be enrolled in IA for a period of up to twelve months for level A job seekers and fifteen months for level B job seekers (DEWRSB 2001a, p. 59).² IA providers may, with the agreement of the job seeker, extend the period of assistance by up to an extra 26 weeks.

Job seekers referred to IA have significant barriers to employment and require a range of services, assistance and support to obtain and retain a job.

Assistance may involve:

- vocational training;
- work experience;
- training in literacy, numeracy or English as a second language;
- employer incentives including wage subsidies;
- workplace modifications or post placement support; and
- providing or subsidising fares, clothing or equipment to secure employment.

While providers have a substantial degree of freedom in determining IA service strategies, prospective providers in the second employment contract were required

² Under *Australians Working Together*, the duration of assistance for both level A and B job seekers will be aligned at twelve months.

to include a 'Declaration of Intent' as part of their tender, which articulated their strategies and service options for particular client groups (DEWRSB 1999, p. 54).

As with JM and JST, providers of IA are required to perform a range of administrative activities. Providers must negotiate an activity agreement with job seekers that specifies what *the job seeker* will do to find employment. Where a job seeker has not secured employment within 13 weeks of their commencement date, providers must also negotiate an Intensive Assistance Activity Agreement outlining the services and assistance *the provider* will give to the job seeker to help them find employment.

New Enterprise Incentive Scheme and Self Employment Development

Under NEIS, eligible unemployed people are provided with assistance to establish and run new small businesses.

Providers are contracted by government to screen prospective NEIS participants (assessing participant suitability for self-employment as well as the potential viability of their business), deliver small business training, monitor business performance and viability and provide mentoring and on-going support to participants for a period of up to 52 weeks.

Under SED, the role of the service provider is limited to assessing applicants' suitability for self-employment and suggesting action plans to help participants achieve self-employment. (The action plan forms part of a participant's 'preparing for work agreement' with Centrelink.) The primary focus of SED is to enable participants to concentrate on developing their business ideas by providing them with income support (in the form of Newstart or Youth Allowance) without the requirement also to apply for jobs.

Project Contracting (Harvest Labour Services)

This program is designed to ensure a satisfactory supply of labour to harvest areas that require considerable numbers of out-of-area workers to supplement local labour.

Providers liaise with growers to determine their labour needs throughout the harvest season and mobilise out-of-area labour, allocating it to growers as required. This process involves providing job seekers with information about conditions of employment as well as accommodation and transport.

Choice

Choice of job search product by job seekers

The Job Network service offered to individual job seekers depends on their relative level of ‘disadvantage’ as assessed by Centrelink (on behalf of DEWR). Hence government, rather than the individual job seeker, determines the ‘choice’ of job search product.

The level of disadvantage of job seekers is determined via the administration of a ‘profiling mechanism’ – the Job Seeker Classification Instrument (JSCI) – which is designed to determine a job seeker’s relative risk of prolonged unemployment.

The JSCI is administered at a job seeker’s initial registration with Centrelink and following that, at twelve month intervals or when a job seeker finishes an approved activity.

The JSCI calculates a score for each individual by summing points assigned for each of 18 risk factors (box 4.1) based on the individual’s characteristics. Scores range from 0 (no apparent disadvantage) to 96 points (severe disadvantage).

Box 4.1 Employment barriers as measured by the Job Seeker Classification Instrument

The JSCI is designed to provide a relative, not absolute, measure of job seeker disadvantage in the labour market.

The JSCI assigns each of the eighteen identified risk factors (personal characteristics or employment barriers) a numerical weight or point indicative of the average contribution that factor makes to the difficulty of placing a job seeker into employment.

Hence, individual job seekers may have similar levels of disadvantage as measured by the JSCI but each job seeker may have different needs and a different profile of skills and circumstances.

The employment barriers and personal characteristics measured by the JSCI include age, educational attainment, vocational qualifications, duration of unemployment, recency of work experience, family status, geographic location, Aboriginal, Torres Strait Islander and South Sea Islander status, geographic location for other Australians (a measure of regional disadvantage for Australians not of Aboriginal, Torres Strait Islander and South Sea Islander status), transport, contactability, proximity to the labour market, country of birth, English language and literacy, disability or medical condition, stability of residence, disclosed ex-offender status and disadvantage resulting from personal factors requiring professional or specialist judgment.

Source: DEWRSB 1998.

Job seekers are classified into three broad levels of risk (and hence eligibility for assistance) according to their JSCI score:

- Low risk job seekers, who are provided with JM services only. Job seekers who are not working fifteen hours or more per week, in full-time study or training or in receipt of a mature age allowance are eligible for JM services;
- Medium risk job seekers, who have a JSCI score of up to 23 points who have been registered as unemployed for three months are provided with JST; and
- High risk job seekers who have a JSCI score of 24 points or more (and are not participating in other labour market or FaCS programs) are provided with IA. High risk job seekers are further classified into level A and level B. (DEWR budgets 75 per cent of IA places at level A and 25 per cent at level B (DEWRSB 1998, p. 3).) Job seekers scoring in the band from 24 to 32 points are eligible for level A. Those with a score of 33 or higher are eligible for level B. Level B job seekers are relatively more disadvantaged than level A job seekers.

Misclassifications can occur where job seekers do not disclose information or incorrect information is provided to Centrelink. Consequently, where a Job Network provider identifies additional information which would alter a job seeker's JSCI score, it can seek a review of classification by Centrelink at no charge (this is distinct from a Special Needs Assessment outlined below) (DEWRSB 1999, p. 26).

Some high risk job seekers have especially high barriers to employment (such as substance abuse or mental health problems). These job seekers are referred outside the Job Network to the Community Support Program (CSP) (and will be referred to its replacement, the Personal Support Program (PSP), with changes implemented under Australians Working Together (AWT)).

Where a job seeker has already been referred to and is participating in IA, but the provider considers that due to the severity and multiplicity of their employment barriers that they are unlikely to achieve an outcome regardless of their JSCI score, the provider can refer the job seeker to Centrelink for a 'Special Needs Assessment' at a cost of \$532. Based on the outcome of the assessment, a job seeker may then be referred to CSP.³

Choice of Job Network provider by job seekers

While JM recipients can enlist with a number of JM providers, JST, IA and NEIS participants can only enlist with a single provider.

³ Changes have been proposed under AWT that will allow Job Network providers to assess job seekers over a four week period and refer them to complementary assistance (DEWR, sub. 43, p. 71).

Job seekers can nominate their Job Network provider of choice. Subject to availability,⁴ Centrelink will refer job seekers to their nominated provider. Where a job seeker does not nominate a provider, they are allocated one by Centrelink using an automated referral system.

Choice of Job Network provider by job seekers is discussed further in chapter 8.

4.3 Entry, growth and exit

Entry

To date, employment services under the Job Network have been contracted over two distinct periods — Employment Services Contract One, which ran from 1 May 1998 to 27 February 2000, and Employment Services Contract Two, which ran from 28 February 2000 and operates until 2 March 2003.

Employment services contract one

The first tender to select organisations to provide employment services under Job Network was conducted in mid 1997.

The aggregate value of the contract was estimated at \$1.7 billion and covered services in 29 labour market regions (DEWRSB 2000a, p. 24). The level of business in each region was determined by DEWRSB based on the flow of job seekers through Centrelink offices.

Over 1000 organisations submitted 5300 bids. The selection criteria were relatively simple. Tenders were assessed according to quality and performance standards and then ranked according to price within each tender region (OECD 2001, p. 101).

Contracts were announced in February 1998, three months prior to the Job Network's implementation. In excess of 300 organisations were successful — 50 per cent private and 44 per cent community, with the remaining 6 per cent of business secured by the public provider, Employment National (DEWRSB 2000a, p. 24).⁵

⁴ DEWR specifies in each provider contract the maximum number of job seekers they can assist at a given point in time.

⁵ The government provider, Employment National, was required to comply with competitive neutrality criteria including full cost recovery and regulatory and taxation neutrality (chapter 13).

Those organisations already being funded to deliver employment services under the Working Nation program were most successful in the request for tender process. Currently-funded organisations comprised 56 per cent of tenderers and 79 per cent of successful tenderers (DEWRSB 2000a, p. 24)

Successful tenderers came from a variety of backgrounds:

... including charities initially specialising in providing assistance to the homeless, migrants or the disabled, training organisations, industrial psychologists and recruitment consultants, private placement agencies and the former public employment service itself (OECD 2001, p. 96).

There was a broad expectation that no one provider would be allocated more than 50 per cent of available business in any one region and that each region would be serviced by:

- at least five providers for the three main employment services (JM, JST and IA);
- at least two or three NEIS providers; and
- between two and four New Apprenticeships Centre providers (DEWRSB 2000a, p. 26).

In areas where the tender process failed to produce suitable offers, Employment National was to be called upon as a provider of last resort. However, it was not necessary to invoke this ‘community service obligation’ as suitable service delivery agencies were found even in remote areas (OECD 2001, p. 96).

Employment services contract two

In mid 1999, tenders were called for the second contract period for the delivery of all Job Network services worth an estimated \$3 billion (DEWR sub. 43, p. 29). (Job Network expenditure by service is outlined in table 4.1.)

The second contract contained a number of targeted changes designed to address the perceived deficiencies of the initial contract specification.

The target under round one for a minimum of five providers in each region had been intended to promote competition, but in practice did not always ensure that services were easily accessible in the more remote and thinly populated parts of large geographical tendering blocks. In order to improve the economic viability of service providers, the number of providers was reduced from five to two to three in the second contract.

Table 4.1 Job Network program expenditure by service ^a

<i>Service</i>	<i>Expenditure 1998-99</i>	<i>Expenditure 1999-00</i>	<i>Expenditure 2000-01</i>
	<i>\$ million</i>	<i>\$ million</i>	<i>\$ million</i>
Job Matching	51.7	57.6	98.8
Job Search Training	22.5	23.3	37.7
Intensive Assistance	550.5	563.9	535.9
NEIS	29.0	71.7	60.5
Project contracting	2.0	2.9	2.0
Job Network other ^b	53.0	75.2	15.3
Total	708.7	794.7	750.2 ^c

^a DEWRSB used a cash accounting system for the years to 30 June 2000 and an accrual accounting system from 1 July 2000 to date. ^b Payments to support the operation of the Job Network. ^c This figure varies slightly from the figure published in the DEWRSB 2000-01 Annual Report since the latter includes expenditure on previous labour market programs.

Source: Information supplied by DEWR.

Further, the 29 regions that applied in the first contract were replaced with 19 regions. Each labour market region was divided into a number of Employment Service Areas (ESAs) to 'improve administration and provide greater scope for tenderers to price their bids to reflect local labour market conditions (DEWRSB 2001a, p. 11). Each ESA had a predetermined level of business for which interested parties could bid. Prospective tenderers were able to price their bids at an ESA level, except in the case of the major metropolitan regions of Adelaide, Brisbane, Melbourne, Perth and Sydney, where a uniform price applied across all ESAs within the region.

A further change related to the provision of specialist services. Where a need for a specialist service was demonstrated, IA providers were allowed to bid to provide specialised services to specific client groups only, such as the visually impaired, Indigenous job seekers and people with non-English-speaking backgrounds. Specialist providers however, were excluded from the auto-referral process (DEWRSB 2001a, p. 11).

In the second tender, there was an increased focus on the quality of services, measured partly on the basis of past performance. For IA, performance was assessed using administrative data for the proportion of job seekers who had left benefits, with an adjustment for the composition of the client caseload and local labour market factors (OECD 2001, p. 101.)

In addition to past performance, the prospective strategies and interventions outlined by each tenderer in a Declaration of Intent were also taken into account. (These Declarations of Intent became contract conditions.) Tenderers were assessed

according to both service quality aspects (which had a 75 per cent weighting) and price (25 per cent weighting) (DEWR sub. 43, p. 29).

Successful tenderers for the second contract period were offered contracts in December 1999 for commencement in early 2000. Almost 200 organisations were contracted to deliver services from 2010 sites. While the total number of organisations delivering Job Network services declined in the second contract, the number of sites delivering services increased by 54 per cent (table 4.2).

Table 4.2 Job Network services by number of organisations and locations

<i>Job Network service</i>	<i>First contract ^a</i>		<i>Second contract ^b</i>		<i>Percentage change</i>	
	Providers	Sites	Providers	Sites	Providers	Sites
Job Matching	223	1113	168	1679	-25	51
Job Search Training	112	424	93	647	-17	53
Intensive Assistance	125	745	121	1119	-3	50
NEIS	62	201	51	346	-18	72
Total ^c	262	1309	196	2010	-25	54

^aAs at February 2000. ^bAs at 31 July 2000. ^c Two existing and two additional provider organisations were also contracted to deliver Job Network services following the fee for service tender in the second round. Their contracts operate in six ESAs.

Source: DEWRSB 2001a, p. 13, table 2.1.

To a large degree, the allocation of business in round two reflected the performance of providers under the first contract. Around 87 per cent of organisations contracted under round one were also contracted for round two (DEWRSB 2001a, p. 13).

However, there were significant changes to the allocation of Job Network business in relation to the types of organisations involved, changes within providers themselves (such as gains and losses of market share for continuing organisations and changes to addresses of sites and personnel), and in specialist services and regional coverage.

The market share of community-based, charitable and private sector organisations increased significantly. The market share of community based and charitable organizations increased from 30 per cent under the first contract to 45 per cent under the second contract. The private sector increased its share of contract volume from 33 per cent in the first contract to 47 per cent in the second contract. Expansion in these sectors came at the expense of the Government provider Employment National whose market share fell from 37 per cent under the first contract to 8 per cent under the second contract (DEWR sub. 43, p. 30).

Job Network providers under the second contract include a mix of generalist and specialist providers (table 4.3).

Table 4.3 Specialist service provision
Number of specialist contracts by service type, contract two

<i>Specialist service</i>	<i>Number of Job Network contracts</i>	<i>Number of Job Network sites</i>
Indigenous Australians	11	41
People from a non-English speaking background	5	29
People with a disability	11	24
Young people	5	11
People living with HIV/AIDS	2	4
Substance abuse	1	1
Total	35	110

Source: DEWRSB 2001a, table 2.2, p. 14.

Certainty and growth of business

Growth within rounds

DEWR specifies in each provider contract the maximum number of job seekers that they can assist at a given point in time under the JM, JST, IA and NEIS schemes. Consequently, there is limited scope for providers to grow *within* rounds.⁶ The Government has undertaken to try to make sufficient referrals to keep providers at a minimum proportion of their contracted ‘point in time’ capacity (above 80 per cent for JST providers and above 85 per cent for IA providers). In contrast, the JM contract does not provide any guarantee of a specific level of business.

Due to more buoyant labour market conditions, the flow of job seekers for referral to IA has been declining recently.⁷ Further, the rate at which providers exit job seekers from the system has been greater than anticipated. This has seen the point in time capacity utilisation of many IA sites (approximately 12.5 per cent) fall below the 85 per cent level.

DEWR has introduced a number of measures to bolster the point in time capacity utilisation of affected sites including:

⁶ Contract variations increasing provider capacity are possible.

⁷ Regions most affected include Sydney, Melbourne, Brisbane and the ACT (information supplied by DEWR).

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- altering the automated referral process in particular regions — Job Network sites that are at or above 85 per cent of their point in time capacity have been excluded from the auto-referral process thereby increasing the flow of job seekers to sites operating below these levels. (Sites operating above 85 per cent of their point in time capacity continue to receive referrals but only from job seekers who have expressed a preference for that particular site.); and
 - enabling providers who operate in a number of regions to ‘shift’ capacity from sites where there is a lack of IA-eligible job seekers to sites where there is a surplus of job seekers relative to available IA places.⁸

Growth between rounds

Providers and capacities in the second contract were determined by tender. The primary factor limiting provider growth between the first and second period was the constraint that a provider could not be contracted to provide more than 50 per cent of business in any one region.

Relative to the transition between the first and second contracts, scope for provider growth between the second and third contract may be limited. In order to reduce the disruptions to service associated with a complex and time-consuming tender process, 60 per cent of Job Network business will be rolled over to existing high performing Job Network providers. The remaining 40 per cent will be subject to competitive tender.

Exit

Under the first contract, provision was made for the exit of providers who did not want to continue in the employment services market during the contract period. A package of up to \$15 000 was offered to providers to help with the cost of withdrawal. During the first contract period 20 organisations withdrew from Job Network, although not all of these took advantage of the package.

4.4 Pricing

The main pricing arrangement is between Job Network providers and government, primarily determined by tender.

⁸ For example, excess capacity has been shifted from Sydney to Perth and other regional centres.

Under the Job Network Code of Conduct, which forms part of the contract between providers and DEWR, providers are precluded from charging job seekers for employment placement services. While the Code does not prohibit providers from charging employers for services (such as listing their vacancies or screening candidates) most employers do not face charges for services provided by Job Network members.⁹

Pricing arrangements between Job Network providers and government

The structure of payments is crucial in determining both the incentives influencing providers and the economic viability of their operations. The payments have been targeted at employment-related outcomes and to provide higher rewards for successful outcomes for clients assessed as facing greater degrees of disadvantage.

Job Matching

Providers are paid a JM outcome fee determined through competitive tender for placing eligible job seekers into vacancies that provide at least fifteen hours paid employment over a period of five consecutive days from the date of commencement. Vacancies must be listed on the National Vacancies Database in order to attract a payment. The average outcome fee under the second Job Network contract is \$362 (OECD 2001, p. 99).

Providers are also eligible for a bonus payment of \$266 for placing a job seeker into employment that reduces their basic rate of unemployment allowance by at least 70 per cent over thirteen weeks.

Placement of JST and IA clients into a job also attracts the regular JM outcome fee.

Job Search Training

JST attracts a commencement fee determined by tender and an outcome fee of \$266 for participants who commence employment within 13 weeks of ceasing JST, stay in work for 13 consecutive weeks and whose benefit payments are reduced by 70 per cent. Where JST participants are not in receipt of unemployment benefit, an outcome payment is payable if the job seeker works an average 15 hours per week for 13 consecutive weeks.

⁹ A survey undertaken on behalf of DEWRSB revealed that only 15 per cent of employers using Job Network providers paid a fee for their services (information supplied by DEWR).

Intensive Assistance

The price for IA comprises an up-front service fee, an interim outcome fee and a final outcome fee (table 4.4). Price is determined by tender, subject to specified minimum prices for level A and level B assistance determined by DEWR.¹⁰ The quantum of IA payments based on these minima is outlined in table 10.2.

Table 4.4 Composition of payments for Intensive Assistance
Primary and secondary outcomes

<i>Payment type</i>	<i>Value</i>	<i>Timing of payment</i>
Up-front service fee	30 per cent of the bid price set by competitive bid (excluding the final outcome payment).	After Job Network provider meets with job seekers and enters into an activity agreement
Interim outcome payment	70 per cent of the bid price set by competitive bid for a primary outcome (excluding the final outcome payment). Fixed fee for a secondary outcome.	After outcome requirements for thirteen consecutive weeks of employment or one semester of education
Final outcome payment	Fixed fee for a primary or secondary outcome.	After a subsequent period of thirteen weeks in employment or one semester in an education outcome.

Source: DEWRSB 1999. p. 73, figure 8.

New Enterprise Incentive Scheme and Self Employment Development

The NEIS fee is determined through competitive tender. Ninety per cent of the fee is paid on commencement — a participant is deemed to have commenced when they sign a NEIS participant agreement with DEWR and the business starts operation. The remaining 10 per cent of the fee is paid on achievement of a ‘post program outcome’ (where participants are no longer in receipt of qualifying income support three months after cessation of the NEIS agreement).

NEIS providers are paid a set fee of \$159.50 for each SED business assessment undertaken (DEWRSB 1999, p. 90).

Project Contracting (Harvest Labour Services)

Job Network providers receive a fixed fee (determined by tender) for delivering Project Harvesting services, rather than a fee for placing individual job seekers. The

¹⁰ Under the first contract, IA prices were set by DEWRSB (DEWR sub. 43, p. 29).

fee is comprised of an up-front payment (50 per cent of the fixed fee) with the remaining 50 per cent paid at the end of the harvest period subject to the completion of a satisfactory performance report.

4.5 Contract and performance management

The performance of Job Network providers is overseen by DEWR contract managers located in state and regional offices. This involves monitoring providers' progress against contracted placement targets and checking compliance with obligations. Further, in the second contract, providers are assessed biannually against key performance indicators, which cover outcomes, contractual compliance and quality and equity of service.

In the case of IA, contract managers also monitor compliance with a provider's 'declaration of intent', which may include such matters as the ratio of clients to case managers or frequency of contact with clients.

Finally, a provider's performance relative to other providers is assessed using the 'star rating model' (box 4.2), which may be used for future tender evaluations and for informing a job seeker's choice of provider. (Contract monitoring and compliance is discussed more fully in chapter 12.)

Complaints mechanism

In the first instance, job seekers and employers are encouraged to attempt to resolve any concerns they have with their Job Network member by using the provider's internal complaints process. Where this fails, or the complainant is dissatisfied with the outcome, they can contact the Job Network customer service line. The customer service line is managed by DEWR which is also responsible for investigating complaints and taking appropriate remedial action.

Box 4.2 The star rating model

The star rating model is designed to assess the performance of Job Network members for each service in each region in which they operate.

The model uses a set of performance indicators and associated weights based on the performance indicators outlined in the Job Network contracts. For example, in the case of IA, the current weightings are as follows:

Interim outcomes (thirteen week outcomes) as a proportion of commencements — 40 per cent;

Final outcomes (twenty six week outcomes) as a proportion of commencements — 30 per cent;

Proportion of participants placed in a job — 10 per cent; and

Proportion of interim outcomes going to disadvantaged job seekers — 20 per cent.

A provider's actual performance is assessed against their expected performance where expected performance is adjusted to take account of variations in client mix (such as age, educational attainment and duration of unemployment) and local labour market conditions (adjusted using ABS unemployment rates and jobs growth).

Scores are distributed between one and five stars such that 70 per cent of providers in a region are rated at three stars or better.

Source: Information supplied by DEWR.

5 Employment outcomes and costs

Box 5.1 Key messages

The Job Network programs have had small or uncertain effects on the job prospects of participants.

- The most important program element — Intensive Assistance — generates a small net positive effect for participants.
- The net effect on job prospects for Job Search Training were also small.
- The net effect of Job Matching on job seekers is difficult to ascertain.

There are significant positive compliance effects for JST, but much less so for IA.

DEWR's current evaluation methods overstate the benefits of the programs. For example:

- they ignore attachment effects, which are likely to be significant for IA; and
- they overstate compliance effects, because many non-commencements are likely to stay on some form of benefits.

While the impact of the various methodological shortcomings is not wholly clear, it is likely that Job Network programs have only a very modest net impact on aggregate employment, particularly after taking into account the displacement of other job seekers by program participants.

This finding is consistent with those for previous Australian programs and overseas programs, and is in line with realistic expectations about the efficacy of labour market programs in reducing aggregate unemployment.

The funding of active labour market programs has fallen dramatically, relative to previous programs such as those forming part of Working Nation.

Improved data and improved methods are required to facilitate better understanding of the programs' effects and to allow for the discipline of external scrutiny by independent researchers.

5.1 Introduction

This chapter examines the Job Network's record of helping job seekers find work, or in placing them on a pathway — for example, through training — to a job. Broader equity and related social effects of labour market programs, and questions about the quality of services provided to the job seeker, are discussed elsewhere in this report (chapters 6 and 8).

The Job Network was introduced to:

... tailor assistance to the needs of individual job seekers and to ensure that this assistance is focussed on getting people jobs as efficiently and effectively as possible (DEETYA 1998, p. 2).

and to achieve:

... better and more sustainable employment outcomes than previous employment programmes (DEWRSB 2001f, output 1.2.1).

But outcomes, both in terms of quantity and quality, are hard to measure.

The quantity of outcomes — in terms of how many people moved off benefits to go into paid work as a result of Job Network programs — is the main focus of this chapter. The gross outcomes are reported in section 5.2. But many of these outcomes would have occurred anyway. Consequently, section 5.3 reports on efforts to identify the net effects of IA and JST and the costs of those outcomes. This is an exercise beset by data and methodological problems, requiring the estimation of a variety of program effects, including:

- deadweight losses (program funds spent on job seekers who would have found work anyway);
- compliance effects (where some job seekers referred to a program find work or otherwise leave benefits before the program starts);
- attachment effects (where program participants reduce job search activity for the duration of the program); and
- displacement effects (where a program participant displaces someone outside of the program).

There is limited evidence on the quality of the job and other outcomes achieved by the Job Network programs. Some changes which may lead to better information in future are discussed in section 5.4, which also discusses methodology and data issues more generally.

5.2 Usage and outcomes of the programs

In 2000-01, there were around 700 000 commencements in Job Network labour market programs (table 5.1).

Table 5.1 **Number of persons commencing in Job Network programs, 2000-01**

<i>Program</i>	<i>Commencements</i>
Job Matching	319 590 ^a
Job Search Training	74 800
Intensive Assistance	278 560
New Enterprise Incentive Scheme	6 500
Self Employment Development Scheme	1 316
Project Contracting (Harvest Labour Services)	17 300 ^b

^a Job placements. ^b Commencements for the 1999-00 harvest season.

Source: DEWRSB 2001a; 2001b; 2001f.

Commencements in JST in 2000-01 were 33 per cent higher than in 1999-00 (56 108), but for IA, commencements were down 14 per cent (from 324 490) over the same period. Since the start of the Job Network, over one million job seekers have been referred to IA (DEWRSB 2001a, p. 18).

Broadly, post-program monitoring showed that, three months after leaving the program, about 66 per cent of JM participants, 43 per cent of JST participants and 39 per cent of those who attended IA were employed (table 5.2 presents a summary of outcomes for 2000-01). On average, over half of those finding employment were employed part time. A smaller share — around 10 per cent — had educational and training outcomes. A feature of some programs was the significant percentage of participants no longer in the labour force (table 5.2).

NEIS generates by far the highest gross outcome rates of the Job Network programs (table 5.2). This reflects that it is a different type of program than JM, IA and JST, catering to a highly employable sub-group of job seekers (chapter 9). Consequently, as with all Job Network programs, gross outcomes under NEIS are not a good guide to the effectiveness of the program. An additional risk with NEIS, not shared by other Job Network programs, is the possibility that failure of the enterprise will leave the client with a debt. Once all these impacts are factored in, it is likely that the net impact of NEIS will be quite modest, but empirical evidence is not available because of the major problems of selection bias present in the recruitment of NEIS participants. Lattimore et al. (1998) and Kelly et al. (2001) provide some indicative analysis of possible net impacts. (Section 5.3 discusses some of the problems involved in estimating net impacts, but is limited to IA and JST because of data availability.)

Table 5.2 Post assistance outcomes, 2000-01

For job seekers who exited assistance in the 12 months to 31 March 2001 and their post-assistance outcomes achieved by 30 June 2001, percentages

Labour market assistance	Employed	Unemployed	Further assistance ^a	Not in the labour force	Total	Education and training outcomes ^b	Positive outcomes ^c	Off income support at 3 months ^d	Off income support at 6 months ^d
Job Matching	65.8	29.3	na	4.9	100	11.8	70.5	47.8	51.0
Job Search Training	43.2	44.5	6.9	5.4	100	12.9	52.1	33.2	44.2
Intensive Assistance	38.6	39.7	7.6	14.1	100	7.7	44.6	37.9	39.6
— <i>funding level A</i>	43.6	36.1	7.7	12.6	100	8.0	49.9		
— <i>funding level B</i>	28.3	47.1	7.5	17.1	100	7.2	34.6		
New Enterprise Incentive Scheme	82.9	10.5	0.5	6.1	100	7.5	85.1	79.3	78.6

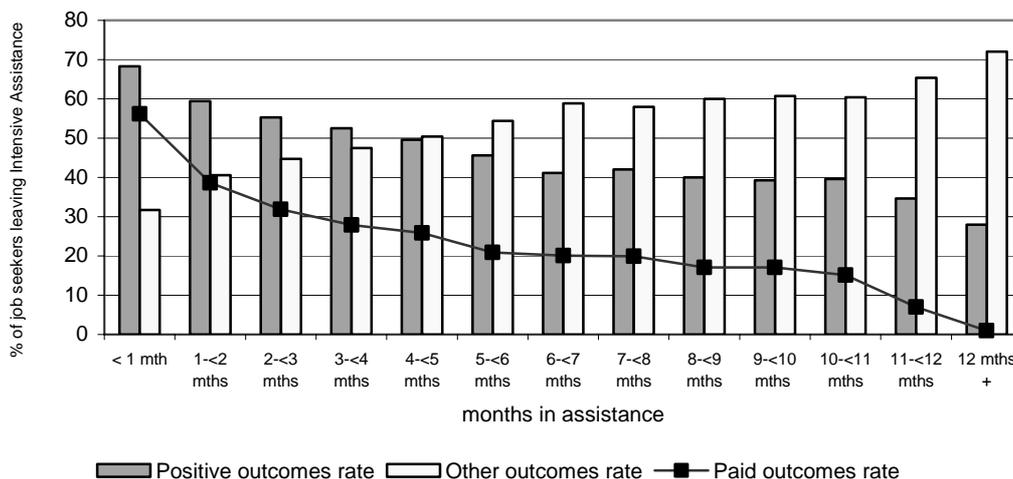
^a Includes commencements in DEWR funded labour market assistance and DETYA programs New Apprenticeships, Literacy and Numeracy and Advanced English for Migrants. Not measured for JM. ^b Education and training outcomes include job seekers who are studying at a secondary school or college, TAFE, business college or university three months after ceasing labour market assistance. ^c Positive outcomes are less than the sum of employed and education/training outcomes as some job seekers achieved both. Positive outcomes exclude indigenous job seekers who return to Community Development Employment Projects (CDEP) after leaving labour market assistance. ^d Off-income support' outcomes refers to the proportion of Newstart or Youth Allowance (Other) recipients who were off these or any other type of allowance recorded on the Integrated Employment System 3 or 6 months after leaving assistance programs. Job seekers who moved to other income support payments such as CDEP, age pension or any other pension where they are not registered with Centrelink as looking for work are counted as off-benefit outcomes. Off-income support outcomes are less than 'positive outcomes' at about 3 months after exiting from a program, as some with positive outcomes will remain on benefits or return to benefits. Off income support at 3 and 6 months includes a small proportion of job seekers who proceed to placements in the New Apprenticeships Program. For Indigenous job seekers, the off income support outcomes include those who proceed to a wage subsidy or Structured Training Employment Program placement under the Indigenous Employment Program. Indigenous clients who return to a Community Development Employment Projects (CDEP) after program participation are also considered to be off income support. However, Indigenous job seekers who have returned to CDEP are not included as an employment outcome.

Source: DEWRB 2001b, based on its post program monitoring survey conducted three months after job seekers cease assistance; and DEWRB 20001f for off-income support figures (<http://www.annualreport.dewrsb.gov.au> accessed 17 December 2001).

There are two other Job Network programs: the Project Contracting (Harvest Labour Services) program, which places job seekers in harvest work, and the Self Employment Development Scheme, which allows unemployed people to develop business ideas while being exempted from normal activity tests. These programs are discussed in chapters 8 and 9 and are not examined further in this chapter.

For job seekers who leave IA in the first three months of assistance, about 60 per cent achieve a ‘positive outcome’, while about 40 per cent undertake further assistance, remain unemployed or move out of the labour force. For job seekers who are in IA for 12 months or more, over 70 per cent do not achieve a positive outcome (figure 5.1).¹

Figure 5.1 Intensive Assistance post-assistance outcomes^a and exits by duration in assistance, May 1998 to November 1999



^a *Positive outcomes* refer to job seekers undertaking employment and or education and training three months after assistance. *Other outcomes* refer to job seekers being unemployed, out of the labour force or undertaking further employment assistance three months after assistance. *Paid outcomes* arise where the job seeker is placed in and retains paid work and the provider successfully claims an interim outcome fee.

Source: DEWR, sub. 43, p. 50 and 2001a, pp. 59–60.

DEWR’s post-program monitoring showed that sustainability of outcomes (as measured by off-benefit outcomes six months after participation) was generally

¹ Not all post-assistance positive outcomes qualify for an outcome payment. Early in assistance, positive outcomes are much more likely to be paid outcomes than those later on. Almost three-quarters of paid outcomes were achieved in the first five months of assistance, whereas 48% of positive outcomes occurred after this time (DEWRSB 2001a, p. 59).

lower for IA than for other programs, reflecting the greater level of disadvantage of participants.

Impacts on different groups of job seekers

Job seekers with low levels of educational attainment, English language difficulties, disabilities, a previous history of unemployment and those from the younger and older age groups are all disproportionately represented in unemployment (Le and Miller 1999, 2000).

Under the Job Network, intensive services are targeted to the more disadvantaged job seekers. This is facilitated by the workings of the JSCI (although problems can arise for some groups because of limitations of that instrument and its reliance on self-identification).

In its submission, DEWR stated that participation in Job Network programs by disadvantaged groups is 'broadly within its expectations', although some groups participated at a lower rate. These included indigenous job seekers (whose participation rates in IA are lower than those for any other disadvantaged group), youth and sole parents, particularly in IA (sub. 43, pp. 49–50):

Taking into account ... targeting according to disadvantage and other factors affecting participation, such as JSCI classification rates and take-up rates following referral, an analysis of participation of different job seeker groups shows that participation for the overwhelming majority of job seekers was in accordance with expectations (sub. 43, p. 51).

Off-benefit and employment outcomes at three months for a range of disadvantaged groups are shown in table 5.3. DEWR stated that:

Comparison between the shares of job seekers leaving assistance and their shares of employment and education outcomes shows that these are broadly similar for most job seeker groups.

However it noted that some groups had consistently lower outcomes than other job seekers across all services.

These included older job seekers (aged 55–64), those on unemployment allowances for more than two years, job seekers with less than year 10 education, Indigenous job seekers and those with a disability (sub. 43, p. 52).

Table 5.3 Job seeker outcomes three months after participation^a

Persons employed, persons off income support, percentages

Job seeker characteristics ^b	Job Matching		Job Search Training		Intensive Assistance		NEIS	
	Employed	Off income support	Employed	Off income support	Employed	Off income support	Employed	Off income support
Indigenous	49.0	43.9	27.4	30.8	25.8	37.9	na	na
Long term unemployed ^c	51.1	36.3	40.4	26.7	35.0	30.9	78.0	71.0
Mature aged ^d	64.9	42.3	38.8	28.4	37.7	37.3	78.8	76.2
Less than year 10 education	50.2		31.1		32.3		75.5	
Non-English-speaking background	59.2	47.4	39.4	34.6	37.5	42.2	80.7	82.0
People with disabilities	48.5	39.2	35.7	27.7	31.0	30.4	79.2	72.3
Sole parents	58.5	29.6	37.2	15.9	35.3	30.9	na	na
Youth	65.8	51.8	43.6	35.3	37.4	39.3	na	na
All participants	65.8	47.8	43.2	33.2	38.6	37.9	82.9	79.3

^a For job seekers who exited assistance in the 12 months to 31 March 2001 and their post-assistance outcomes achieved by 30 June 2001. Employment outcomes are for job seekers registered as unemployed, including recipients of Newstart and Youth Allowance (Other). ^b Job seekers may be classified to more than one group. ^c Unemployed for more than 2 years. ^d Aged 45 years or more. ^{na} Results are not available due to the small number of participants.

Source: DEWRSB 2001b and 2001f.

Outcomes (as measured) for some groups are influenced by such matters as the extent of activity testing applying to the benefits they receive, and the availability of other non-Job Network options.

- *Indigenous job seekers*: Because of their high level of disadvantage in the labour market, indigenous job seekers are typically channelled into IA; their lower participation in JM and JST is compensated for by their greater rate of referral to IA relative to other job seekers.

The reported performance of indigenous job seekers following participation in IA may be inflated due, in part, to some moving into subsidised employment through the Indigenous Employment Program (and those participating in CDEP are counted as an off-benefit outcome) (sub. 43, p. 50).

- *Youth and sole parents*: Young people and sole parents also had low take-up rates for Job Network programs. Many are not on activity-tested allowances and their participation is voluntary. They may have limited labour market experience. For such reasons, it is likely that the net impact of these programs on youth in particular would also be low. DEWR said that youth participation in the Job Network is also influenced by

... the lesser likelihood of their scoring highly on the JSCI and the availability of other labour market assistance options including Mutual Obligation activities such as Work for the Dole. There is some evidence that the introduction of the Youth Allowance and the extension of Mutual Obligation contributed to a decline in the number of youth registering with Centrelink (sub. 43, p. 53).

Very little is known about young job seekers not registering with Centrelink, including the extent to which they are accessing services other than Job Network. For example, young people who are homeless or at risk of becoming homeless, or who face severe problems would be referred to the Jobs Pathway Education and Training (JPET) program ahead of IA.

- *Mature aged*: While sustainable off-benefit outcomes (measured at six months) generally declined with the age of the job seeker, this was not the case with job seekers aged over 55, probably reflecting their movement out of the labour force, including to other types of income support.

DEWR noted that the Job Network's performance exhibits some degree of regional variation in outcomes and effectiveness of assistance:

Factors that contribute to this variation include differences in local labour market conditions, differences in the characteristics of job seekers living in these areas and the availability and quality of local services (DEWRSB 2001a, p. 83).

In particular, it noted that there was considerable geographical variation in the take-up of JST. And with respect to IA, it said that its effectiveness may not be as great under more depressed economic conditions, in which circumstances there may be merit in greater use of the Work for the Dole program. It added that:

The somewhat better performance of Intensive Assistance in stronger labour markets combined with the more general finding that local labour market conditions have a significant influence on a number of Job Network performance measures, including take-up rates ... has implications for the operation of Job Network in locations where job seekers do not have access to strong labour markets (2001a, p. 83).

Between the first and second tenders, the number of Job Network sites outside capital cities almost doubled, from 600 to around 1100, partly as a consequence of the smaller geographical tendering blocks used in the second round. Nearly 150 locations gained a Job Network site for the first time, improving access for job seekers in regional Australia (DEWR, sub. 43, p. 32).

Long term unemployed

A major objective of the Job Network is to reduce the numbers of long-term unemployed, even if this does not reduce, at least in the short term, the total number of unemployed. This is because many of the social problems associated with unemployment increase with duration, while employability tends to decline. Such a reordering of the unemployment queue would benefit those who have been without work for long periods, and may increase their human capital, offering the prospect that long run employment will rise in the economy.² On the other hand, such ‘churning’ of the unemployed may have a detrimental effect on the employment skills of those who could be displaced into perhaps longer periods of unemployment. The net result of these two effects is difficult to judge.

Several commentators commented on the lack of evidence as to the effectiveness of Job Network programs on outcomes for the long-term unemployed. For example, ACOSS said:

The level of long-term unemployment, when measured on the basis of receipt of unemployment payments, has not declined as it should given the solid employment growth over the past four years. ... Skills deficits and weak connections with mainstream employment among long-term unemployed people appear to be major factors (sub. 32, p. 5).

² Noting that in the long run, total employment adjusts to effective labour supply (OECD 2001, p. 267).

Davidson said:³

... long-term unemployment tracked the reduction in unemployment during the Working Nation period, but there is evidence of persistence in the period following the introduction of the Job Network, despite strong employment growth (2001, pp. 5, 8).

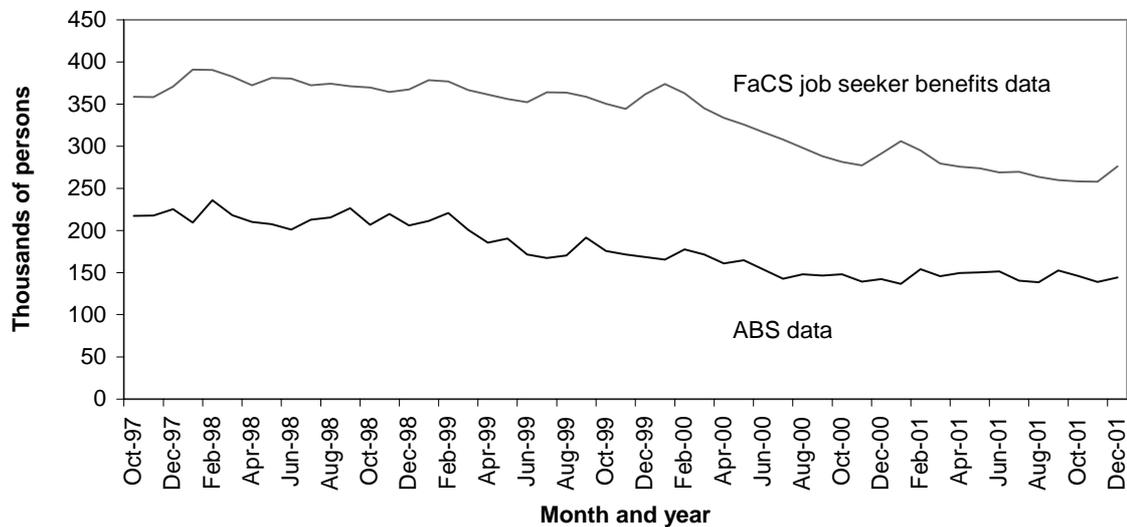
Over a million job seekers have taken part in IA and JST in recent years (with approximately 90 per cent of funding going to IA). Were IA in particular to have been notably successful, there should have been some discernible drop in the numbers of long term unemployed, unless other factors were offsetting this. ABS and FaCS job seeker data⁴ show a continuing, albeit gradual, decline during the past four years in the numbers of persons unemployed for more than a year, with ABS data indicating a levelling out for the past 18 months (figure 5.2).

The extent to which the longer-term decline in the job seeker data relates to relatively buoyant economic conditions or to the impact of active labour market program is not clear. (Chapman and Kapuscinski 2000 discuss the importance of macroeconomic conditions to long-term unemployment.) Nevertheless, ACOSS expressed concern that, although the total number of long-term unemployment benefit recipients (whether currently seeking work or not) had fallen since 1998, the total number of people involved remained at the same level as in 1995 (2002, pp. 20–21).

³ Davidson notes that ‘it is difficult to assess program performance using macro-economic data because many factors other than employment assistance influence the results. In addition, there is an element of ‘churning’ in employment assistance programs that often distorts these unemployment statistics’ (2001, p. 8).

⁴ Both sets of data have shortcomings. The ABS includes as ‘employed’ anyone who obtained paid work of one hour or more in the reference week. FaCS seeks to identify ‘job seekers’, ie those unemployed people who are on benefits and looking for and available for work. It excludes all those who did not receive a payment and all those who were not required to search for work. Consequently, people who are incapacitated, those involved in training, CDEP participants and people exempted from the activity test for other reasons are excluded. Also excluded are some who are seeking work but who are ineligible for benefits because their spouse is working, and persons over 60 who are on the Mature Age Allowance. In the FaCS data, long term recipients may have had a job in the previous 12 months: they are reclassified as short term recipients only if they remain totally off benefits for a continuous period of more than 13 weeks. The ABS reports long-term job seekers as 22 per cent of all job seekers, while FaCS data suggests that 57 per cent of its job seeker group had been unemployed for one year or more.

Figure 5.2 **Long-term unemployed job seekers, ABS and FaCS estimates**
Oct 1997 to Dec 2001



Data source: ABS DX data and FaCS, *Labour Market and Related Payments: a monthly profile*, various issues.

Comparisons with previous programs

While DEWR assessed that the Job Network has produced outcomes which are broadly similar to those achieved under previous labour market programs (stage two report, p. 6), labour market conditions at the time of Job Network have been more buoyant than during Working Nation. Accordingly, Eardley, Abello and Macdonald said that, while the Job Network appears to be producing similar aggregate outcomes to Working Nation:

... in a period of rising employment it does not seem to have had as much impact on long-term unemployment (2001, p. i).

The OECD also suggest that:

... Job Network has delivered results that are not dramatically different from those obtained under the Working Nation (OECD 2001, p. 20).

However, ACOSS took the view that employment outcomes for long-term unemployed people are lower compared with the best of the former Working Nation programs (sub. 32, p. 10).

Junankar (2000) examined graphs of ABS data on unemployment levels for males, females and long term unemployed youth up to February 2000, and concluded that, while 'it may be too early to provide a proper assessment of the impact of the

changes made', it appeared that these groups had not benefited as much as under Working Nation.

However, a fuller comparison would need to overcome considerable data difficulties and to take account more comprehensively of differences in the labour market (which was subject to dramatic changes in the 1990s), industry structure and the macroeconomic conditions prevailing during each time period. For example, the nature and depth of the two recessions during this period were quite different. Eardley, Abello, and Macdonald also were cautious in comparing Job Network and Working Nation:

... not just because of differences in the way outcomes are assessed but also because of changes in economic conditions since 1995. Indeed, the whole exercise of comparing the Job Network with the (brief) period of Working Nation is in many ways becoming an increasingly tortuous exercise (2001, p. 18).

The costs of achieving the outcomes under Job Network and Working Nation are addressed in section 5.3.

Data issues

While gross outcome measures are published for particular disadvantaged groups, it is difficult to be clear as to what the true impact of the Job Network is on these groups. To measure this more accurately would require some form of 'net impact' study to be undertaken. This requires equivalent data for job seeker sub-groups in both the program group and the control group. The data are not available. Attempts to measure the aggregate net impacts of the programs are discussed in the next section. The use and limitations of control groups to assess net impacts more broadly is discussed in section 5.4.

5.3 Measuring net outcomes

Simple outcome measures tell only part of the story. They do not shed light on a key question: did participation in the program make a difference to the job prospects of participants? For example, some participants would have found jobs anyway (or in the case of NEIS, have started a business anyway) — spending on them is unnecessary and represents a 'deadweight loss' for the program. This suggests that the net impact of the program will be less than the outcomes reported above.

To take account of this, DEWR compared the impact of JST and IA on the employment prospects of program participants with outcomes for a group of similar

job seekers who were not involved in those programs (the ‘control’ or ‘matched comparison’ group) (DEWRSB 2001a, 2001g).⁵

For clients who left assistance between 1 May 1998 and 30 June 2000, DEWR estimated that the net impacts of JST and IA were as follows (table 5.4, last three columns).

- The prospect of JST participants leaving income support were improved by 3 percentage points — from 24 per cent in the comparison group to 27 per cent in the JST group.⁶
- The prospect of IA participants leaving income support were improved by 10 percentage points — from 21 per cent in the comparison group to 31 per cent in the IA group. This implies that an additional 10 per cent of program participants obtained a job placement of at least 13 weeks over what would have happened in the absence of the program.

Table 5.4 JST and IA, post-assistance outcomes

For clients who left assistance between 1 May 1998 and 30 June 2000

	<i>Outcome measure 3 months after assistance (percentages)</i>		<i>Net impact measure ie moved off benefits (percentage points)</i>		
	<i>‘Positive outcome’ ie employed or education/ training outcome^a</i>	<i>Employed</i>	<i>Program group</i>	<i>Comparison group</i>	<i>Net impact</i>
Job Search Training	47.1	38.4	27	24	3
Intensive Assistance	41.9	35.4	31	21	10
<i>Funding level A^b</i>	46.8	40.1			
<i>Funding level B^b</i>	31.1	24.7			

^a Positive outcomes are not the sum of employment and education/training outcomes because some job seekers can achieve both an employment and education outcome. ^b Funding levels refer to the level of disadvantage as defined by the JSCI. Funding level B covers the most disadvantaged job seekers within IA.

Source: DEWRSB 2001a, pp. 2, 44.

⁵ Information is collected from administrative systems on those who are no longer receiving benefits at a particular time after leaving a program. The off-benefit outcomes do not include those who proceed to other forms of labour market assistance eg JST and Work for the Dole.

⁶ More recent data for employment and positive outcome measures for JST and IA show higher positive outcome and employment placement impacts (table 5.2), but comparable net impact data is not available for those later periods.

The net impact study reported that participating in JST or IA led to a higher rate of ‘off-benefit outcomes’ for job seekers. However, the study did not measure the net impact on success in obtaining jobs. Davidson observed that:

The best way to compare the employment outcomes of different labour market programs is to conduct a net employment impact study ... [DEWR] has released net *benefit* impact studies ... but these studies ask a different question. They ask what effect these programs have on unemployment benefit receipt. For example, an ‘off-benefit outcome’ in these studies might include the transfer of a job-seeker from unemployment benefits to a Disability Support Pension (2001, pp. 8–9).

DEWR noted that:

To measure the net impact of programme participation on job seeker employment prospects a survey needs to be conducted to determine the labour force status of both a programme and a control group. A survey of this type is currently being planned (2001g, p. 16).

In reviewing the net impacts of the Job Network programs, a number of matters need to be kept in mind. Each program generates a number of separate impacts, some of which are not captured in the ‘net impact’ measure discussed above. But they can add to or detract from the overall effectiveness of the program. Foremost among these are *compliance*, *attachment* and *displacement* effects. These are discussed below. Difficulties with data, and methodological questions concerning, for example, the matched control group, are discussed later.

Compliance effects

Many job seekers who are referred to JST or IA do not actually commence with those programs. For example, 132 400 persons were referred to JST in 1999 but only 50 300 (or 38 per cent) commenced with that program (table 5.5). Similarly, only 68 per cent of those referred to IA commenced. For both programs, the percentage of people who were referred and subsequently commenced has continued to decline.⁷ The commencement rate at September 2000 for JST was 22 per cent (DEWRSB 2001a, p. 4).

It is well known that compulsory participation in programs can generate a *compliance* (or *motivation* or *deterrence*) *effect*, whereby — to avoid having to participate in the program — some job seekers increase their job search activity and find employment, or:

... where those inappropriately claiming income support stop doing so because of their lack of availability for participation or the increased scrutiny they are likely to be

⁷ There was also a large dip in the referral success rate for JST on the introduction of the automated referral process (DEWRSB 2001g, p. 9, fig. 4 and footnote 7).

subjected to if they take up the offer of program assistance (DEWR sub. 43, p. 48, footnote 36).

About 12 per cent of job seekers referred to JST between May 1998 and September 2000 were exempted from participation because of ill-health or incapacity, participation in other programs or because they were studying. DEWR said that 31 per cent of job seekers ‘no longer met requirements for continued income support’ (2001a, p. 37). In 5 per cent of cases, the referred person did not commence because they already had a job.

But many who do not commence may knowingly be facing a breach (and about 28 per cent have been recommended for breaching).

Table 5.5 Referrals and commencements, JST and IA, 1999

<i>Program</i>	<i>Referrals</i>	<i>Commencements</i>	<i>Did not commence</i>	<i>Commencements as a percentage of referrals</i>
Job Search Training	132 400	50 300	82 100	38.0
Intensive Assistance	337 200	228 500	108 700	67.7

Source: DEWRSB 2001g, p. 11.

DEWR said that:

... factors influencing the take-up of services include perceptions of the usefulness of the service, whether or not participation is voluntary, whether job seekers were exempt from assistance, the application of benefit sanctions (breaching) and the motivational effect of referral to assistance. Young people, Indigenous job seekers and sole parents had low take-up rates, particularly in Intensive Assistance (sub. 43, p. 53).

A contributing factor is that many young job seekers and sole parents are not on activity-tested allowances. Their participation in Job Network is voluntary.

In contrast, the commencement rate for JST and IA was relatively high for mature aged job seekers, those from non-English-speaking backgrounds, and those unemployed for over two years (DEWRSB 2001a, p. 33).⁸

DEWR considered that there is a higher compliance effect for JST because:

- those referred to JST are more likely to be short-term unemployed (compliance effects are likely to be most significant for those who are job ready but lack motivation);
- JST is hard to avoid: it lasts only 3 weeks and is more difficult to be exempted from; and

⁸ Job seekers with less than year 10 qualifications also had a high commencement rate with JST.

- JST requires full-time attendance, making it difficult for job seekers in, for example, undisclosed employment, to attend (DEWRSB 2001g, p. 10).

To assess the impact on IA and JST outcomes, DEWR compared the outcomes of a group of people who were referred to a program to those of a matched group who were not, while removing the impact of those who actually participated.⁹ It estimated that IA generates a compliance effect of around 3 percentage points, and around 10 percentage points for JST (DEWRSB 2001g, p. 16). For JST the estimated compliance effect is over three times higher than the program effect (table 5.6).

Table 5.6 Net program and compliance effects, JST and IA
percentages

	<i>Program effect^a</i>	<i>Compliance effect</i>
Job Search Training	3	10
Intensive Assistance	10	3

^a As per table 5.5.

Source: DEWRSB 2001g, pp. 5, 10.

The compliance effect is estimated from administrative records, not by surveying those who did not comply to find out why, or by any other examination of their labour market experience.¹⁰ Consequently, there is little information on the extent to which non-attendance constitutes a genuine outcome, in the sense of the job seeker having obtained work or otherwise gone off benefits. Clearly there is no overall advantage if, for example, the person concerned has simply shifted to another benefit regime.

This suggests that the estimated compliance effects listed in table 5.6 are overstated, but there is no indication as to how much. As Dockery and Stromback (referring to broadly similar compliance data in an earlier study) asked:

⁹ It calculated the *net impact of a referral* to a program (ie comprising those referred and who commenced, plus those referred who *didn't* commence), from which it deducted the *program effect*, therefore leaving the *compliance effect*. This net impact estimate covers both those who were referred and commenced, and those who were referred but did not commence. The method of calculation of this impact is the same as for program participants. Essentially, it compares the off-benefit outcomes of a sample of 11 500 JST and 37 200 IA referrals in August 1999 with those of matched comparison groups of the same size that had not been referred to, or participated in, the programs in the previous 6 months (DEWRSB 2001g, p. 16).

¹⁰ Its calculation is also subject to many of the same limitations that apply to the program effect, as it uses the same comparison group approach (discussed below).

... who are the sixty per cent of referrals who do not commence assistance with their provider? ... Clearly data on the destinations of the non-commencers is needed before firm conclusions can be drawn on the effectiveness of job search training (2000, p. 16).

There is a need for research to better understand the high rate of non-attendance by persons referred to JST and IA, and to assess the extent to which the compliance effect represents a positive labour market outcome. While both programs should be examined in this way, the main focus ought to be on JST, where compliance effects appear to be significant.

Attachment (or lock-in) effects

While a compliance effect can lead to higher off-benefit outcomes and therefore supports the objectives of the Job Network programs, there may also be an *attachment effect* pushing in the other direction, if job seekers reduce their job search efforts while they participate.

This may occur simply because of requirements for attendance, or because the job seeker feels they are benefiting from the training and want to see it through to the end. It may also occur out of apathy — once on a program, benefits continue to be paid but other obligations (such as activity testing) are weakened. Activity testing for IA participants under the Preparing for Work agreements struck with Job Network providers (and subject to approval by Centrelink) are typically less onerous than those applying outside IA.

Attachment effects need to be taken into account as one of the key impacts of a labour market program. As Dockery and Stromback argued, the net impact of a program ought to establish:

... whether the increased chance of finding a job after the program more than compensates for reducing the chance of finding a job during the program (2000, p. 21).

A large attachment effect, particularly in the context of a small program effect, would raise questions about the optimal duration of a program, particularly as the most active employment assistance is given in the first few months of participation, the time at which most jobs are secured.¹¹ It would also raise questions about how rigorously activity testing should be applied during program participation.

Dockery and Stromback pointed out that attachment effects would properly be taken into account if the control and program groups were matched at the beginning of the program, arguing that ‘most studies of labour market and training programs follow this approach’ (p. 21). The OECD noted that labour market policy evaluations in

¹¹ The second active period is during the final two months of the program.

Europe increasingly take account of the attachment effect by assessing outcomes from the time of entry to the program (2001, pp. 218–9).

DEWR said that it plans to change its approach to measurement so as to take account of attachment effects:

In the past, program impacts were measured from the time the participant left assistance. ... In the future, program impacts will be measured from commencement in the program to account for any ‘attachment’ or ‘lock-in’ effects (sub. 43, p. 48, footnote 35).

Measuring program net impacts from commencement would also take account of two additional biases inherent in post program net impact calculations — the time bias and the duration bias. Both arise because the time the IA group spends in the program is effectively treated as time spent out of the labour force.

- In the case of the *time bias*, DEWR matched a group of IA exits with a control group that had the same characteristics to those of the IA exits when they first commenced the program. DEWR did not count the time in IA as being time in the labour force during which the participants were job seeking. Not surprisingly, a proportion of IA exits had already found employment at the beginning of the study, thus showing higher gross outcomes than the control group.
- The *duration bias* arises because the probability of people within any group finding employment is a decreasing function of duration of unemployment. Therefore, DEWR’s failure to recognise time spent in IA as time spent unemployed means that IA exits have a lower probability of finding a job than the control group.

Appendix E discusses these biases in more detail. In the Commission’s view, the current methodology is unrealistic, as IA participants are *required* to look for work while on the program.¹² However, DEWR’s planned changes to its methodology will remove these biases. Although it inflates measured net impacts, the post program methodology remains useful to compare previous programs to current arrangements. It is important to note that any such comparisons need to be interpreted carefully and that the magnitude of each bias or effect has to be understood before any statements about the magnitude of any particular bias or effect (for example attachment effects) can be made.

¹² This approach may be more appropriate for programs where participants were unlikely to look for work while participating in the program.

Displacement and other effects

DEWR's estimates also ignore several other issues, including *displacement* — whereby a person in a job, or a job seeker who is not in a program, is displaced by a program participant — and the effects of the programs on the longer-term employability of a job seeker.

As with deadweight losses, displacement effects ought to be taken into account in order to estimate the net employment effect of a program. As Webster observed:

If we achieve for one group a rise in employment, a fall in unemployment, some skill enhancement or a rise in real incomes, we are also interested in knowing whether this change has occurred at the expense of other groups (1998, p. 191).

Harding noted that:

... success at the micro level in creating jobs will not necessarily translate into success at the macro level: this is because success at the micro level can involve changing the mix of who is employed and unemployed without changing the aggregate number employed (1998, p. 13).

As discussed earlier, DEWR's 'net impact' methodology already takes account of deadweight losses, which are effectively netted out by the comparison group approach. However, assessing displacement effects is much more difficult (see, for example, Heckman et al 1999).

Both effects are likely to differ considerably, according to the type of program. Piggott and Chapman, in a discussion of the 'Job Compact' under Working Nation, identified:

... deadweight, displacement and effectiveness as important phenomena which render inadequate simple accounting approaches to costing (1995, p. 325).

On the basis of a simple model of flows in and out of unemployment, they observed that the effectiveness of a labour market program can depend heavily on these effects. In their view:

... the real opportunity cost of [Job Compact] type programs are very sensitive to assumptions about displacement and effectiveness, and it is possible to generate a wide range of cost estimates (p. 325).

Another key issue is that program participation may increase the probability of job seekers finding employment, even if they have not been successful at the times at which outcomes are measured. Even well-designed evaluations which take account of the effects listed earlier may still ignore the incremental, qualitative effects which the programs can generate. Chapman cautioned that:

With respect to displacement, what matters is not that a proportion of those displaced become or remain unemployed. The issue is rather how long they remain unemployed and what their increased unemployment duration implies for eventual employment probabilities. ... Little rigorous account is typically taken of what happens after the program ends, in terms of changed employment probabilities (1998, p. 306).

Chapman noted that insufficient account is typically given to assessing what happens to the probability of employment after program participation. Better information might shed light on this issue. This is discussed in section 5.4.

Concluding comments

A sufficiently clear picture of the effects of the Job Network programs has not emerged. As Dockery and Webster (2001) observed:

As with earlier [active labour market programs], the available evidence and shortfalls in evaluation methods leaves considerable uncertainty surrounding the estimates of the net impact of current assistance measures for the work-deprived. The experience has perhaps only cast greater reservations on the effectiveness of active assistance measures. ... the measured outcomes are comparable to previous programs that offered extensive training and work experience at very high cost (p. 10).

Partly this is a result of data problems, and partly of methodological problems concerning the construction and use of the matched control group. These matters are discussed in greater detail in the next section.

Taken together, these biases and methodological difficulties suggest that past evaluation studies have overstated the net impacts of Job Network programs. DEWR has indicated areas where it plans to alter future data collection and its evaluation methodology to attempt to overcome some of these difficulties. While even a rough estimate is difficult, the Commission considers that the net impact of the IA program is likely to be considerably less than the 10 percentage points reported in the net impact study.

International studies of the effects of active labour market programs also suggest small (and indeed, sometimes negative) impacts on the employment and earnings of some participants (Heckman et al 1999). A review of Australian program evaluations also reported generally small effects (Webster 1998). Once displacement and other effects not captured in the evaluations are considered, the overall effect on aggregate unemployment may well be quite small. Dockery and Webster (2001) noted that:

... the macroeconomic evaluations confirm the overall impression that the net effects are very small, and the real value of [active labour market programs] is more likely to lie in their equity effects (p. 12).

In any case, Chapman argued that attempting to measure the impact of labour market programs on aggregate employment is a fruitless task:

Macroeconomic approaches to evaluation are unconvincing, essentially because of the great difficulty of measuring the impact of relatively small and heterogeneous policies on a significant aggregate statistic (1998, p. 303).

To assess efficiency and cost effectiveness, DEWR has assessed the performance of the Job Network in terms of the unit costs of providing assistance; costs per outcome; and costs per program net impact (table 5.7). It also provided some cost comparisons with Working Nation programs, arguing that the cost of the Job Network programs were on average lower than those applying to the programs they replaced (sub. 43, p. 51).

However, as noted earlier, there is much uncertainty surrounding the measurement of outcomes because of the methodology used, including the problems of constructing a meaningful control group. The main implication to be drawn from this is that DEWR's measures of outcomes are best seen as estimates with a wide margin of error.

Table 5.7 **DEWR's estimates of the costs and cost effectiveness of labour market assistance, 1995-96 and 1999-00**

<i>Type of labour market assistance</i>	<i>Cost per participant (\$)</i> (1999-00 prices) ^a	<i>Cost per employment outcome (\$)</i> (1999-00 prices)	<i>Cost per off-benefit outcome (net impact) (\$)</i> (1999-00 prices)
Job Network^b			
Job Matching	200	290	na
Job Search Training	420	1 130	13 800
Intensive Assistance	2 260	6 200	22 010
Working Nation program (1995-96)			
Job Clubs	660	2 500	16 500
Other major programs, ^c including:	3 320	12 075	35 100
<i>JobStart</i>			9 700
<i>JobSkills</i>			75 700
<i>SkillShare</i>			79 500
<i>JobTrain</i>			92 700
<i>New Work Opportunities</i>			180 000

^a Cost estimates for Working Nation programs relate to 1995-96. DEWR has adjusted these figures to 1999-00 prices. ^b Based on employment outcomes for job seekers who left assistance to end September 1999, except for JM outcomes, for those placed in jobs between 1 April 1999 and 30 May 1999. ^c Average for the seven programs replaced by IA, including JobSkills, JobTrain, JobStart, Landcare and Environment Action Program, New Work Opportunities, SkillShare and Special Intervention.

Source: DEWR, sub. 43, p. 51 based on its Integrated Employment System; and 2001g, p. 8.

Consequently, it follows that the measures of the cost per outcome are correspondingly uncertain. This makes it very difficult to compare the dollar cost per outcome for different programs or for different time periods.

What is known is that, for the four years from 1996-97 to 1999-00, the Government allocated more than \$5.4 billion to fund all labour market assistance and entry-level training programs — \$1.6 billion for 1996-97, and an average of \$1.3 billion per year thereafter (of which, Job Network programs have averaged about \$0.75 billion per year for the past three years (chapter 4)). This compared to annual average funding in 1994-95 and 1995-96 of \$3.7 billion (DEWR, sub. 43, p. 22).¹³

This suggests that the aggregate cost of all active labour market programs (assistance and training) has fallen by something like half, but there does not appear to be much difference in levels of aggregate unemployment. This may well reflect the greater cost effectiveness of the programs, but it could also be the result of the imprecision with which the small impacts of labour market programs are measured.

5.4 Administrative and methodological considerations

The lack of clear-cut answers about the impact of the Job Network programs raises questions about the quality and quantity of data which are available for evaluation of the Job Network programs, and the appropriateness of the matched control group methodology. In both cases, a major difficulty arises from the importance of unobservable personal factors in influencing success in the employment market.

Some problems in the data

DEWR produces considerable information on the operation of programs, but much is targeted at meeting administrative needs, measuring discrete program outcomes and paying Job Network providers. It is not always well focused on some of the key questions that need to be asked when evaluating a labour market program.

‘Positive outcomes’ are measured at particular points in time. The choice is necessarily arbitrary and there will be advantages and disadvantages for any time period chosen. While data from the post-program monitoring (PPM) survey show that outcomes at 6 and 12 months will be slightly higher than at three months, DEWR judges that a measure at 13 weeks provides a good indicator of overall

¹³ OECD (2001, pp. 203–205) contains comparative spending details for labour market programs operating in 1996-96 (under Working Nation) and 1998-99 (under Job Network).

performance. However, little is known about, for example, short term jobs gained outside these parameters.

DEWR's measure of a 'positive outcome' means that the job seeker has a job of a given duration, or has been placed in an eligible study or training program. This may or may not involve the person concerned going off benefits.¹⁴ (Conversely, it is possible to go off benefits without going into a job or training if, for example, a person moves to a different type of income support or leaves the labour force entirely.)¹⁵

Positive outcomes are defined in terms of specific employment or training outcomes. Consequently, they may not pick up some successful outcomes which do not fit the criteria. As noted by several job network providers, current measures fail to give credit for, for example, successfully placing a job seeker in a 12 week job, or in contract work of, say, successive 10 week periods. The Kimberley Area Consultative Council argued that:

... outcomes are achieved that are not reflected in statistics, because of long outcome timelines (eg season ending before the framework period is reached) (sub. 15, p. 4).

Whether placing a job seeker in a course of study or training should be considered a positive outcome is contentious. To the extent that it increased the probability of that person's future employment, that would be legitimate. There is no data on the extent of these benefits, or, perhaps more importantly, their duration or sustainability.

To attempt to shed light on the sustainability of job outcomes as now measured, DEWR measures income support status 6 months after participation in a program. It said:

For stage three of the evaluation, the current measures of sustainability (income support status six months after leaving assistance and longer term outcomes for Job Matching placements) will be supplemented by further measures of employment and education and training status 9 to 12 months after assistance and by information on the quality of labour market outcomes (DEWRSB 2001a, p. 53).

Other characteristics of outcomes are the quality or suitability of the job, which covers the degree to which it matches the skills of the job seeker, the level of wages and conditions provided and the scope for career development etc. MacNeill (1995) observed in another context that summary employment outcome figures might

¹⁴ Off-benefit outcomes refer to having left unemployment benefits entirely 3 months after exit from the program or after selection into the control group.

¹⁵ It is also possible to get a job and remain on benefits if the job is of insufficient duration to take the job seeker off benefits.

disguise that many post-program employment positions are low paid, temporary or part-time positions (cited in Webster 1998, p. 199). Even if this were to be the case, such jobs provide at least some work experience and may be used as stepping stones to more desirable, longer-lasting employment later. Again, there is very little information on this. But it is important to understand how successful the programs are in getting people more ‘work-ready’, and helping them build up an employment history or an employment skills base.

The ‘genuineness’ of some job outcomes was questioned by some. For example, the Victorian Employers’ Chamber of Commerce and Industry noted that Job Network providers:

... appear to prefer temporary work placements/training arrangements that achieve the milestones for their payments, but often do not improve the employment prospects of their unemployed clients (sub. 11, p. 3).

It added that employers are finding that:

... the providers are very reluctant to provide meaningful wage subsidies because to do so would impact on their “bottom line”. ... [and consequently] employers have embraced the New Apprenticeship system in large numbers as a means of achieving wage subsidisation. While this may have the effect of creating job opportunities, it tends to undermine the fundamental training focus of the New Apprenticeship system (sub. 11, p. 3).

Any summary measure of an ‘outcome’ may also deflect attention from other benefits which program participants may obtain, such as increased social participation, improved self-esteem or the development of job-related skills. But equally, threats of breaching associated with non-attendance and compulsion to undertake training or attend meetings that may have little apparent value to the individual will decrease the wellbeing of some job seekers.

A need for better data

Obtaining better data on the experiences of job seekers over time could shed light on many important questions surrounding the efficacy of active labour market programs and the pathways by which unemployed persons can re-enter the paid workforce.

As discussed earlier, there are considerable information gaps:

- *before programs commence*: little is known about the reasons why very large numbers of job seekers do not comply with directions to attend JST in particular, to assess the extent to which this represents a positive labour market outcome and to understand what it means for their employment (and benefit) histories;

-
- *during the course of the program*: more information is needed on employment activities which take place during the course of a program but which do not qualify as an outcome for the Job Network provider (for example, a 10 week contract job, or a placement of an indigenous person which is interrupted for a week by cultural commitments and therefore no outcome is recorded); and to understand the nature and implications of the attachment effects which programs generate; and
 - *after exit from a program*: a clearer view of the longer-term impact of Job Network programs could be obtained from more extensive and longer running post program monitoring. Better longer run data on employment experiences and a wider range of outcome characteristics (such as job sustainability and quality) should give a more accurate indication of the degree to which the employability of job seekers can be improved by labour market programs. Longitudinal studies that link administrative data from different government authorities (such as DEWR, FaCS, Centrelink and the Australian Taxation Office) could help in this respect.

But collecting additional information imposes administrative costs on the collecting agency, whether DEWR or the Job Network providers or both, and on the job seekers themselves. These costs are unlikely to be trivial.

To keep such costs to a minimum, sample surveys could be implemented in some cases to see if patterns emerge which might be followed up with more intensive evaluations and perhaps with changes to some of the parameters of the programs. These might be most appropriate in, for example, shedding light on the employment and training activities of IA participants which are not captured by current reporting and outcomes measuring processes.

There may be a case for an independent review panel of academics to advise about the form in which data should be collected and published. The views of such a panel should be made public.

DRAFT RECOMMENDATION 5.1

The Commission recommends that DEWR collect further information on compliance effects, the longer term effects of participation on a job seeker's employment history and the quality or suitability of the jobs obtained.

DRAFT RECOMMENDATION 5.2

The Commission recommends that consideration be given to establishing an independent panel of researchers to advise on the data needed to evaluate the Job Network programs.

Scrutiny by external researchers

Disputes about evaluation methodologies are best resolved by allowing independent research and free exchange of ideas. But the difficulties that researchers face in obtaining data can limit this.

The raw data generated by the administration of the Job Network is generally not available for use by independent researchers. As Eardley, Abello and Macdonald noted:

... it remains difficult at this stage to assess how much difference [the Job Network] has made for job seekers. This is not least because so little information has been made available for independent scrutiny (2001, p. 60).

To date, most of the evaluations have been done within government by DEWR as the department responsible for administering the Job Network. As noted by the OECD in a paper summarising evidence from OECD countries:

... many evaluations are undertaken by public sector agencies. While there are good reasons for this, it does give rise to concerns about the independence of the findings. Therefore, where evaluations are undertaken by public sector agencies, it is important to check whether there has been any *external* validation of the evaluation results in question (Martin 1998, p. 287).

Dockery and Stromback noted that, in view of the important influence that the PPM evaluations and surveys have had on the allocation of program funds and in monitoring the performance of providers:

It is important ... that some independent check of the validity of the PPM methodology is carried out (2000, pp. 4–5).

In the Commission's view, any empirical conclusion or methodology by DEWR should be capable of replication by outside researchers. To this end, there needs to be far greater openness of data sets to independent scrutiny. This might cover information from administrative systems on program referrals and commencements, detailed outcomes by Job Network provider and employment service area, detailed breakdowns of results from job satisfaction surveys, expenditure information by services type (IA, JST etc) and so on. In many cases, data could be de-confidentialised and made available for other researchers to use, as soon as it is produced.

Associated data sets that assess Job Network impacts at the provider level — the star rating model for example — should also be made available in this way, while any models estimated by DEWR should also be publicly released.

Dockery and Webster (2001) said that external researchers have long been refused access to data from DEWR's post-program monitoring surveys or its administrative systems because of concerns about confidentiality. Indeed, careful consideration will need to be given to the question of how to handle privacy issues linking data on individual job seekers and making a de-confidential version of that unit record data public. While the imperative is that personal identifiers and information be protected and treated appropriately, this need not mean that data on individual job seekers and program participants could not, in some form, be made available for researchers to use. Indeed, the Australian Bureau of Statistics routinely provides data in this form for public use.

To this end, a protocol should be developed to allow (linked) unit record data to be made available to external researchers, in a way that protects the privacy and preserves the anonymity of the people concerned.

Consideration could also be given to a policy of occasional or regular external program evaluations, in some cases using persons or organisations resident outside of Australia.

DRAFT RECOMMENDATION 5.3

The Commission recommends that all de-confidentialised data on Job Network programs be made available for independent scrutiny by other researchers as soon as is practicable after they are produced.

Aspects of the control group

As noted in section 5.3, DEWR attempts to calculate the net impact of its programs by comparing the labour market experience of program participants with an equivalent group of non-participants (the 'matched comparison group'), drawn from a pool of similar job seekers who are on benefits but who were not part of the program. The comparison group is matched on the basis of gender, age and duration on benefits at the start of the program.¹⁶

Dockery and Stromback noted that the matched control group has several advantages:

As all participants can be surveyed and the control group can be made very large, sampling errors are negligible. Since the method simply compares the proportion of successful outcomes, the findings are also easy to interpret. In addition, the lead-time can be quite short when participants are surveyed a short time after completion (2000, p. 1).

¹⁶ DEWR said that, for other demographic characteristics, there are small differences between the program and control groups, but they are not large enough to affect the findings (p. 16).

But they also noted that, in addition to response errors:

... practical considerations limit the extent of matching [and] the control group contains no information about the selection of participants into programs. Thus any estimate of the effect of participation is subject to a potential selection bias (p. 1).

In their view, the potential for selection bias, and the very limited number of variables used to control for the differences between participants and the control group, were the major limitations of the matched comparison group method (2000, pp. 11, 14).

Indeed, because DEWR's matched comparison group is not a control group in the scientific sense (that is, truly randomised), the outcomes of non-participants may differ systematically from what the outcomes of the program group would have been had they not participated in the program. This is a particular problem if the two groups differ in characteristics that cannot be observed — for example, if those who enter a program, or are part of the control group, are already more or less likely to obtain a job due to characteristics which cannot be observed in the data. Effectively, this problem arises:

... because of missing data on the common factors affecting both participation and outcomes (World Bank 2001, p. 1).

The most important 'missing data' are likely to be unobservable characteristics such as motivation, demeanour and attitude to work which can be crucial in determining a person's attractiveness to an employer. As Webster observed:

Generally there is no reason why we should believe *a priori* that the unobserved characteristics such as motivations and enthusiasm should be related to the standard observed characteristics such as education, age and sex (1997, p. 19).

It is not clear to what extent the unobservable characteristics of individual job seekers drive outcomes but are not able to be picked up in non-randomised evaluations (such as those conducted by DEWR for the Job Network). The OECD concluded that:

... outcome comparisons must be treated with caution as they do not control for changes in labour market conditions, the characteristics of participants or a variety of other factors (2001, p. 138).¹⁷

A further complication is that members of the control group may be receiving other forms of assistance (for example, under state government programs), leading to an

¹⁷ The OECD also observed that the outcomes comparisons are to some extent influenced by the conditions for exiting the various measures — while Job Matching can be open-ended and exit is generally by placement into a job, JST is for a short period of time and exits may be due to the end of the program (p. 138).

underestimate of the program effects. Essentially, one ‘program’ group is being compared to another. In addition, there is no data on the ‘quality’ (however assessed) of the jobs obtained, which may also vary systematically between the control group and the program group, adding another possible source of bias. The method of calculating outcomes for the two groups can also be controversial, with different methodologies giving different results.

Harding (1998) argued that the validity of the measure of ‘net proportional impact on employment’ depends on:

- the extent to which the data set allows measurement of all the potentially observable relevant characteristics of those in the program and the control group; and
- the extent to which the methodology controls for unobservable differences between them (p. 1).

He compared a DEETYA (1997) evaluation of then current labour market programs, controlling for gender, age and duration of unemployment, with a Stromback, Dockery and (1999) study which was able to control for a larger range of observable features.¹⁸ Harding noted that the studies produced differing estimates of net impacts (and therefore costs per impact), and different rankings, in terms the cost effectiveness of some of the programs.¹⁹ He concluded:

... the ability to control for a larger set of observable features matters for conclusions about the effectiveness of programs (1998, p. 9).

Is there a role for randomised field trials?

As a possible way of overcoming some of these bias problems, some academics and researchers raised the value of ‘randomised experiments’, in discussions with the Commission. Randomised experiments are widely used in the United States to test the effectiveness of some social programs (Riccio and Bloom 2001, p. 3).

Randomised experiments can reduce the possibility of selection bias by generating an experimental control group of people who would have participated in a program

¹⁸ Stromback, Dockery and Ying used data from the 1994–97 Survey of Employment and Unemployment patterns and DEETYA data on individuals.

¹⁹ For example, while the Stromback, Dockery and Ying study found ‘a fair degree of correspondence’ with the DEETYA estimates, it found that ‘Employment support’ (including Job Clubs) had a much smaller net impact on employment, and therefore a much larger cost (\$62 500), than DEETYA estimated (\$5200). This made it a much less effective than DEETYA had assessed, and changed its ranking in terms of cost effectiveness. Other examples are given in Stromback, Dockery and Ying 1999, p. 172 and Harding 1998, p. 9.

but who were randomly denied access to the program or treatment.²⁰ By randomly assigning people to a program or to a control group, they reduce the possibility of the selection bias which can arise from the unobservable characteristics of job seekers.

Like all measures, they have advantages and disadvantages.²¹ There are equity and ethical questions which need to be addressed if it is proposed to withhold program services from a control group of job seekers (presumably without their consent). But as Dockery and Webster observed:

... it seems difficult to see the ethical dilemma in temporarily denying some randomly chosen group access to a program that may not even be of assistance to them, or that they may never get access to in the absence of the evaluation (p. 16).

Importantly, account would need to be taken of any compensating strategies which job seekers allocated to the control group may adopt instead.

Randomised experiments appear to have particular potential benefits for pilot programs or evaluations where a new program or a large scale shift in policy is being considered. But the Job Network programs are now well-established and subject to frequent changes in contractual and operational arrangements. It may also be difficult to control for the various 'treatment regimes' as these are determined by individual Job Network providers and are constantly changing and evolving, as was intended in the design of the programs (and in particular, in IA). As the OECD pointed out:

... there is almost never a *stable* set of active programs to evaluate. Countries are continuously chopping and changing the mix of programs (Martin 1998, p. 285).

Alternatively, attempts may be made to control for selection bias by regression analysis or a longitudinal data analysis. Webster pointed out that:

[regression analysis] is only reliable if the relationship between the observable and unobservable characteristics can be approximated by a simple linear function, and, generally, no reason exists for this a priori. ... longitudinal data analysis with several before and after the program observations is a more appropriate approach. Longitudinal analysis eliminates unobservable individual characteristics by looking at the temporal change in each individual's labour market experience (1998, p. 193).

While there are advantages and disadvantages of all approaches, none stand out as being overwhelmingly accurate or suitable in each case. A mix of approaches appears appropriate. The quasi-experimental approach used by DEWR could be

²⁰ See Heckman et al (1999). Experimental approaches still face bias problems such as those which arise from selected persons failing to comply with the program.

²¹ See, for example, Ministry of Labour, Finland (1993).

reinforced by extra information on those characteristics of job seekers which are likely to affect their employment success but which are not collected at present. Several participants and researchers have pointed out that ‘it’s the unobservables that matter’ in determining the success or otherwise of active labour market programs. The collection of better information may also have a positive ‘feedback effect’ on the design of the JSCI.

Randomised experiments would be worthwhile to assess the efficacy of pilot variations to different programs. Indeed, FaCS has commissioned randomised trials of older working-age people without jobs, long-term unemployed people and parents in workless families (FaCS 2001, pp. 54–55). The trials were used to help customers to overcome identified barriers to social and economic participation.

6 Experiences of the Job Network

Box 6.1 Key messages

A positive picture of the Job Network emerges from DEWR's survey of job seeker perceptions. However, submissions to this inquiry and the outcomes from the Value Creation Workshops are more mixed and some considered the Job Network to be better than previous arrangements while others thought the contrary.

In particular, participants commented on the lack of specialised services for disadvantaged groups.

There is evidence that a substantial proportion of job seekers are 'parked' — that is, receive a minimal level of service. This is a problem, as active participation by the job seeker in job search or training appears to be positively correlated with service levels.

Breaching rates as well as service quality vary substantially across Job Network providers.

Employer satisfaction with the Job Network still lags behind the satisfaction levels exhibited for other employment agencies. Nevertheless, they are high and the Job Network is overall seen by employers to be an improvement over previous arrangements.

One of the key principles of the Job Network, as expressed in the Commission's terms of reference, is 'a strong focus on outcomes ... to deliver better quality of assistance to unemployed people, leading to better and more sustainable employment outcomes'. In striving for better outcomes, the Job Network is designed to allow flexibility in the nature and extent of services provided to individual job seekers.

Thus an evaluation of the Job Network model must assess not only the program's employment outcomes, but also the quality of assistance as reflected in part by the experiences of job seekers and employers:

- The 'quality' of those experiences could have a bearing on the quantity and quality of employment (or educational) outcomes.
- There could be other worthwhile social outcomes, apart from the payable primary and secondary Job Network outcomes, which the service quality could influence.

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- Given that participation by job seekers in the Job Network is often compulsory and that there is currently little exercise of choice of provider, the job seekers should be treated with respect and receive appropriate help in a positive and professional manner.

This chapter concentrates on job seeker and employer perceptions of the services provided through the Job Network. It aims to identify the positives and negatives, as perceived by them, and to provide other relevant information. The main discussion of appropriate policy responses to the issues raised is left to other chapters.

6.1 Job seeker experience

Several different sources of information shed light on the experience of job seekers in the Job Network. This section reports comments from participants, summarises the Value Creation Workshops held in November and December 2001 (appendix A), and gives results from DEWRSB surveys of job seeker and employer perceptions. As well, data on the number of complaints submitted by job seekers and about reporting by providers of non-compliance by job seekers are included. Finally, the section presents available data about intensity of service.

Participants' comments

Of the relatively few participants' comments on quality of experience, most concerned IA.

ACOSS noted that 'there are few (if any) enforceable guarantees that a certain level or quality of service will be provided to job seekers' (sub. 32, p. 22). It called for 'intensive assistance guarantees' (sub. 32, p. 12).

According to WorkPlacement, a discussion group of young people 'was unanimous in asserting that they had not experienced quality service at any level' (sub. 19, p. 18). In particular, 'intensive assistance was experienced as a short interview with practically no follow up' (sub. 19, p. 19). And, in contrast to views expressed at a set of Value Creation Workshops (see below) the Un(der)employed People's Movement against Poverty said it 'has yet to find one single unemployed person which had a success story with the Job Network or a person who was satisfied with their experience of Job Search Training and Work for the Dole' (sub. 3, p. 5).

Reflecting on the quality of assistance experienced by some, ATSIC submitted that there was 'a lack of responsiveness by some Job Network providers — many

respondents report a lack of interest in providing services to Indigenous job seekers with many ending up in a “virtual waiting room” after initial referral’ (sub. 18, p. 3).

Dr Richard Goddard reported research findings about ‘depersonalising behaviour and emotional exhaustion of case managers’ in the Job Network (sub. 2, p. 17):

These findings cast doubts over speculation and subjective impressions suggesting that the long term unemployed today are receiving a better quality of service than they did when the service was being delivered through the public service six years ago (sub. 2, p. 17).

One participant described her intensive assistance experience to the Commission as follows:

I attended an interview every month. The routine was that the interviewer would inspect the list of employers I had sent applications to, and made an appointment for the next month. ... I have applied for [many] jobs, at no time did [my Job Network Provider] arrange any interviews, approach employers on my behalf or do any other function which would be called Intensive Assistance.

On the other hand, a number of submissions made positive comments about the quality of assistance in the Job Network. For example, Salvation Army Employment Plus submitted that ‘the quality of assistance provided through Intensive Assistance is generally more comprehensive than previous arrangements’ (sub. 35, p. 4) and Indo-Chinese Employment Services said:

Job Network has achieved what it was set to achieve: Delivering a better employment service and creating more jobs at a lower cost than the old C.E.S ...

Job Network allows flexibility in service delivery, which is great, as providers can use their own resource to help jobseekers in many different ways (sub. 29, p. 1).

ARA Jobs echoed these positive assessments:

There have been significant improvements in the quality of service and range of outcomes for jobseekers, efficiencies in service delivery and transparency in contract management as well as in the targeting of particular needy groups (sub. 25, p. 1).

The Tangentyere Job Shop assessed that ‘Few people in Alice Springs would now want to revert to the old policy framework, although many want additions in infrastructure’ (sub. 13, p. 1). And Employment National said:

The establishment of the Job Network has had a positive impact on the way that employment services are provided in Australia. The move to a competitive market for supply of services has resulted in improved service delivery through greater levels of innovation and efficiency and a stronger focus on high priorities and outcomes (sub. 28, p. 1).

Value Creation Workshops

Six workshops were held in different locations around Australia during November and December 2001. They involved a total of 100 job seekers in a number of jobless categories. They were designed to enable the Commission to gain first hand views, opinions and the ideas of job seekers about their experiences in the Job Network. In particular, the objectives of the workshops were:

- to understand the most important elements or factors that impact on the job seeker's experience;
- to identify the priority areas for change and improvement;
- to understand the job seeker's most important concerns and issues with the job search preparation and placement experience;
- to understand the job seeker's perceptions of the job search preparation and placement system; and
- to understand the relationship between the job seeker and the job service provider.

The results of the workshops are not intended to be a valid statistical summary of the concerns and ideas of job seekers as a whole. First, the number of participants was small. Second, participants were not representative of the population of job seekers and given the small number of participants, the sample could not be stratified. Nevertheless, their perceptions are valued by the Commission in indicating areas of good service and areas for improvement.

Overall, 56 per cent of workshop participants were not 'generally satisfied' with the outcomes received from their Job Network providers, while 43 per cent were 'generally satisfied'. Each participant was asked for a one-word summary of how they felt about the Job Network. In this, 61 per cent described it negatively, with the most commonly used words being 'frustrating' and 'confusing'. A positive word was given by 28 per cent, ranging from 'satisfied' to 'excellent', with 10 per cent giving mixed or neutral responses.

To draw out the positives and negatives of the Job Network more deeply, all participants were asked to: identify their positive experiences with the Job Network and what worked well for them; and also to identify their concerns/irritants. The most common responses are listed below in order, the most common first.

- Positive responses:
 - Receiving help to find jobs and get interviews.
 - Staff who were happy and friendly.

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- Staff who were helpful, caring and listened.
 - Training courses that were provided.
 - Staff who were supportive and motivational.
 - Provision and use of facilities such as phone, fax and computers.
 - Receiving financial assistance for equipment, licences and expenses.
 - Receiving help with resumes.
 - Staff who offered encouragement.
 - Generally positive experience.
 - Discussing different ideas and options.
 - Negative responses:
 - Lack of support or services and help to find a job.
 - Lack of feedback or poor communication.
 - Not being sent to or getting the job I want or am suitable for.
 - Poor staff attitude.
 - Lack of individual understanding and support.
 - Not respecting my time.
 - Lack of relevant training opportunities and options.
 - Lack of, inconsistent or wrong information.
 - Problems with forms.
 - Complex and inflexible system.
 - Lack of accountability.

A large number of specific issues about the Job Network were explored and discussed, together with issues about the job search preparation and placement system generally. These results will be available on the Commission's website in due course. For most issues, a range of positive and negative responses was reported, averaging about 4 to 6 on the scale of 1 (most negative) to 9 (most positive).

Finally, each job seeker was asked to describe the 'ideal' experience they would like to receive through the Job Network. The most common responses are listed below, in order with the highest first:

- to receive personal and individual support from the Job Network provider;
- access to facilities and training programs that help get a job;

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- to deal with knowledgeable staff who are honest, open and friendly;
 - good communication and feedback from Job Network providers and employers;
 - to deal with staff who listen and understand; and
 - direct access to information about employers and vacancies.

DEWRSB survey of job seeker perceptions

During 1999, a survey of job seeker perceptions of the Job Network was conducted on behalf of DEWRSB and the data, methodology report and research report were made available to the Commission. Overall, over 90 per cent of respondents were either satisfied or very satisfied with JM, over 85 per cent with JST and over 80 per cent with IA. Tables 6.1 and 6.2 present more detailed results about the Job Network in general and about IA.

The results from table 6.1 indicate a strongly positive view overall by job seekers about the Job Network, as do many of the results from table 6.2. That latter table, however, shows that in more than 25 per cent of IA cases the Job Network provider did not talk to the job seeker about the skills needed to be learned to help get a job, that in over 50 per cent of cases, training in job search skills was not provided, and that training in job specific skills was only provided in less than 20 per cent of cases.

The interpretation of these satisfaction data is subject to a number of possible qualifications:

- It is common for satisfaction surveys to reveal satisfaction levels of from 80 to 85 per cent, irrespective of the topic. Indeed, the results of the DEWRSB survey itself are relatively invariant across groups. For example, about 79 per cent of job seekers that visited their JNP once a month or less reported being satisfied or very satisfied with the overall services provided. This compares to about 86 per cent of job seekers that had fortnightly contact or more. A similar pattern emerges for variations across age groups. For instance, 15–20 year old job seekers are a lot more likely to get sent to a job interview or to speak to an employer about a job than those that are 45 years or older (47 per cent compared to 28 per cent) but they have similar (though reversed) satisfaction levels (82 per cent and 87 per cent respectively). This suggests one such survey on its own might have little real value in ascertaining satisfaction levels — trend information from repeated surveys could be much more useful. Such comparison might be possible when the results of the 2001 follow up survey are reported publicly.

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- Anecdotal evidence (and evidence about compliance effects) suggests that some job seekers would prefer their Job Network providers to ‘leave them alone to get on with their lives’. Such job seekers could express satisfaction with a provider even if little or no service was provided, and dissatisfaction if there was active intervention.
 - The results could be coloured by a non response bias, as some refused to complete the interview (about 2.5 per cent of those interviewed) and others could not be contacted by phone (the survey was conducted by phone).
 - A further bias may result from the fact that over one sixth of the interviewed sample were refused in a screener used in the survey. A negative response to the question ‘at any time since May last year have you received assistance from (JOB NETWORK PROVIDER) to improve your skills and help you find a job?’ excluded job seekers from participation in the survey. Although the reason for the screener was to make it easier to proceed with the interviews (if someone feels they have not received service it is difficult to ask them about the kind of service they received), its implementation may have introduced a positive bias.
 - Finally, a substantial bias may have resulted due to the existence of recall problems. Despite the fact that the sample was chosen on the basis of accurate administrative data and despite repeated prompting, according to the methodology report over 4200 (of the 20 186 successfully contacted in the survey) claimed not to have had any contact with the Job Network. Such Job seekers were deemed *out of scope* and not taken into account in the results of the survey. However, if these job seekers could genuinely not recall having had contact with the Job Network, their experience was clearly not memorable. Yet, over 2000 of those who could not recall having any contact with the Job Network were on IA (11 015 IA clients were successfully contacted). This casts doubt about the extent and intensity of assistance received by some job seekers. A substantial positive bias may have resulted from this. To the extent that claims of no contact with the Job Network result from an implicit refusal to complete the survey the bias may be a non response bias.

DEWR advised that ‘it is the customer’s experience with a product or service that determines the quality of that service’ (sub. 43, p. 74). It noted that a ‘customer satisfaction index’ could be developed which ‘would incorporate a range of measures of customer satisfaction and would not rely on a simple or single measure’ (sub. 43, p. 74). The Commission notes that the value of such an index would be enhanced if its methodology avoided problems of the type noted above and if data were published about the constituents of the index as well as the aggregate. The real value of such an index would lie in the ability to summarise trends over time.

Table 6.1 Job Seeker Satisfaction Survey – general aspects of service^a

Question: Do you agree or disagree that JOB NETWORK PROVIDER...

	<i>Strongly Agree</i>	<i>Agree Somewhat</i>	<i>Disagree Somewhat</i>	<i>Strongly Disagree</i>	<i>Don't Know / Not Applicable</i>
Offers a truly professional service?	58	30	6	3	3
Is open at convenient times?	67	29	2	1	2
Is honest with me?	66	27	2	1	4
Treats me fairly?	68	27	2	1	2
Has staff that really know what they are doing?	56	31	6	3	4
Has friendly and courteous staff?	72	24	2	1	1
Treats me with respect?	72	25	2	1	1
Acts quickly to meet my needs	54	31	7	5	3
Provides all the information I need about the rules and regulations that apply to me	51	32	9	4	4
Gave me information about my rights and responsibilities	51	31	9	4	4
Takes my individual needs and circumstances into account	58	29	6	4	3
Provides prompt service	60	31	5	2	2
Makes me feel welcome when I attend	70	25	2	1	2
Makes me feel like they want to help me	63	28	5	3	2
When I phoned I had to spend too long trying to get through or waiting on hold	7	11	28	47	8

^a All results are given in per cent and rounded to zero decimal places.

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

Table 6.2 **Job Seeker Satisfaction Survey – selected IA-specific questions^{a, b}**

	Yes	No	<i>Don't Know / Not Applicable</i>		
Did JNP ^c talk to you about the skills you may need to learn to help you get a job?	70	26	4		
Did JNP organise for you to receive training in job search skills such as writing resumes, preparing for an interview and writing job applications?	43	51	6		
Did JNP organise for you to receive training in job specific skills like a computer course or a special certificate course?	18	78	5		
	<i>Strongly Agree</i>	<i>Agree Somewhat</i>	<i>Disagree Somewhat</i>	<i>Strongly Disagree</i>	<i>Don't Know / Not Applicable</i>
Did JNP help you stay motivated?	38	34	12	8	9
Did JNP improve your self confidence?	26	32	16	10	15
JNP knows a lot about the sort of jobs I am interested in	37	36	14	6	7
JNP knows a lot about the sort training that I need	28	37	14	7	15
JNP takes my special needs and circumstances into account	44	35	8	7	6
JNP is always available when I need them	59	29	5	3	4
JNP gives me good advice	51	33	8	4	4
JNP gives me the right kind of encouragement and support	51	31	8	6	4
JNP keeps appointments on time	67	25	4	2	4
JNP does all they can to help me	57	28	5	6	4
Overall the service and assistance provided by JNP was of a high quality	48	32	9	6	4

^a All results are given in per cent and rounded to zero decimal places. ^b Note that in the actual questionnaire, each question is posed both in the past and present tense (e.g. (Has/Did) (JOB NETWORK PROVIDER) organise for you to receive...). Also, some questions have a short preamble that is omitted here (e.g. I am now going to read out a list of services you may have received from JNP. Could you please indicate whether or not you received these services.). ^c JNP ≡ Job Network Provider. During the actual questioning job seekers, the name of the relevant JNP was inserted.

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

Disadvantaged groups

Participants' comments

A number of participants commented on the level and quality of assistance provided to particularly disadvantaged groups. DEWRSB noted in its second stage evaluation of the Job Network:

There is considerable variation, however, in the outcome levels for different job seeker groups and some groups have consistently lower outcomes than other job seekers across all services. These include older job seekers (aged 55–64), those on unemployment allowances for more than two years, job seekers with less than year 10 education, Indigenous job seekers and those with a disability (DEWRSB 2001a, p. 5).

Any such differences in outcomes are not necessarily a result of poor service by Job Network providers, as the features that characterise such groups may themselves be barriers to employment that are difficult to overcome. On the other hand, several participants claimed these groups warrant special treatment in the Job Network.

For example, although the National Seniors Association said that 'the one-on-one Intensive Assistance program is proving effective for older workers' (sub. 10, p. 5) it was concerned about a lack of specialised assistance for older job seekers. It recommended 'establishing specific training programs for the mature age unemployed' (sub. 10, p. 6) and argued that:

Youth oriented training programs are inappropriate for mature age workers. This point is consistent with NSA members' feedback. For example, the Jobsearch program teaches clients how to prepare job applications and perform at interviews, but this is of little value to more experienced people.

On the other end of the age scale, Work Placement submitted that:

... Job Network's 'one size fits all ages' program delivery fails to take account of the complex issues faced by unemployed young people many of whom are seriously disadvantaged personally, educationally, socially and economically: that 'preparation for work' for a young person requires quite different approaches from the 'return to work' approaches required for adults who have been out of work (sub. 19, p. 6).

Work Placement further argued that 'disadvantaged young people have fewer employment related services (and less choice) available than before the establishment of Job Network' (sub. 19, p. 6) and said that:

By its focus on provider outcomes and its lack of interest in quality, Job Network may be doing young people a life long disservice in placing them in casual work rather than facilitating full time return to education or training. There seems to be no evidence that churning young people in and out of casual jobs is of long term assistance (sub. 19, p. 16).

Geographical factors have also been singled out as an issue. For example the Kimberley Area Consultative Committee commented that:

Indigenous people, particularly in remote communities and rural centres face unique barriers to employment. It is felt that DEWRSB does not fully recognise the environment or unique circumstances in servicing these remote regions (sub. 15, p. 4).

Kimberley ACC underpinned this claim with a series of examples of geographic variations in service levels and the specific requirements of Indigenous job seekers that it considered the current system does not cater for (sub. 15, pp. 2–4). Moreover, it claimed:

The fundamental principles of employment services expected by DEWRSB do not sufficiently address JNP’s providing services in regions that are jobs poor. ... Participation in training programs and other JNP initiatives engenders frustration when it offers little practical chance of a successful outcome (sub. 15, p. 3).

The Northern Territory ACC and ATSIC seem to concur with this. Although the difficulties ATSIC enumerated in their submission are not limited to Indigenous job seekers, they are particularly pronounced for that group:

ATSIC’s own consultations and research has revealed that there is a poor understanding among Indigenous job seekers about the Job Network and the services it provides in assisting the unemployed ... A further finding was that some Indigenous people feel confused on how Centrelink and the Job Networks operate and what services they provide. Others feel that the services provided are not culturally appropriate. Because of this they will not approach Centrelink or Job Network to look for work or for employment assistance (sub. 18, p. 2).

And the Northern Territory ACC said: ‘It needs to be recognised that the nature and type of employment assistance required in remote areas is considerably different to that of mainstream Australia’ (sub. 36, p. 7).

In a joint submission, the Multicultural Development Association and the Multicultural Employment Advocacy Network (QLD) made the point that specific issues also apply to migrants and refugees:

It seems there is a demonstrated lack of understanding and awareness by many Job Network providers of the complexity of employment issues, which are experienced by [migrants and refugees] (sub. 34, p. 5).

Some positive statements were also received in this context. Indeed, balancing its negative perceptions about the Job Network, the Northern Territory ACC submitted that ‘Clients report greater responsiveness of locally managed organisations which understand their needs’ (sub. 36, p. 3). And NESAs claimed that:

Through industry feedback we believe that the quality of assistance is better. Whilst outcomes are continuing to improve it is fair to say that more disadvantaged jobseekers

are receiving individualised assistance than ever before and the trends show that outcomes are continuing to improve for these jobseekers (NESA sub. 39, p. 4).

Survey of Job Seeker Perceptions of the Job Network

The DEWRSB Survey of Job Seeker Perceptions reveals some variation in perceptions of service quality across the groups¹ as well as some differences in services received. It is noted that the results reported here (table 6.3) are subject to the caveats about this survey made earlier in this chapter.

Job seekers 45 years and older were over two and a half times more likely to visit their JNP once a month or less than their 15 – 20 year old fellow job seekers. Their JNP was also half as likely to send them to a job interview or to speak to an employer about a job. On the other hand, older job seekers were more likely than their young counterparts to agree that their JNP took into account their special circumstances and were twice as likely to be *very satisfied* with the overall service provided by their JNP.

Given the comments from participants reported above, some of the survey results for Indigenous job seekers are surprisingly positive. For instance, the DEWRSB survey showed that they were just as likely as other groups to visit their JNP once a fortnight or more frequently. This group was also more likely than other job seekers to *strongly agree* that the help they received from their JNP improved their chances of finding a job. Indigenous job seekers were also quite likely to *strongly agree* or *agree somewhat* that their special circumstances were taken into account. The selection bias arising from the conduct of the survey by telephone may have biased these results, however.

Job seekers from a non English speaking background were less likely to *strongly agree* that the JNP improved their chances of finding a job. Moreover, job seekers in this group were less likely to *strongly agree* that their special needs and circumstances had been taken into account by their provider. JNPs organised English language training for about one in ten job seekers with a non-English-speaking background, double that for any other group.

¹ If concentrating on the overall satisfaction levels (that is, the aggregate of *satisfied* and *very satisfied* the variations are relatively small, however, if interpreting the difference of reported intensity of satisfaction as indicating a difference in satisfaction levels more variation can be identified.

Table 6.3 Survey results by disadvantage group^{a, b}

<i>Approximately how often did you visit your JNP? ^c</i>	<i>Once a month or less</i>	<i>Once a fortnight or more</i>	<i>Don't know / not answered</i>
15 – 20 ^d	13	85	1
45+ ^e	34	63	3
ATSI ^f	14	84	2
NESB ^g	15	84	2
PWD ^h	22	74	4
<i>At any time since May last year, did JNP send you to a job interview or to speak to an employer about a job?</i>	<i>Yes</i>	<i>No</i>	<i>Don't know</i>
15 – 20	47	52	1
45+	28	70	2
ATSI	43	57	0
NESB	39	59	2
PWD	30	70	0
<i>Did JNP organise for you to receive training in job search skills such as writing resumes, preparing for an interview and writing job applications?</i>	<i>Yes</i>	<i>No</i>	<i>Don't know / not applicable</i>
15 – 20	48	48	4
45+	40	53	7
ATSI	43	55	1
NESB	40	56	4
PWD	40	52	8
<i>Did JNP organise for you to receive training in job specific skills like a computer course or a special certificate course?</i>	<i>Yes</i>	<i>No</i>	<i>Don't know / not applicable</i>
15 – 20	18	78	4
45+	15	78	6
ATSI	16	82	3
NESB	20	76	4
PWD	20	76	5
<i>Did JNP organise for you to receive training in general numeracy or reading courses?</i>	<i>Yes</i>	<i>No</i>	<i>Don't know / not applicable</i>
15 – 20	7	81	12
45+	0	82	18
ATSI	8	86	7
NESB	7	78	15
PWD	4	86	10
<i>Did JNP organise for you to receive training in English language training ?</i>	<i>Yes</i>	<i>No</i>	<i>Don't know / not applicable</i>
15 – 20	5	80	15
45+	2	82	16
ATSI	4	86	11
NESB	10	74	16
PWD	4	84	11

Continued next page.

Survey results by disadvantage group continued

<i>JNP took my special needs and circumstances into account</i>	<i>Strongly agree</i>	<i>Agree somewhat</i>	<i>Disagree somewhat</i>	<i>Strongly disagree</i>	<i>Don't know / no opinion</i>
15 – 20	39	36	11	7	6
45+	53	32	4	5	5
ATSI	50	33	5	5	7
NESB	30	42	12	8	9
PWD	47	31	9	6	8
<i>Overall the job search help I received from JNP improved my chances of getting a job</i>	<i>Strongly agree</i>	<i>Agree somewhat</i>	<i>Disagree somewhat</i>	<i>Strongly disagree</i>	<i>Don't know / no opinion</i>
15 – 20	36	36	14	10	4
45+	34	29	15	10	10
ATSI	43	30	17	7	3
NESB	25	43	18	7	7
PWD	38	30	13	11	8
<i>Overall the service and assistance provided by JNP was of high quality</i>	<i>Strongly agree</i>	<i>Agree somewhat</i>	<i>Disagree somewhat</i>	<i>Strongly disagree</i>	<i>Don't know / no opinion</i>
15 – 20	44	36	10	7	4
45+	59	27	7	4	3
ATSI	47	39	5	4	4
NESB	41	39	10	5	5
PWD	48	31	11	6	4
<i>Thinking about all aspects of the service provided by JNP. Would you say that overall you were</i>	<i>Very satisfied</i>	<i>Satisfied</i>	<i>Dissatisfied</i>	<i>Very dissatisfied</i>	<i>Don't know / neither</i>
15 – 20	23	59	11	4	3
45+	49	38	8	1	4
ATSI	25	63	7	1	4
NESB	22	61	9	4	4
PWD	36	45	10	3	6

^a All results are given in per cent and rounded to zero decimal places. ^b Note that in the actual questionnaire, each question is posed both in the past and present tense (e.g. (Has/Did) (JOB NETWORK PROVIDER) organise for you to receive...). Also, some questions have a short preamble that is omitted here (e.g. I am now going to read out a list of services you may have received from JNP. Could you please indicate whether or not you received these services.). ^c Job Network Provider. During the actual questioning job seekers, the name of the relevant JNP was inserted. ^d Age group: 15–20 year olds. ^e Age group: 45 years and older. ^f Aboriginal or Torres Straight Islander. ^g From non English speaking background. ^h Person with a disability.

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

People with disabilities are less likely to be sent to an interview or to speak to an employer about a job than other job seekers (30 per cent versus 38 per cent) but are more likely to *strongly agree* that the help they obtained from their JNP improved their chance of finding a job (38 per cent compared with 32 per cent). For all other results, people with a disability had near average responses.

Complaints

According to data provided by DEWR, the number of official complaints made by job seekers about the Job Network is rather small. Indeed, over the period from July 2000 to June 2001, 4957 complaints were made to the Job Network Customer Service (telephone) Line operated by DEWR. This amounts to a complaints rate of about 0.08 per cent. Over the period from July 1998 to December 2001 the number of complaints received has trended upward (2855 in 1998–99, 4343 in 1999–00, 4957 in 2000–01 and 2920 for the six months from July 2001). However, this is not necessarily indicative of increasingly poor service standards — it might just reflect job seekers' increased awareness of the Customer Service Line.

About three fifths of complaints concerned poor service (38 per cent regarding staff attitude and behaviour and 28 per cent regarding services provided). Approximately 15 per cent of job seekers complained about their Job Network provider's failure to provide feedback on the outcome of referrals to jobs and applications for jobs and just under one twelfth of complaints concerned Job Network policy. Only about one per cent of complaints concerned fraud and even less concerned breaching.

The number of such official complaints, however, would be much less than the number made by job seekers to their Job Network providers in the first instance. As DEWR noted: 'Job seekers are encouraged to raise complaints with the Job Network members involved first' (sub. 43, p. 43), and only if 'job seekers are not satisfied with the outcome or feel they cannot raise their issue with the Job Network member concerned, they [should] contact the Department's free Job Network Customer Service Line.' (sub. 43, p. 43).

The DEWR SB Survey of Job Seeker Perceptions confirms that the level of complaints — including non Customer Service Line complaints — is much higher. According to the survey, over 7 per cent of job seekers have thought about making a complaint. Of these, 18 per cent have complained to their Job Network provider directly and 16 per cent have complained to Centrelink or DEWR. Thus, the rate of complaints made according to the survey is about 2 per cent,² that is about 25 times that reported above. Moreover, the reported satisfaction level with the resolution of the complaints at below 40 per cent is in stark contrast to the other satisfaction data reported above (table 6.4).

² This number is arrived at by assuming that those who have complained to both their Job Network provider and Centrelink/DEWR have made the same complaint twice. If this is not the case, the figure is about 2.5 per cent.

Table 6.4 Satisfaction with the resolution of complaints^a

<i>Satisfaction with the resolution of a complaint made to:</i>	<i>Very satisfied</i>	<i>Satisfied</i>	<i>Dissatisfied</i>	<i>Very dissatisfied</i>	<i>Neither</i>	<i>Don't know</i>
Job Network provider	14	20	21	40	1	4
Centrelink / DEWR	17	21	17	35	3	7

^a All results are given in per cent and rounded to zero decimal places.

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

These differences in official and survey data suggest that it would be worthwhile to obtain a better picture of complaints in general. As NESAs stated: 'More public reporting regarding the volume, nature and resolution of complaints would be welcomed' (sub. 39, p. 16). In particular, at present there is little information about complaints made to the Job Network providers directly.

Furthermore, as evidenced by the following statement by the Un(der)employed People's Movement against Poverty, there is some lack of knowledge about the available complaints mechanisms and procedures.

Unemployed people have no complaints mechanism in their dealing with the JN other than the Ombudsman.' (sub. 3, p. 3).

This was also apparent from the statements of various participants at the Value Creation Workshops. Furthermore, the DEWR SB Survey of Job Seeker Perceptions shows that less than half the job seekers questioned recall having the complaints procedures explained to them by their JNP.

A further potential contributing factor to low complaint numbers is that some job seekers may fear retribution due to the role of JNP in recommending breaches. Soraya Kassim submitted:

Many clients have a history of poor experience of service delivery and low expectations, as well as limited appreciation of their rights. They often fear retribution if they complain, and do not trust client safeguards, even if they are explained to them (sub. 23, p. 8).

This is also echoed in the ACOSS submission to this inquiry:

[O]nce a job-seeker in receipt of Newstart Allowance chooses a provider, his or her market power is greatly weakened by the role of the provider in policing activity requirements relating to their income support. This means that job-seekers are less likely to complain if they are not receiving the service they expect (sub. 32, p. 21).

Breaching

Job seekers that do not comply with various activity requirements are subject to potential withdrawal of benefits (breaching). A breaching regime is an important part of ensuring that unemployment beneficiaries seriously engage in job search or measures that improve their employability. However, breaching can also have adverse outcomes for the most disadvantaged and breaching errors may occur:

Nonetheless, there is anecdotal evidence that some vulnerable people are being breached and that this may exacerbate their condition. People particularly at risk are: homelessness, mental illness, low literacy, substance abuse (Centrelink sub. 45, p. 18).

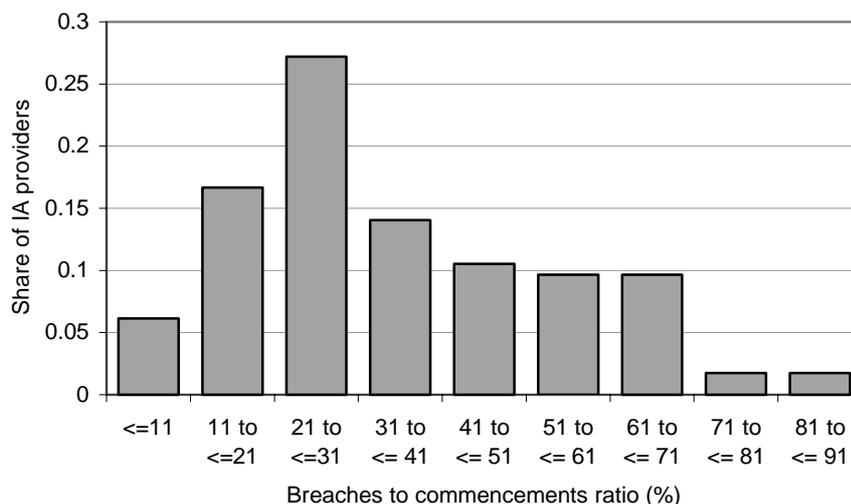
The impact of Job Network on Centrelink's breaching rates has come under intense scrutiny in more recent times and the impact of increased breaching levels has had a significant impact on the social and economic hardship experienced by disadvantaged jobseekers, according to the main welfare agencies (NESA sub. 39, p. 6).

As long as services are associated with compulsory participation, breaching, and other punitive measures which are often harsher than fines or punishments for criminal offences, the [Job Network provider] services can never be flexible enough to meet the need (Un(der)employed sub. 3, p. 9).

Consequently, the examination of breaching across different disadvantaged groups and Job Network providers may expose inconsistencies or equity issues in the Job Network model that may require addressing. The issue of breaching itself is the subject of a separate review.

Recommended breach rates (measured relative to commencements) vary markedly by different agencies (figure 6.1). However, it is possible that some of this variation reflects factors outside the control of the provider, such as low commencement to referral ratios (since if a Job Seeker does not commence, a breach ensues) or client mixes that have higher risks of breaching.

Figure 6.1 Distribution of breaching rates by IA Job Network providers^a
28 February 2000 to 31 August 2001



^a The data relate to total recommended breaches by IA providers over the 2nd contract period (and not the final breaches imposed). Only those IA providers for which the Productivity Commission had comparable performance-indicator data are reported here (but these accounted for 98 per cent of breaches). Only breaches relating to IA are shown as these account for around 80 per cent of Job Network breaches and also involve the most disadvantaged job seekers.

Data source: Data supplied by DEWR.

A regression model (box 6.2) revealed many of the variations in recommended breaching rates could be related to specific features of the Job Network provider. Holding other factors constant:

- Job Network providers with a profit-orientation had significantly higher breaching rates (by 12 percentage points) than those that did not;
- Job Network providers in the Northern Territory had significantly higher breaching rates than those in Tasmania or generally in country Australia;
- Providers with more B level IA job seekers had lower breaching rates, but those with higher shares of job seekers that were Indigenous or from a non-English speaking background had higher breaching rates.³
- Higher performers — as measured by the star rating — had lower breaching rates.

³ In general these results also held in partial regressions. However, the Indigenous share of commencements was negatively correlated with the breaching rate (though the effect was small in absolute size and insignificant) when other variables were not taken into account.

The variations in recommended breaching rates by client type are a matter of potential concern. There are several explanations for the differences. It might reflect:

- inadequacies in the way these particular groups are treated by Job Network providers (for example, unclear instructions leading to a misunderstanding about an obligation for a NESB client); and/or
- a higher degree of non-compliance with activity tests by these groups.⁴ For example, one participant argued:

When breached by JNP's, clients can often move on to CDEP, which nullifies any breach impact. Indigenous people are able to move easily between CDEP organisations, Job Network and Centrelink then back to these organisations to evade compliance issues (Kimberley Area Consultative Committee sub. 15, p. 3).

Box 6.2 Regression model of breaching

A regression model was estimated, with the dependent variable the breach to commencements ratio. Location, client profile, Job Network provider status, point-in-time capacity, referral patterns and performance variables were used as independent variables, since all of these may be systematically related to breaching behaviour by providers. A general specification was estimated and reduced through hypothesis testing to:

$$\begin{aligned}
 100.B/C = & 56.2 - 5.7 \text{ STAR} - 1.1 \text{ BSHARE} + 0.41 \text{ NESBSH} + 0.36 \text{ INDIGSH} \\
 & (4.1) \quad (3.4) \quad (4.0) \quad (3.7) \quad (2.2) \\
 + & 11.3 \text{ NT} - 10.8 \text{ TAS} - 6.0 \text{ COUNTRY} + 12.1 \text{ PROFIT} + 0.63 \text{ NOCOMR} \\
 & (3.7) \quad (3.5) \quad (2.0) \quad (4.9) \quad (5.4)
 \end{aligned}$$

Results are weighted by commencements. Observations = 113, $R^2 = 0.71$, $F[9,103] = 28.31$, t statistics are in parentheses. STAR is the average star rating of the provider, BSHARE is the share of commencements that are at the B level (measuring the proportion of more disadvantaged job seekers), NESBSH is the share of commencements that are from a non-English speaking background, INDIGSH is the share of commencements that are Indigenous job seekers, NOCOMR is the ratio of non-commencing referrals to commencements, NT is a dummy for the Northern Territory, TAS a dummy for Tasmania, COUNTRY a dummy for a non-major metropolitan location, and PROFIT a dummy for a provider that had a profit orientation (mainly measured by private company status or non-eligibility for deductible grant status — though other factors were also taken into account when allocating agencies to this group). A tobit model was also estimated given that bounds outside [0,100] are not permitted, but made no difference to coefficient estimates.

⁴ The fact that Centrelink is more likely to uphold recommended breaches for these groups suggests that this interpretation has more weight.

The variations in recommended breaching rates do not appear likely to reflect strategic considerations on the part of JNPs (chapter 9), but rather, differences in views about how tightly to implement breaching policy and ways of motivating job seekers. Considine (2001, p. 55) found around 38 per cent of case managers agreed that they ‘often reminded clients of the sanctioning power to get their attention’. This may reflect differences in views about the usefulness of a strategy to threaten sanction by type of agency.⁵

There is no evidence that agencies that have high breaching recommendation rates are acting improperly. First, the share of breaches recommended by an agency that are finally imposed by Centrelink is not related to the breaching recommendation rate of the provider. Indeed, for the profit-oriented providers, the share of recommended breaches upheld by Centrelink is, all other things being equal, rather higher than the average.⁶

Even so, it appears that the chance of being breached varies significantly across providers. In part, this reflects the diversity of approaches that characterises Job Network providers’ interactions with job seekers. However, breaching is also a powerful compliance tool that should be implemented with care. If used appropriately it guards taxpayers’ resources, while if it is wielded zealously it produces costly and sometimes devastating consequences for job seekers. The lack of consistency is therefore a matter of concern, as Centrelink stated:

... the very variability in ratios of breach recommendations to customer base between providers is of concern as it indicates widely different approaches. The result is that many unsustainable breach recommendations are made by the very organisations that, because of their assessment role, are best placed to identify people at risk (sub. 45, p. 19).

Intensity of service (parking)

Comments from participants making submissions and those from the Value Creation Workshops demonstrate that job seekers strongly value personal and individual support on an ongoing basis. When it is lacking, many feel let down by the Job Network and find the task of seeking work much more difficult.

⁵ Considine (2001, p. 109) finds that for-profit agencies in the Netherlands breach less than public agencies — so any presumption that private agencies by their nature are necessarily more aggressive in seeking compliance may be erroneous.

⁶ The share imposed is also higher as INDIGSH and NESBSH rises, accentuating the effects found for the recommended breaching rate. On the other hand, the share imposed is lower for the Northern Territory and higher for Tasmania, offsetting the effects that state location has on the recommended breaching rate.

Data from Stage Two of DEWRSB's Job Network Evaluation (DEWRSB 2001a) shows that 48 per cent of IA job seekers have had monthly or less frequent than monthly contact with their Job Network provider. Although individually the reported daily, weekly, fortnightly, monthly and two monthly figures are substantially different than those obtained from the DEWRSB Survey of Job Seeker Perceptions, these differences cancel out to give a remarkably similar aggregate *monthly or less* figure from that survey of about 46 per cent (calculated from table 6.5).

Table 6.5 Frequency with which IA customers visit their JNPa

Question: Approximately how often (did you visit / have you visited) (JOB NETWORK PROVIDER). Would you say ...(per cent)

<i>Only once or twice</i>		<i>On quite a few occasions</i>		<i>On several occasions</i>		<i>Don't know / can't say</i>	
23		40		36		1	
<i>Those who answered 'on quite a few occasions' or 'on several occasions' were further asked how often they usually visited their provider.</i>							
<i>Almost every day</i>	<i>Two to three times a week</i>	<i>About once a week</i>	<i>About once a fortnight</i>	<i>About once a month</i>	<i>Once every couple of months</i>	<i>Less often</i>	<i>Don't Know / Can't Say</i>
3	13	20	31	21	7	2	2

^a All results are given in per cent and rounded to zero decimal places.

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

The frequency of visits appears to be positively correlated with active participation by the job seeker in job search activities or training. Indeed, job seekers who had contact with their JNP once a month or less were half as likely to be sent to a job interview or to speak to an employer about a job than those who had fortnightly meetings or more (24 per cent as opposed to 48 per cent). They were much less likely to receive training in job search skills such as writing resumes, preparing for an interview and writing job applications (32 per cent compared with 54 per cent) and job specific skills such as a computer course or a special certificate course (14 per cent compared with 21 per cent).

Data in table 6.5 show that almost 25 per cent of job seekers only have had contact with a Job Network provider 'once or twice'. Some might immediately have obtained a job, of course. However, it appears that some job seekers are 'parked' by their providers. As DEWRSB commented in its stage one evaluation of the Job Network:

There is evidence that some job seekers receive little direct assistance after referral to Intensive Assistance. In the qualitative research, some providers acknowledged they were unwilling to invest time or resources in job seekers who they felt would be unable

to help achieve an outcome ... In many cases, a service which went beyond the basics would be provided only if it was judged that it would make a critical difference to the person's employability. (DEWRSB 2000a)

Considine (2001, p. 136) reports on surveys of case managers:

In the first survey during Working Nation, two-thirds of case managers spent most of their time working with job seekers. By 1999 [under Job Network] this had dropped to 49 per cent of staff. In the earlier period 52 per cent of case managers had 'parked' approximately one third of their caseload. By 1999 this figure had risen to 66 per cent.

Further, there is some evidence that providers reduce the intensity of assistance to individual job seekers over time.

Employment officers have a key role in maintaining the intensity of job search activity and motivating job seekers. The data collected, however, suggested that on average the frequency of regular contact (monthly or more) declined with duration [in assistance]. The proportion of job seekers who had regular contact towards the end of their assistance dropped from 85% [53% if defining regular contact as once a fortnight or more] for those in assistance for one to four months to 72% [44%] for those in assistance for nine months or more. (DEWRSB 2001a, p. 63)

This result is not surprising, given that some of easiest to place job seekers would have found jobs within the early months of contact with their provider, leaving those remaining more difficult to place. Even for those people, however, the intensity of assistance can make a difference. The proportion of the whole group on IA for six months or more who were sent to a job interview or to speak to an employer was 23 per cent. For those who were on the program for more than 6 months and had meetings with their JNP once a month or less frequently the corresponding figure was only 12 per cent.

This phenomenon of parking and of reducing service levels over time is not surprising given the current Job Network payment structure. The issue is taken up in chapter 9.

In a program such as the Job Network, which aims to give flexibility to providers, it can be expected that the nature and extent of services provided to job seekers differs across providers. Comments from participants at the Value Creation Workshops supported this proposition. Furthermore, the OECD has reported, in the context of JST:

Over half of the participants served by the top performing providers were either sent to a job interview or spoke with an employer about a job, whereas only one-fifth of those served by the bottom-performing providers had such contacts (OECD 2001, p. 117)

6.2 Perceptions of employers

The Job Network can only service job seekers well if it also meets the needs of employers. In particular, employers must find it attractive to list their vacancies on Australian Job Search and recruit through Job Network providers.

The Australian Chamber of Commerce and Industry (ACCI) reported that its 1999 survey (of 1200 members) found that ‘employers who had used Job Network were overwhelmingly satisfied with the performance of the providers, particularly in comparison to the former CES’ (sub. 40, p. 2).

Another positive comment was provided by the Northern Territory Area Consultative Committee:

Employers in the NT report good satisfaction with Job Network services and appreciate the benefits of competition such as the greater range of choice and competitive services. (sub. 36, p. 3).

However, ACCI’s survey shows that, in 1999, only about 20 per cent of employers had used the Job Network. About three quarters of employer respondents understood the Job Network arrangements only ‘poorly’ or ‘not at all’. Similarly, the Victorian Employers’ Chamber of Commerce and Industry found, in a preliminary survey of members in early 2000 that ‘most of the employers surveyed had little understanding of the Job Network or the role that individual providers played’ (sub. 11, p. 2).

According to ACCI, Restaurant and Catering Australia recently conducted a survey through its monthly magazine. One of the recommendations arising from the responses of the 198 respondents was that ‘the Government be made aware of the low level of satisfaction with the Job Network’ (sub. 40, p. 2).

DEWR provided information about the strategies it had used to increase employer knowledge and use of the Job Network. It commented, however, that ‘employers remain a difficult group to target’ (sub. 43, p. 44). While:

a ... recent national employer survey suggests that ... employers who use Job Network are very satisfied with the service they receive, overall awareness and use of Job Network among employers remains lower than the Department would like (sub. 43, p. 55).

Some more specific information is given by the 1999 Survey of Employer Perceptions. This indicated that, of employers surveyed, 84 per cent who had used Job Network to fill their last vacancy were satisfied with the service provided by the Job Network provider (sub. 43, p. 51). As noted above, however, more useful information might arise from comparison of trends in satisfaction data over time.

When the results of the follow up 2001 survey are reported publicly, this might be possible. Furthermore, the corresponding satisfaction levels reported for other recruitment agencies was 90 per cent, despite the fact that only 15 per cent of employers reported having to pay for Job Network services compared with 62 per cent for other agencies.

Employers who were not satisfied with the services they received from their Job Network agency were most often dissatisfied with the poor quality of applicants. However, poor follow up and lack of assistance were also prominent causes of dissatisfaction (see table 6.6 below for details).

Table 6.6 Reasons for employer dissatisfaction with Job Network agency^{a, b}

Question: And why do you say that (you were not satisfied with the service)?

Sent poor quality of applicants / applicants were not interested in getting the job	41
Poor follow up / did not keep in touch	23
Did not fill our position / never have anyone for us	19
They did not help at all / did nothing / no real effort in helping	13
Inflexible / will not meet our requirements	6
Did not send enough applicants	5
They don't listen to what we have to say / did not understand	5

^a All results are given in per cent and rounded to zero decimal places. ^b Responses could be multiples, and less frequent responses have been excluded from the table.

Source: Survey of Employers' Perceptions of the Job Network 1999 data obtained from DEWR.

The Survey of Employer Perceptions also covered good and bad aspects of the Job Network explicitly. A summary of these results is given in table 6.7 below. The most often cited benefits from using the Job Network related to screening of applicants and saving time interviewing and finding applicants. On the other hand, the most often cited poor aspects were poorly trained/incompetent staff and poor service.

Table 6.7 Good / poor aspects of the Job Network service^{a, b}

Question: From an employer's point of view what are the good / poor aspects of the Job Network service in your opinion

<i>Good aspects of Job Network Service</i>	
Screening of applicants / short listing	24
Save our time in interviewing / finding applicants	21
Quality of people / send suitable applicants	14
Access to greater pool of applicants across Australia	12
Quality of service / personal contact / prompt feedback and follow up	14
Are motivated / urgent / aggressive at finding applicants / finding people jobs / efficient	3
Easy to access / convenient location	16
Cheap / low cost service	8
Have a choice of providers / competition	7
Don't know / not answered	17
<i>Bad aspects of Job Network service</i>	
Staff are poorly trained / incompetent	27
Poor service / responsiveness / follow up	10
They don't send/don't have the right people we need / don't send those who want to work	21
Need better matching / understanding of the position	13
Need more information / improve publicity	6
Difficult to contact the service / find the right people	6
confusing / so many agencies / too fragmented	6
None	27
Don't know	24

^a All results are given in per cent and rounded to zero decimal places. ^b Responses could be multiples, and less frequent responses have been excluded from the table.

Source: Survey of Employers' Perceptions of the Job Network 1999 data obtained from DEWR.

ACCI conducted its own survey of employers by surveying more than 1200 of its members. According to that survey over 70 per cent of employers rate the level of Job Network services as satisfactory or better and a comparison of the Job Network with the former CES had 49 per cent of employers who had contact with both favoured the levels of service provided by the Job Network and only 22 favoured the CES in this respect. Similarly, 45 per cent of employers favoured the range of services provided by the JN compared with 16 who favoured the CES and finally, 32 per cent favoured the quality of applicants referred through the JN whereas 22 preferred those referred through the CES (see table 6.8).

Table 6.8 Comparison of Job Network With CES by Businesses Which Have Used the Job Network

	<i>Much Better</i>	<i>Better</i>	<i>About the Same</i>	<i>Worse</i>	<i>Much Worse</i>
Level of Service	16	33	29	14	8
Range of Services	13	32	38	12	4
Quality of Applicants Referred	12	21	45	16	6

Source: ACCI, sub. 40, p. 4

6.3 Summary

From the perspective of job seekers, the quality of assistance provided while in the Job Network is important — ideally they wish to receive personal and active support in finding a job. While the information presented above is not statistically rigorous, it is clear that some job seekers perceive deficiencies in the services they receive and that service levels and quality differ between providers. Further, a significant proportion of job seekers receive only a minimum of help. On the other hand, it appears that satisfaction levels about the Job Network amongst job seekers in general are high.

The satisfaction levels of employers who have used the Job Network still fall short of those exhibited for other employment agencies. Nevertheless, satisfaction levels are high and the Job Network is overall seen to be an improvement over previous arrangements.

Other chapters in this report, particularly 7, 8 and 9 address the issue of how to maintain the outcomes focus of the Job Network while improving the quality of service to individual job seekers and to employers. Chapter 14 lists characteristics of provider best practice and discusses plans by DEWR to improve the quality of service in the Job Network.

7 What services should the Job Network provide?

Box 7.1 Key messages

There is no clear rationale for government funded provision of Job Matching services through the Job Network to non-disadvantaged job seekers. The Government's role should be limited to the provision of self-help facilities for this group of job seekers.

The program effects of Job Search Training are likely to improve over time but this is more likely to occur where providers have flexibility to determine course content. This program should be maintained, but compulsory attendance requirements should remain substantially unchanged so that its compliance effects are not compromised.

Requiring the delivery of certain pre-specified service elements under Intensive Assistance would undermine the capacity of providers to tailor assistance to the needs of individual job seekers.

'Personal accounts' have been used with some success in the United Kingdom. The Commission seeks feedback on whether adopting this approach in Australia would be worthwhile.

Intensive Assistance lasts for a period of up to twelve months. Job seeker activity and outcomes however, fall off after the first few months of assistance. Shorter, more intense activity may be more effective. The duration of assistance should be reduced to six months and job seeker activity testing should be increased over the period.

Outcomes achieved under the New Enterprise Incentive Scheme (NEIS) are likely to be overstated. Nevertheless, the program appears to have an important role in facilitating employment opportunities for certain groups of disadvantaged job seekers. It should be retained, but with improved targeting (chapter 9).

There is no clear rationale for the Self Employment Development program. Further, its performance is relatively poor and job seekers can access NEIS (also aimed at assisting job seekers to achieve self-employment). This program should be abolished.

The major purpose of the Project Harvesting scheme appears to be to meet seasonal harvest grower needs for casual labour. It is not clear why this function need attract government funding. Further, it is likely that in the absence of a government subsidy, this service would continue, funded by private interests. The Commission recommends that funding for Project Harvest services cease.

7.1 Introduction

This chapter explores the rationale of, and the need for public funding for, each of the five services provided under Job Network. Where public funding is considered appropriate, modifications designed to improve the efficacy of the service are also considered.

7.2 Job Matching

JM is the most basic and widely available service in the Job Network. Providers and employers assemble information on vacancies, which are fed into a national database, the Australian Jobsearch System. Such a comprehensive database may increase matching efficiency by reducing search costs and increasing information about available jobs — thereby reducing frictional unemployment — which was the rationale behind the establishment of public employment services around the world (Thuy et al. 2001). Providers also supply information on vacancies to job seekers and sometimes screen applicants.

Who should be eligible for Job Matching services?

Some participants consider that JM should be available to all job seekers:

The Government should guarantee all job-seekers and employers access to a free, personalised basic job matching service through the Job Network (ACOSS, sub. 32, p. 2).

While such a system may give rise to efficiencies, it is not clear that there is a case for generalised, publicly funded provision of JM services.

Substitutes for government funded Job Matching services

Job matching funded by government has some clear substitutes. In Australia (and elsewhere¹) the job matching process for the jobless is dominated by informal processes, newspaper ads and even approaches by employers, rather than by (subsidised) government-sponsored job placement services (figure 7.1).²

¹ Thuy et al. (2001, pp. 41–2) reveal that informal contacts and newspaper ads are the common ways in which job seekers access vacancies rather than public employment services.

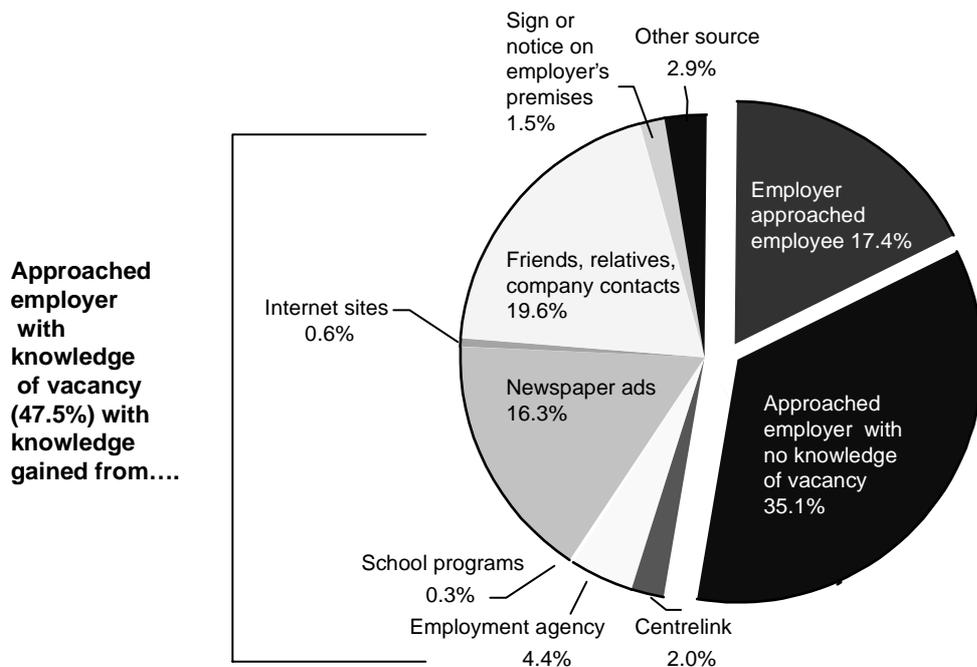
² In a 1996 national survey of employers, Harding and Wooden (1997) find that the public employment service plays a more important role in recruitment, particularly for semi and unskilled blue-collar workers — but still accounts for a relatively modest share of total successful recruitment methods.

In the main, successful job seekers who were previously unemployed use the same search processes as successful job seekers who were previously in a job or looking for their first job. Thus, there does not seem to be any distinctive pathways to jobs for unemployed people as a group relative to other job seekers.³

Further, in the US, public employment agencies have a minor role as placement services, without any apparent adverse result for the efficiency of job matching or unemployment (Layard et al. 1991, pp. 239–40 and Thuy et al. 2001, p. 32).

In this context, existing unsubsidised mechanisms for job matching may be adequate for most jobless people.

Figure 7.1 Methods for job placement for successful job seekers who were previously unemployed
Australia July 2000



^a The data are based on successful job search that occurred over the 12 months to July 2000.

Data source: ABS 2001, *Successful and Unsuccessful Job Search Experience, Australia, July Cat. 6245.0.*

³ The correlation coefficient of job matching methods between successful job seekers who were formerly unemployed and those who were holding down jobs is 0.9, while it is 0.97 between the formerly unemployed and first time job seekers.

Are these substitutes viable alternatives for all categories of job seekers?

There is some evidence however, that subsidised services have a more important role for the most disadvantaged job seekers since:

- they search more narrowly. Heath (1999) finds that disadvantaged young persons tend to use subsidised matching services, while young job seekers that successfully find employment use informal networks or direct approaches to employers (even though they are also able to access basic JM services in the Job Network);
- longer term or disadvantaged groups may have less capacity to tap into informal networks of information about local job vacancies (Heath 1999); and
- some employers are suspicious about people that have experienced long spells of unemployment — because unemployment duration is an indicator of poorer human capital and future employability (Layard et al. 1991, pp. 258, 475).⁴

Thus direct approaches to employers may not work well for the long-term unemployed or other disadvantaged job seekers.

Screening and signalling the quality of disadvantaged job seekers

The fact that long-term unemployment is a ‘noisy’ indicator of employability provides a potential role for Job Network providers in screening and signalling the quality of *disadvantaged* job seekers. This potential arises because the long-term unemployed are not alike — some have the capacity to provide value to employers at existing wages, while others would require a wage subsidy to be employed.

If a job seeker has acceptable skills at the wages offered by the employer, the Job Network provider need not offer any wage subsidy for their employment, assuming that they have screened well. If the job seeker has lower employability, then the Job Network provider will either have to increase that through off-the-job training and other measures or provide a wage subsidy to act as an enticement for their employment (and hopefully on-the-job learning to increase long term employability).

Arguably, a screening role may be performed more efficiently by Job Network providers than employers:

⁴ In an Australian survey undertaken in 1996, Harding and Wooden (1997) found that 22.6 per cent of employers would have doubts about employing someone who had been long term unemployed (although 53.1 per cent indicated that LTU status was not an issue at all in recruitment).

-
- Job seekers usually must approach many employers before getting a job — which involves duplication of job seeker screening by each employer. In contrast, a particular Job Network provider can undertake basic screening once for an applicant and then direct them to many vacancies without duplicating this role.
 - There are economies of scope in screening and the other functions of Job Network providers. Their major role is in increasing employability, but in doing so they can make reasonably sound assessments of the quality of job seekers.

In that case, intermediated approaches using applicant screening may increase job search effectiveness and access to vacancies for the disadvantaged jobless. Accordingly, there may be a prima facie rationale for assisted JM services for the disadvantaged jobless. It is less clear however, that there is a need for subsidised JM services provided through the Job Network for other job seekers. Notably, an ILO study (Thuy et al. 2001, p. 54) concluded that technological shifts — including computerisation, self-help facilities and internet provision — have altered the function of subsidised services:

Because an electronic service is relatively cheap to run, it should enable the PES [public employment service] to shift staff from traditional job-broking work to providing intensive assistance to unemployed and hard-to-place individuals who cannot find jobs through the electronic services. Thus there is a trend towards a tiered system differentiated according to the needs of clients.

Will targeting the provision of Job Matching have unintended consequences?

Research undertaken in the United States (Bishop 1992) suggests that narrowing eligibility criteria for job matching services may reduce opportunities for disadvantaged groups. By focusing on the ‘hard to place’, employer perceptions of the public employment service may suffer. This in turn impacts on the quality of vacancies made available and the success of the service in placing problem groups.

In keeping with the findings of this research and DEWRSB’s own qualitative research (which indicated that employers considered the pool of job seekers that they could access was limited and that they may not be able to get the best person for the job),⁵ in August 1998, JM services were opened to a broader client base.⁶ As noted by DEWRSB (2000a, p. 58):

⁵ The qualitative research was based on interviews in the first six months of the Job Network. It is not clear whether, at this early stage, employers had sufficient experience with or information about the Job Network on which to soundly base these perceptions.

The limitations on eligibility for Job Network that were originally introduced were motivated by a desire to direct public funding towards job seekers who need it the most. The expansion in eligibility ... is designed to assist the hard-to-place job seekers by ensuring that the pool of vacancies is as wide as possible.

However, it is not clear that the opportunities for disadvantaged job seekers have improved under the revised eligibility criteria.

For example, the proportion of placements going to JM only clients (generally job seekers not on income support) has increased over time. In September 1999, 'Job Matching only' job seekers comprised 23.9 per cent of placements, rising to 30.5 per cent in September 2000 (DEWRSB 2001a, p. 16). Job seekers who achieved a relatively high share of placements were short term beneficiaries and younger job seekers (aged under 25 years). Just under half of all placements (48.4 per cent) went to those receiving income support for less than six months, whereas they comprised only 30.4 per cent of the eligible pool (DEWRSB 2001a, p. 45). As Innisfail Job Centre observed:

In the case of Job Matching, this situation has also drawn attention away from those disadvantaged job seekers that are harder to place, because it is more difficult to generate a quick financial return (sub. 5, p. 3).

While access to a big and diverse pool might be an important feature for employers, this does not necessarily mean that government must subsidise the whole pool. For example, IA providers could forge alliances with the general recruitment industry and, as part of their IA activities, provide advice to their disadvantaged job seekers about how to gain access to vacancies (including through existing vacancy databases and newspaper advertisements). The key issue is whether IA job seekers can gain access to the vacancy pool and that Job Network providers provide credible screening.

An even less credible claim in support of a generalised JM function is that a big vacancy pool size dominated by 'quality' job seekers is needed so as to slip lower quality, 'hard-to-place' job seekers unsuspectingly upon employers. Considine (2001, p. 141) for example asserted that this was Employment National's strategy during the Job Network's first contract:

Instead EN ... described its Job Network strategy as one in which the 'damaged fruit' would simply be slipped into the barrel with ordinary job seekers destined for normal recruitment contracts.

⁶ Eligibility was initially restricted to unemployed people older than 20 years of age and in receipt of income support and all unemployed youth. The changes removed income support requirements from the eligible population.

However, such a strategy failed. Employers are able to anticipate such opportunistic behaviour and divine the quality of candidates after job commencement. Job Network providers therefore, have strong incentives to build a reputation for only referring good quality candidates.⁷

In conclusion, the claimed rationales for a generalised JM function, rather than one targeted at disadvantaged job seekers, are unconvincing.

Nevertheless there is still a possible case for government subsidisation of a centralised vacancy database, availability of touchscreens and certain self-help facilities for all job seekers. This is because small increases in the efficiency of job matching for large numbers of job seekers may be sufficient to exceed the small cost of providing such facilities.

Therefore, there are grounds for eliminating subsidies for JM for non-disadvantaged (non-IA) job seekers. As noted by Soraya Kassim (sub. 23, p. 4):

Government funding of Job Matching may be wasted on a large number of clients. Just because someone requires Income Support (through Newstart payments etc) does not mean that they are not perfectly capable of navigating touch screens and websites themselves and applying for jobs in employment agencies or through the newspaper—not to mention using their own personal resources such as family friends and networks, and personal doorknocking skills ... In essence it may be possible to scrap Job Matching altogether and just retain touchscreens in Centrelink offices, and license and monitor employment agencies to avoid sharp practices.

Further, by limiting the role of government in JM for non-disadvantaged job seekers — that is, focusing JM subsidies on the disadvantaged — the relative attractiveness of IA clients will increase.

DRAFT RECOMMENDATION 7.1

The Commission recommends that the payment of a job matching placement fee for 15 or more hours work be terminated at the conclusion of the second contract period.

The Commission recommends that the role of Government in job matching for non-disadvantaged job seekers be limited to the continued maintenance of an internet website and Centrelink touchscreens for access to Job Search Australia (the vacancy database) and other simple self-help facilities such as fax, resumé and photocopy services.

⁷ The existing payment structure that only provides interim outcome payment for an IA client after 13 weeks would almost completely deter opportunistic short-term JM placements for IA job seekers.

Job matching for disadvantaged job seekers should remain an integral part of the assistance provided to job seekers eligible for Intensive Assistance, but should no longer attract a separate fee.

Job Network providers could still offer a ‘full’ job matching service to non-disadvantaged job seekers, but presumably only if employers were willing to pay for it.

It is not apparent whether the approach outlined above would be consistent with Australia’s commitments under International Labour Office (ILO) conventions. However, given the ILO itself recognises the changing nature of employment assistance, this is not a significant concern:

The electronic revolution is fundamentally changing the nature of job-broking and reducing the intermediary role of the PES [Public Employment Service]. In the most technologically advanced countries, job seekers and employers are increasingly coming into contact with each other through self-service systems on the Internet without the intervention of PES placement officers ... Experience already suggests that once customers have tested self-service systems, they usually prefer them to the traditional service where they are dependent upon the availability of staff and/or limited opening hours (Thuy et al. 2001, p. 54).

Should vacancies be ‘open’ or ‘closed’?

For many of the job vacancies listed on the Job Network database, the details of the employer are only available from the Job Network provider that secured the vacancy listing. This precludes direct approaches to the employer by the jobseeker. These so-called ‘closed’ vacancies mean that job seekers must register with, and be screened by, multiple providers — involving considerable time and travel costs — in order to access the full menu of jobs.

As participants observed:

Job-seekers must physically visit a range of local providers in order to obtain access to vacancies, and there is a greater risk under this system than a "one stop shop" such as the previous Commonwealth Employment Service that the vacancy will be filled by the time they do so (ACOSS sub. 32, p. 15).

It is a source of great frustration to many job seekers that they are expected to travel to different agencies to register and be referred to job vacancies (Salvation Army Employment Plus sub. 35, p. 15).

The costs of multiple registration is likely to reduce search effort by job seekers, especially those who cannot afford transport costs or who are already de-motivated.

However, employers have a choice whether to post a closed or open vacancy — and presumably, the fact that most are closed suggests a preference for the application of screening by an intermediary. Were this screening to be undermined by requiring open vacancies, not only might employers not interview disadvantaged job seekers, but they might be unwilling to post the vacancies at all — so that vacancy volumes would probably fall in the absence of closed vacancies.

That said, the Commission recognises that closed vacancies impose costs on job seekers. As ACOSS commented:

These costs are highly significant for people on low incomes, especially those who are not skilled in dealing with service providers. There are no specific public subsidies (apart from limited public transport concessions and a discretion for Job Network providers to provide assistance with their own funds) to help with the extra transport and telephone costs (ACOSS sub. 32, p. 15).

These costs are amplified when vacancies are erroneous. As *UnitingCare* Australia observed, inaccurate listings and listings that are no longer available are quite common:

Many job seekers and staff have reported that listings vacancies on the linked computer systems is often inaccurate, causing great hardship to job seekers. Sometimes jobs are only listed, once they are filled to avoid other agencies placing their clients in these jobs, whereas other times employers list their vacancy with several agencies. Job seekers have no way of identifying these problems (sub. 12, p. 8).

The Commission has recommended some methods for sharing information between agencies that screen job applicants (chapter 14).⁸ This avoids wasteful requirements to fill in forms and may also reduce occasions when job candidates are forced to travel to an agency only to find that they are unsuitable on grounds that could easily have been communicated before hand.

7.3 Job Search Training

JST aims to augment the employability of job seekers by:

- improving job-search skills (such as how to look for a job, approach an employer, write a resume and present in an interview);
- improving job-seeker motivation; and
- expanding job seeker job search networks.

⁸ The concern to share information better remains even if draft recommendation 7.1 is implemented, since IA job seekers will still be referred to other recruitment agencies for screening.

In addition to providing job seekers with training in job search skills, providers are obliged to provide JST job seekers with free access to facilities such as photocopiers, word processors, telephones, job search activity on the internet, fax machines, mail facilities, and vacancies held on the National Vacancy Database and in newspapers.

Despite its apparent intention to provide job search skills, a primary (although implicit) function of JST is to act as a 'sieve', separating out the 'discretionary' unemployed and individuals who are not genuinely eligible for benefits because they already have jobs. This compliance effect is its biggest impact (chapter 5). Its average program effects are very small.

Moreover, the compliance effects afforded by JST are achieved early in the continuum of assistance, thus saving resources on subsequent more expensive forms of assistance as well as reducing benefit outlays.

In seeking improvements in the delivery of, and outcomes achieved under, JST it is important to appreciate the relationship between compliance and program effects. Modifications designed to increase the program effects of JST may well be at the expense of compliance effects and vice versa.

Options for future provision of Job Search Training

Given that the majority of 'outcomes' achieved under JST can be attributed to compliance effects, it may be possible to require job seekers to engage in some other, more cost-effective activity, for a similar duration (fifteen consecutive days) without sacrificing outcomes. This might include attendance at Centrelink offices, where job seekers could utilise self-help job search facilities.

Consistent with this view is the DEWRSB finding that supervised access to facilities, rather than formal or informal training, is the major component of JST. While service providers are contractually obliged to provide fifteen days of assistance, at a minimum this can comprise four half days of group work with the rest of the time being access to the provider's facilities. No provider reported offering more than ten half days of structured assistance in their program (DEWRSB 2000a, p. 65).

Further, compliance effects arise in part because merely being referred to a program acts as a stimulus to some job seekers to increase their job search activity and find a job. There may be some job seekers who increase their job search activity in this way, but are only successful in finding a job during or after their participation in JST. Since such an outcome would be recorded after the completion of JST it would

be attributed to the effect of the program. In these instances, the assistance provided to the job seeker in JST is immaterial to the outcome achieved (and suggests that ‘true’ program effects of JST may be less than those recorded (chapter 5)).

That said, it is not clear that there are other, more cost effective alternatives that would yield a similar compliance effect since:

- JST is a relatively inexpensive program (chapter 4);
- Job Network members have the capacity to exploit economies of scope and scale (by delivering other Job Network services); and
- while structured training only accounts for a small component (in terms of duration) of JST, it may be responsible for the bulk of program effects.

The Commission considers that the service should remain under the umbrella of the Job Network.

Will increasing flexibility reduce compliance effects?

Ordinarily, flexibility in service delivery, such as the provision of part-time or correspondence courses is seen as desirable.

And as noted by DEWRSB, some JST providers have restructured the way in which they deliver their services to accommodate other commitments that their clients may have, such as part-time work or parenting responsibilities:

... more flexible approaches reported by job seekers included undertaking Job Search Training by correspondence and attending training for two and a half hours for every day for five weeks (DEWRSB 2000a, p. 64).

However, DEWRSB (2001g) suggest that the high compliance effects associated with JST are likely to stem from a number of factors including that it is difficult to avoid. As the program lasts for fifteen days and takes place in an office setting it is more difficult to secure an exemption. While some scope exists for part time attendance, in the main, JST requires full time attendance. Hence, those job seekers who are in undisclosed employment are less likely to be able to combine both activities.

The Commission considers that JST providers should be left to determine the nature of their course materials, but that compulsory attendance requirements should not be varied.

Timing of Job Search Training

Currently, JST is provided to job seekers who have been looking for work for at least three months, and more usually at the six month stage. Some participants raised concerns about the timing of JST:

In reality, many jobseekers resent Job Search Training as "too little too late". Many feel that the training should have been provided earlier in their experience of unemployment (JobNet Tasmania sub. 16, p. 3).

In response to this concern JobNet put forth the option of giving eligible job seekers a voucher within the first month of unemployment, with a requirement that job seekers expend the voucher by the time they have been unemployed for six months.

This proposal would enable job seekers who feel that they would benefit from participation in the program to access JST early in their spell of unemployment. Conversely, job seekers who were confident of their ability to secure employment without JST could 'self-select out' from using the assistance unnecessarily. Where job seekers misjudge their competence, they would be 'roped in' at the six month stage (JobNet Tasmania sub. 16, p. 4).

While offering a number of advantages, this approach may again compromise the compliance effects of JST. Having a six month window in which to take up JST may enable job seekers who are not genuinely eligible for benefits (say due to existing employment) to schedule JST to fit in around their employment commitments.

Further, proposed changes to eligibility criteria under Australians Working Together will enable job seekers to access JST earlier:

- Mature age and Indigenous job seekers will be able to undertake JST as soon as they start receiving income support; and
- Other job seekers will be required to participate in JST after three months on unemployment benefits.

Improving service delivery

While the program effects of JST are modest, performance variation among JST providers suggests scope for improved outcomes over time.

DEWR outlined a number of measures to improve JST in its submission. In relation to facilities and equipment, the department suggested that:

It may also be helpful to introduce standards to cover the equipment and facilities that are made available for use by job seekers. This could be expressed as having up-to-

date equipment dedicated for use by job seekers participating in Job Search Training ... Areas to be covered include appropriate access to Job Search Training trained staff and supervision to help with job search activities, computers loaded with the latest version of software packages, telephones, printers, photocopiers, access to the Internet and facsimile machines, and newspapers (sub. 43, p. 62).

It is not clear however, that any of these facets of service are instrumental in achieving outcomes for job seekers — little is known about which strategies are more likely to result in employment outcomes.

Some participants attribute the program's results to improving job seeker confidence:

... job seekers ... may require a boost or a reminder that they have skills, abilities and their great experience. The program is more of a motivational exercise to raise their self-confidence levels (WISE Employment – Certain Employees sub. 24, p. 9).

DEWRSB's own study of the approaches of providers revealed little differences in the type of assistance offered by the top and bottom performing providers. For example, participants reported similar levels of assistance in preparing resumes, writing job applications, getting references for jobs and discussing the skills required to obtain employment. The main (identifiable) differences among providers was their propensity to send job seekers to an interview or assist them in interview preparation, both of which, on their face, appear to have increased the likelihood of job seekers securing employment. Given the imperative to maintain quality referrals to employers, minimum referrals to employers could not be realistically mandated.

DRAFT RECOMMENDATION 7.2

The Commission recommends that Job Search Training be retained.

7.4 Intensive Assistance

The primary function of IA is to identify job seekers' barriers to employment and assist them in overcoming these barriers. This may include improving job relevant 'soft' skills such as motivation and communication abilities, upgrading 'hard' skills such as numeracy and literacy or overcoming practical barriers to employment such as a lack of transport or work specific equipment.

Given the heterogenous nature of job seekers, the precise form of the assistance is unspecified, with providers paid largely according to outcomes.

This section explores whether there should be a minimum level of service afforded to all IA job seekers. An alternative of ‘personal accounts’ and the more specific question of whether wage subsidies should form part of the package of assistance is also considered.

Consideration is also given to improved activity testing and the duration of assistance. The associated issues of ‘portable’ case histories and coordination between programs are explored in chapter 14.

Minimum levels of assistance

Some participants noted that job seekers do not face a guaranteed minimum level of service under the Job Network. For example, ACOSS argued that:

... job-seekers have lost any guarantee from Government of a minimum level of assistance to help them overcome barriers to employment (sub. 32, p. 11).

Blind Citizens Australia argued that minimum service guarantees were important, particularly for the disabled:

DFACS has commenced a process to ensure that all employment services it funds comply with the Commonwealth Government's Disability Service Standards and associated minimum service standards. This will protect clients of these services by ensuring they receive an adequate minimum level of service (sub. 14, p. 2).

Accordingly, some participants suggested establishing minimum service levels as a means of ensuring that the needs of job seekers are met⁹.

For example, Blind Citizens Australia argued that:

Compliance with the Disability Service Standards should be extended to all Job Network service providers (sub. 14, p. 2).

Un(der)employed People's Movement against Poverty suggested that:

All Intensive Assistance clients should be given access to training funds as part of their career preparation during Intensive Assistance ... It should become part of the service delivery to encourage and financially support clients to access the training appropriate to their career goals and ambitions (sub. 3, p. 9).

However, requirements for minimum service levels would represent a substantial shift away from an outcomes-based system. The risk inherent in specifying minimum levels of expenditure or mandating the provision of particular services is that it will either involve expenditure on people who would have got a job anyway

⁹ ACOSS also put forth an option for the establishment and funding of minimum service levels. This option is explored in chapter 9.

or involve a cost that does not lead to the central outcome of the Job Network, employment. Unless the ‘intermediate’ outcomes are desirable in their own right, such spending represents an inefficient use of the scarce resources available for employment assistance. Further, providers and job seekers may lose sight of the ultimate objective if focus is shifted to the provision of minimum service elements such as training.

It is questionable whether government is better at deciding what the funds should be spent on, when the Job Network providers, chasing outcome payments in order to remain in business, do not consider such spending worthwhile. In its study of high performing sites DEWR found:

High performing sites provide a wide range of assistance and tailor services to individual needs. Consultants at these sites have greater autonomy to decide – with the job seeker – the most appropriate assistance that will help the particular job seeker find a job. High performing sites appear to ... meet identified job seeker needs and individual consultants have more autonomy about the services that can be purchased and the amount that can be spent (sub. 43, p. 63).

The Job Network Code of Conduct requires Job Network Providers to ensure that:

Job seekers in Intensive Assistance are provided with the assistance they need to overcome their barriers to employment (for example, training, fares, clothing, safety equipment, counselling, interpreting services and wage subsidies (Job Network Code of Conduct p. 3).

Further, providers must articulate their strategies and service options for particular client groups in a ‘Declaration of Intent’. This was aimed at increasing the accountability of providers, as noted by DEWR (sub. 43, p. 26):

The Declaration of Intent forms a part of the providers’ contract with DEWR. Providers must draw on the Declaration of Intent to draft an Intensive Assistance Support Plan that specifies the activities and services the Job Network member will provide to each individual job seeker remaining on their caseload 13 weeks after they commence. While the Intensive Assistance Support plan is not a legally binding document, as between the provider and the job seeker, DEWR checks the providers’ delivery of activities as specified in the Support Plan as a part of its contract monitoring activities.

The Commission considers that given the generalised minimum service requirements contained in the Job Network Code of Conduct and Declarations of Intent, any further move towards prescribing minimum service levels would result in increased costs without the guarantee of an accompanying benefit.

While the Commission is cautious about the application of minimum service levels at the *commencement* of IA, requirements to provide a minimum level of activity and/or expenditure after a specified time has elapsed has been raised as an option to

deter parking (chapter 9). This issue also arises in respect of extensions of IA duration (discussed below).

Provision of wage subsidies

While the provision of wage subsidies is not explicitly required under IA, it was envisaged that where appropriate, subsidies would form part of the assistance package offered to clients. This expectation was made clear in the tender documents for the second contract:

When necessary and appropriate, they [Job Network members] will also need to provide services or incentives to employers such as wage subsidies, workplace modifications or a retention bonus, that will encourage the employers to place and retain these job seekers in their workforce (DEWRSB 1999, p. 51).

However, it appears that the use of wage subsidies has not been as widespread as was anticipated:

When programs were cashed out there was probably an expectation that there was going to be a greater level of ... wage subsidies provided under Intensive Assistance than currently occurs (NESA, sub. 39, p. 8).

Official evaluations and independent studies indicate that ... very few [Intensive Assistance clients] receive subsidised employment experience ... This is contrary to the expectation of the Government when the Job Network was introduced. The expectation at the time was that providers would invest in assistance to overcome employment barriers, including training and employment subsidies (ACOSS, sub. 32, p. 6).

The lack of use of wage subsidies has been, in part, attributed to the fee structure for IA. This issue is dealt with more generally in the chapter on pricing (chapter 10 and appendix D), which examines the incentives inherent in the fee structure.

The discussion in this chapter addresses whether it is desirable to make wage subsidies a compulsory element of the assistance provided to IA clients generally, or to particular cohorts of disadvantaged job seekers (box 7.2).

Box 7.2 Participants' views on suggested use of wage subsidies

A number of participants suggested a greater role for wage subsidies under Job Network.

For example, the Salvation Army Employment Plus argued that the provision of wage subsidies for 'target groups' may be appropriate:

It may be appropriate however to allocate specific funding which could be used to provide wage subsidies to employers, along the lines of previous wage subsidy programmes and those currently in existence to assist Indigenous job seekers. Eligibility for wage subsidies could be determined in accordance with specifically identifiable target groups, eg. older unemployed people, people with complex needs etc. and provided to employers for set periods in order to identify additional opportunities for those who are more disadvantaged (sub. 35, p. 9).

Workplacement, which focuses on disadvantaged young unemployed, remarked:

A wage subsidy would provide an incentive for young people and service employers (sub. 19, p. 42).

Mission Australia suggested a role for wage subsidies as part of a scheme to guarantee employment to the long-term unemployed:

The possibility of offering guaranteed full time employment for at least six months is a strategic possibility worth considering for clients who have completed two years of IA. Several possibilities exist here. One would be a six month full wage subsidy for employers (sub. 44, p. 11).

Other suggestions included an increase in the quantum of funding so as to make the provision of wage subsidies more affordable:

It would however be useful if there was an increase in the floor price for Intensive Assistance Level B, in order to ensure that services such as wage subsidies can effectively provided ...

One suggestion would be for services like wage subsidies to be treated separately, giving providers an extra payment for providing these services. As wage subsidies are of benefit to only certain groups of disadvantaged job seekers, providers can still individually tailor programs for individual needs, while not being constrained by low payments (UnitingCare Australia sub. 12, p. 6).

Both ACCI and VECCI were also among the participants who supported their use:

ACCI acknowledges that there are some employers who see a role for incentives to employ the long term unemployed people (eg. 'Jobstart') and would like to see this type of arrangement returned ... ACCI supports a balanced approach to the use of incentives and subsidies (sub. 40, p. 8).

VECCI believes that one of the micro changes that accompanied the establishment of the Job Network (ie. the abolition of wage subsidies) impacted adversely on the creation of sustainable jobs for the unemployed, particularly in the small and medium enterprise sectors (sub. 11, p. 3).

Clearly, some participants' views that wage subsidies should be used with more regularity is premised on the belief that wage subsidies have an important role to play in achieving employment outcomes for disadvantaged job seekers. For example, *UnitingCare Australia* argued:

Because providers are not required to provide certain forms of help ... such as wage subsidies for paid work experience, which have been proven to be particularly helpful for the long-term unemployed, the long-term unemployed sometimes miss out on the assistance they need (sub. 12, p. 5).

This view is echoed by researchers such as Webster (1998) who contend that:

Of the existing evaluations canvassed here, wage subsidy programs appear to have the best post-program outcomes.

However, it is not clear that employment outcomes are sustained after the wage subsidy ends.

Second, the provision of wage subsidies to some job seekers displaces some workers who would have obtained jobs without assistance.

Whether overall unemployment is reduced in the long run depends on whether the effective supply of labour has been increased. Where wage subsidies prevent or reverse degradation of human capital in those it assists, without corresponding degradation in those job seekers displaced, then overall unemployment should be reduced. But whether wage subsidies have this desirable effect, rather than simply rearranging the queue of unemployed, remains somewhat uncertain. The empirical literature that attempts to encompass the general equilibrium effects of wage subsidies is far more equivocal about their effectiveness (Heckman et al. 1999) than the bulk of studies that measure partial equilibrium effects alone.

Even if the effects of wage subsidies were unambiguous, the case for *requiring* that wage subsidies be provided still remains unclear. As recognised by participants, one of the virtues of the current system is the devolution of decision making to the 'front lines':

"Cashing out" of labour market programmes into the intensive assistance fee was designed to put the purchasing power with the people who knew best how to address the individual jobseeker's needs the provider (NESA, sub. 39, p. 8).

In this context, the lack of use of wage subsidies by providers may simply reflect the view that other forms of assistance are more cost-effective. As reported by Kelly et al. (1999, p. 22):

While JNMs are aware their fee can be used to subsidise employers directly, in practice other measures are regarded as more effective and financial incentives are rarely used ... Several JNMs expressed the view that the important thing is to provide a person to

employers who is suitable rather than pay employers to take on someone who is unsuitable and subsequently leaves.

The Commission favours the current approach whereby providers, in conjunction with job seekers, determine the appropriate form of assistance.

Personal accounts

A possible alternative to prescribed minimum service levels would be to introduce personal accounts which would enable job seekers to have more choice over the nature and quantity of the services they receive.

For example, in the UK's Employment Zones program,¹⁰ individual benefit payments are combined with resources for active measures into 'personal job accounts' (Finn 2001, p. 19). An adviser of the Employment Zone provider and the job seeker agree on an action plan that commits some funding from the personal job account to overcome specific employment barriers. The job seeker does not have an entitlement to a particular amount of the personal account (and does not know what the potential value of the account is). Nor do they have the right to have a particular preference met. However, anecdotal evidence suggests that the concept has proved popular and has given greater power to job seekers, while not ceding ultimate control for expenditure away from the service provider.

While the difference between planning for work agreements in the Job Network system and personal job accounts is more cosmetic than real, the language and the overt process of consultation is different and may enhance engagement of the job seeker in the program.

Australians Working Together will implement a version of such personal accounts for training. Eligible job seekers, including some job seekers using IA, will receive a training credit, worth up to \$800 each, which can be spent on recognised training (Vanstone and Abbott 2001). Such credits will not be available for all IA clients.

Implementation of personal accounts in the Job Network would not necessarily require any additional budgetary outlays, with Job Network providers simply re-badging the current process for allocating expenditures to their clients. In the spirit of the flexibility that was intended under the Job Network, implementation of such an approach could therefore be left to individual Job Network providers if they considered it worthwhile.

¹⁰ The Employment Zones Program is similar to the Job Network in that it is a case managed contracted out outcomes-based model for providing active labour market assistance — but with competition only at the tendering stage for a particular zone.

The Commission seeks feedback on whether personal job accounts along the UK Enterprise Zones approach would be worth adopting for the Job Network.

Duration of assistance and improved activity testing

Typically, eligible job seekers receive IA for a period of up to twelve months for level A job seekers, and fifteen months for level B job seekers. As discussed in the following section, the period of assistance may be extended by up to 26 weeks.

However, as recognised by DEWR in its submission, both the frequency and intensity of assistance provided to job seekers in IA decreases rapidly after the first few months of assistance.

While levels of actual assistance vary considerably, generally the assistance provided to job seekers is most active, and contact with the provider most frequent during the first few months. After this, many Intensive Assistance clients undertake relatively low levels of job search or related activity and receive relatively low levels of assistance from their provider (sub. 43, p. 63).

Activity levels increase again towards the end of assistance.¹¹

The achievement of outcomes reflect a similar pattern. As DEWR observed, most outcomes are achieved by job seekers in IA within the first three months of participation. A smaller peak in outcomes occurs towards the end of the period of IA (figure 7.2).

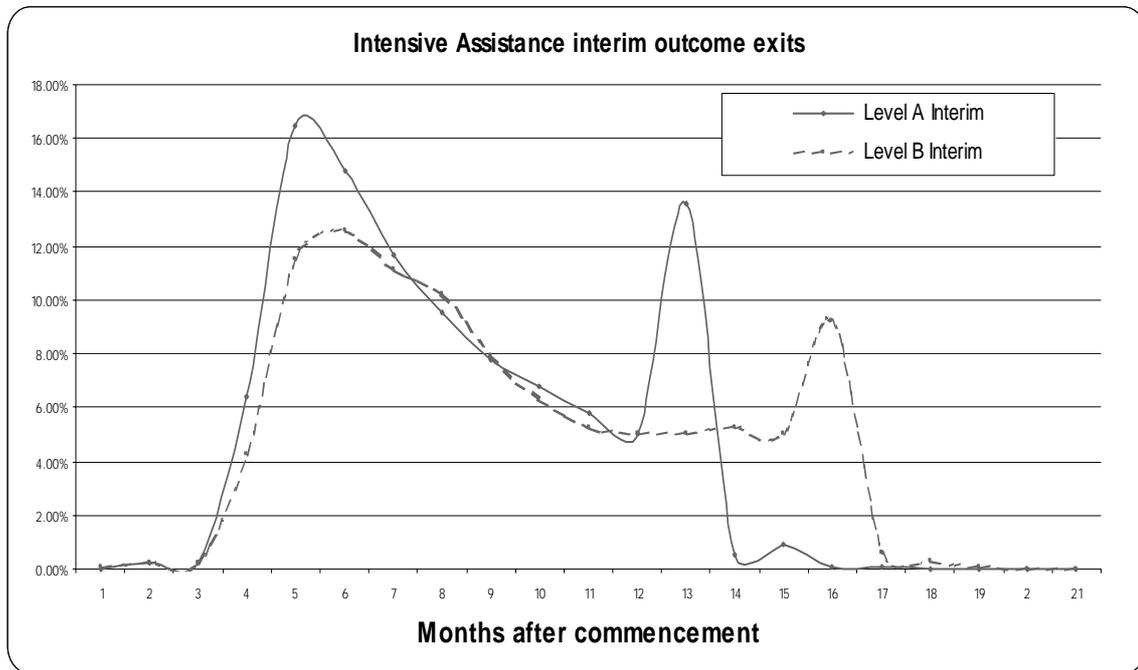
DEWR consider that the current system could be improved by shortening the period of assistance, but increasing the intensity of activity undertaken by the job seeker during this period (sub. 43, p. 63).

Australians Working Together has already announced some changes in this regard. From 1 July 2002, the duration of IA will be twelve months, irrespective of a job seeker's funding level.

The Commission considers the timetable of assistance offered by Job Network providers under IA is likely to be driven by the duration of assistance as prescribed by government. Given the apparent current 'down-time' in the middle period of IA, both job seekers and Job Network providers are likely to respond to a reduction in the period of assistance by increasing the average intensity of their activities. Overall activity per job seeker is not likely to be reduced, but rather concentrated in a shorter period.

¹¹ However, the focus shifts from one of pro-active job search activity to one of participation in community or volunteer work (DEWR sub. 43, p. 63)

Figure 7.2 Intensive Assistance interim outcomes



Data source: Information provided by DEWR.

In the Commission's view, shorter, more intense, activity might in itself be more effective, as it avoids long periods when job seekers may be left without assistance, with its de-motivating effects.

A second benefit from shorter duration IA is that where a person has not secured an outcome they would generally be referred to Work for the Dole and therefore have the potential to bring forward any benefit to the community that this program confers.

DRAFT RECOMMENDATION 7.3

The Commission recommends reducing the period of assistance afforded to Intensive Assistance clients to six months.

While the Commission considers that activity levels and frequency of contact with providers will increase as a consequence of shortening the duration of assistance, this could be reinforced by more stringent activity testing.

It is widely recognised that job seekers may lower their job search activities while participating in IA. This occurs because activity testing embodied in Preparing for Work agreements struck between participants and Job Network providers are typically less onerous than those applying outside IA.

As a consequence of this relative decline in job search activity, participants may be less likely to secure employment than if they had not participated in the program — for these job seekers the ‘net impact’ of the program would be negative. (Poor targeting could also contribute to a negative net impact (chapter 9).) Requiring more intensive job search activity would reduce the incidence of negative net impacts for individual job seekers, this in turn could considerably increase the average net impact of the program (appendix B).

Consistent with the Commission’s view on minimum service levels, it could be argued that providers face sufficient incentives to include appropriate activity requirements in Preparing for Work Agreements, since increased activity generally results in better outcomes. Hence, there is no need for a third party to impose universal activity requirements.

However, activity testing requirements are sometimes unpopular with job seekers and may therefore impede the building of rapport among Job Network providers and job seekers. This suggests a role for government in mandating activity test requirements.

DRAFT RECOMMENDATION 7.4

The Commission recommends that the Government mandate that the activity test requirements for Intensive Assistance participants be consistent with activity tests that apply under other labour market programs.

Scope to increase the duration of Intensive Assistance for individual clients

DEWRSB (1999, p. 66) noted that IA providers may, with the agreement of the job seeker, extend the period of assistance by up to an extra 26 weeks.

While providers do not receive any additional funding to provide this extended period of assistance, they may be eligible for payments if the job seeker subsequently achieves a primary or secondary outcome. In this respect, job seekers are like contingent assets. Providers who are not capacity constrained have an incentive to keep job seekers on their books for an extended period since a job seeker may find a job during that time generating an outcome payment.

This incentive could be remedied by disallowing extensions unless providers can demonstrate that job seekers will receive reasonable additional assistance. This might be achieved by requiring providers who seek an extension in the duration of

assistance to provide the relevant job seekers with a guaranteed level of service or expenditure.¹²

The Commission seeks feedback on the desirability of requiring guaranteed levels of service or expenditure for job seekers who have had their duration of Intensive Assistance extended.

7.5 New Enterprise Incentive Scheme and Self Employment Development

New Enterprise Incentive Scheme

The objective of NEIS is to create new employment opportunities by providing income support and training to help job seekers establish and run new small businesses (DEWRSB 2000a, p. 101). Prima facie, NEIS is extremely successful in this regard, generating gross outcome rates of around 81 per cent (chapter 5) and seemingly also generating additional ‘secondary’ jobs.

Further, it has been reported that the survival rate of NEIS businesses over the first twelve months of operation was considerably higher than that of other small businesses.

Around 75 per cent of all small businesses fail in their first year simply because their principals haven’t done their homework – failing to plan, research or properly cost their products and services. By contrast, only 25 per cent of NEIS projects meet a similar fate, thanks to their intensive grounding in business management issues (National NEIS Association, 2002).

These are positive results, but they require some scrutiny.

Job seekers for whom NEIS is likely to achieve a ‘net’ result

While many job seekers who are selected for participation in the program would have found employment in the absence of intervention, NEIS has an important role to play for job seekers who may be ‘job ready’, but face other barriers to employment such as discrimination. These include mature age workers and people from non-English-speaking backgrounds. For example, a survey conducted by Kelly

¹² This is akin to the issue of ‘parking’ addressed in chapter 9 where the Commission has raised a number of options for ensuring that job seekers receive ‘active’ assistance in overcoming their barriers while in IA.

et al. (2001) revealed that around 87 per cent of NEIS participants aged over 50 said that they would have found it difficult or very difficult to find work, or that they would not have found work at all, without NEIS (p. 38).

NEIS may also play an important role for those job seekers who would be unlikely to get a job at regulated minimum hourly wage levels but are nonetheless willing to work. This occurs where the value of a job seeker's labour is less than the mandatory minimum wage that they can be paid. To be considered viable, a NEIS business need only generate income at least equal to the basic rate of NEIS allowance (around \$9500 per annum).

Finally, NEIS may overcome mismatch (between the characteristics of the unemployed and the jobs on offer) which may affect hiring in existing firms.

However, survey results suggest that the job seekers most likely to benefit from participation in NEIS are unlikely to gain entry to the program; where they do gain entry, they are less likely to achieve a successful outcome.¹³ This can be addressed by more closely targeting eligibility criteria for the scheme as recommended by the Commission in chapter 9.

Secondary job creation

DEWR noted that a rationale for retaining NEIS was its ability to achieve secondary employment:

NEIS was retained on the basis that it differed from other labour market programs as it had the potential not only to provide ongoing work for the participant but also to generate additional jobs (sub. 43, p. 19).

Hence it is important to examine the extent to which NEIS has been successful in achieving this goal.

Secondary job creation associated with NEIS was assessed by Kelly et al. (2001), who found that for every 100 NEIS commencements 19 secondary jobs were created, but noted that not all of these jobs were net additions to employment, as some resulted from the displacement of other jobs (p. 6).

Lattimore et al. (1998) also estimated secondary job creation of approximately 0.5 full time jobs per NEIS business, but considered that displacement for secondary

¹³ For example, Kelly et al. (2001) found that NEIS participants aged 55 years and over could be identified as a group with markedly lower probabilities of finding employment or exiting benefit support (p. 27) and that around 70 per cent of NESB participants are classified as non-survivors, compared to about 57 per cent for participants with an English speaking background (p. 40).

labour creation was likely to be very high (in the order of 90 per cent). Having adjusted for displacement effects, secondary job creation was estimated at around one employee per 20 NEIS businesses, considerably less than the gross figure from the National NEIS Association of 8 new jobs for every 10 NEIS businesses (National NEIS Association, 2002).

Survival rate of NEIS businesses

NEIS participants receive training in small business management, business skills and business plan development. The National NEIS Association considers that the survival rate of NEIS businesses is greater than that of small business generally as a consequence of this training.

While the training afforded under NEIS is likely to increase the ‘human capital’ of participants, reverse the de-skilling associated with longer term unemployment and may well increase the survival prospects of participants businesses, it is not clear that the survival rate of NEIS businesses exceeds that of other small businesses.

In contrast to the National NEIS Association claim that 75 per cent of businesses fail in the first twelve months, Bickerdyke et al. (2000) estimated that the likelihood of an employing business exiting in the first twelve months of operation was 9.5 per cent (exits not only include business failure but other reasons for ceasing operations such as change of ownership and retirement).

If 25 per cent of NEIS businesses fail in the first twelve months as reported by the NEIS Association,¹⁴ this suggests that on average NEIS businesses are at least 2.5 times more likely to fail than small businesses generally.

Moreover, it needs to be recognised that even where NEIS businesses survive, the return to the participant is relatively low — ‘survivors’ median net income is around \$150 per week (the number of hours worked by participants, on average is about 42 per week) (Kelly et al. 2001).

Finally, as Kelly et al. (2001) remarked about the failure of NEIS businesses:

The results from this evaluation show that a significant number of participants who cease operating their businesses either end up with less money than they put in, or in debt. This is not a desirable outcome, even less so when it is considered that the people it is supposed to be serving should at the very least, not be any worse off for the experience. The Community would expect this of every other Job Network service (p. 67).

¹⁴ This is consistent with the finding by Kelly et al. (2001) that 12 months after the cessation of NEIS allowance there are at most 73 per cent of participants in self-employment.

Overall, NEIS is a relatively minor program, with claims about its success that are overstated. Its high gross outcomes reflect cream skimming and its net impact remains uncertain. Secondary job creation appears to be minor, once displacement is taken into account. Some participants are clearly worse off as a consequence of their participation in the scheme.

That said, NEIS has the capacity to deal with people that may be discriminated against as employees (eg certain ethnic groups, mature age workers) and the fact that entrepreneurial salaries are unregulated provides an antidote to wage rigidities that may affect the employment of some job seekers. Accordingly, the Commission recommends its retention, but with improved targeting (chapter 9).

DRAFT RECOMMENDATION 7.5

The Commission recommends that the New Enterprise Incentive Scheme be retained.

Self Employment Development

Assistance provided under SED

SED is an approved activity under the *Social Security Act 1991* that enables job seekers to research and develop a business idea while still in receipt of income support. While the maximum period for self development activity is twelve months, the period does not usually exceed three months.

As outlined in chapter 4, NEIS providers conduct assessments of the business ideas of individuals who wish to spend some time developing that idea instead of undertaking job search activity. As part of the assessment, providers suggest appropriate, typically self-directed activities that participants can undertake, such as market research, organising finance or premises and self paced development of technical and/or small business management skills.

However, providers are not contracted to guide the SED client through the activities recommended or provide clients with advice or training — in essence, participants remain unassisted for the duration of the program. This ‘hands off’ approach is likely to contribute to the relatively poor off-benefit outcomes for SED participants. For the year ended September 2001, only 23 per cent of SED participants were off-benefit three months after exiting from the program.

Further, in contrast to other programs where job seeker activity (as agreed and outlined in preparing for work agreements) is monitored, there is little monitoring of

SED activity. Centrelink monitors SED participants' compliance with their preparing for work agreement at three month intervals, but participation in the program usually only lasts for three months.

Program rationale

The rationale for SED remains unclear. Some providers consider that the program is designed as a forerunner to NEIS. In order to gain entry to NEIS, participants must have well developed business ideas. Where that is not the case, SED may provide participants with an opportunity to develop their ideas. However, very few SED participants appear to go on to the NEIS program. DEWRSB reported that for the year ended September 2001, only 5.4 per cent of SED participants went on to participate in NEIS.

Further, it is not clear that development of a business idea and continued job search are irreconcilable. For example, DEWRSB participation data reveal that around 56 per cent of NEIS participants had been on income support for more than six months (and hence subject to job search activity) before entering the program. This suggests that direct entry to NEIS is clearly an option.

SED is a very minor program, both in terms of the number of participants and expenditure — for the year ended June 2001, SED commencements only amounted to 1 316, less than half a per cent of the number of IA commencements for the same period. However, given the relatively poor performance of the program (as measured by off-benefit outcomes), the absence of a clear rationale, and the possibility for job seekers to enter NEIS directly, the Commission considers that the program should be abolished.

DRAFT RECOMMENDATION 7.6

The Commission recommends that the Self Employment Development program be terminated.

7.6 Project Contracting (Harvest Labour Services)

In addition to general JM services, the Job Network includes a specialised job matching function for seasonal harvest work (Project Contracting). Project Contracting fundamentally differs from other services provided under the Job Network umbrella.

It is less strongly connected to concerns to allay unemployment — all job seekers who are legally entitled to work in Australia, including holders of working holiday

visas, are eligible under Project Contracting. Further, no pre-registration by job seekers is required at Centrelink.

Participant data revealed that for the two harvests carried out over 1998-99 and 1999-00, 73 per cent of placements were for unregistered job seekers. Of the remaining 27 per cent, 21 percentage points went to job seekers who were only eligible for job matching services and the remaining six percentage points were for other Job Network eligible job seekers (DEWRSB 2001a, p. 20).

Moreover, even if Project Contracting were to become better targeted, for example by aligning eligibility criteria with that of other Job Network services, it is not clear that the take up of employment opportunities by disadvantaged job seekers would increase markedly. Many unemployed individuals appear reluctant to undertake such work and for some, particularly those with dependants, the cost of undertaking harvest work in locations remote from their homes may well exceed any resulting benefits. Such costs not only include foregone social security benefits but transport and accommodation costs. As noted by National Harvest Trail Working Group:

Even where pickers receive good pay for their work, they remain financially disadvantaged because of the length of time they have to go between jobs, moving from one harvest to another. They have high transport costs, which include petrol, maintenance and depreciation for those with cars and bus and train fares for those without. While pickers use cheap accommodation, this is still relatively expensive as they cannot take advantage of long term leases (pp. 26–27).

It is often those individuals that would incur transport and accommodation costs in any event (such as working holiday makers); those that can avoid transport and accommodation costs (such as local residents); or those that can avoid the costs of foregone social security benefits (illegal workers) that are willing to perform harvest work (box 7.3). Nor would requirements to undertake harvest work for the most disadvantaged workers likely lead to stable employment, which is the major goal for this group.

The major purpose of the scheme appears to be to meet seasonal harvest grower needs for casual labour. As noted by DEWRSB (1999, p. 95):

The objective of Project Contracting (Harvest Labour Services) is to ensure a satisfactory supply of labour to harvest areas that require considerable numbers of out-of-area workers to supplement local labour in order to harvest crops.

It is not clear that this purpose provides a rationale of these services by the Job Network as a government funded program.

Box 7.3 Sources of harvest labour

The report of the National Harvest Trail Working Group (2000) identified a number of sources of harvest labour which supplements the permanent workforce at peak harvest times. These included:

- Local labour resident in the area, which often forms the core of the workforce;
- Itinerant professional pickers;
- Working holiday makers and other eligible aliens;
- Younger Australians and New Zealanders looking for temporary work, including high school and university students;
- Older Australian, retirees or people who have been made redundant who travel around in camper vans or caravans supplementing their pension or retirement income (the “Grey nomads” or “Grey Brigade”);
- Illegal workers.

Source: Report of the National Harvest Trail Working Group 2000.

As the Report of the National Harvest Group (2000) noted, while growers experienced difficulties in sourcing adequate labour, those growers who were prepared to offer competitive wages and working conditions experienced less difficulty:

Larger, better organised properties that pay well generally have less trouble in obtaining pickers than the less well organised properties and those that do not pay as well ... growers who provide poorer conditions will have more difficulty in finding labour as past workers may warn others from taking jobs on these properties (p. 6).

Further, it appears that a lack of planning by growers may contribute to labour shortages:

... in a number of locations under significant crop expansion, little consideration was being given by growers to their forthcoming needs for seasonal workers (Report of the National Harvest Group, p. 6).

Moreover, Project Contractors are but one of a range of third parties who coordinate the supply of labour to growers. Currently labour hire firms, industry supported labour harvest offices and backpacker hostels also fulfil this role. It is not clear why Government contracted providers (project contractors) are required in addition to these parties. The possibility of withdrawing the services of these providers was foreshadowed in the report of the National Harvest Trail Working Group (2000):

It is possible with the expansion of labour hire firms ... that, in time, Project Contracting will not be required as a separate service ... the usefulness of this placement service [should] be reviewed in two years (p. 11).

In the absence of a clear rationale for subsidised provision of Project Harvesting services and the likelihood that in the absence of a government subsidy this function would continue to be adequately funded by private interests, the Commission recommends that subsidies to this service be removed.

DRAFT RECOMMENDATION 7.7

The Commission recommends that subsidies be removed for Project Harvesting Services.

8 Job seeker choices

Box 8.1 Key messages

Presently, job seekers exercise few choices in the Job Network.

For eligible benefit recipients, participation in Intensive Assistance and Job Search Training is mandatory.

While job seekers are given the ability to choose a Job Network provider, only about one in five do so, with the rest assigned a provider through an auto-referral system.

The majority of those who do exercise choice do not do so on the basis of Job Network provider performance.

Information available for informed choice of provider is poor.

In all but exceptional circumstances, job seekers are not permitted to move between Job Network providers if they are not satisfied with the service they are receiving. They must also stay in the program for its full duration unless they achieve a recognised outcome.

Job seekers have little power to influence the choice of the services they may receive in Intensive Assistance.

The scope for choice is also restricted by design features of the Job Network. The auto-referral system reduces the incentives for providers to market their services. Fixed caseloads also mean that network providers that are successful at recruiting new clients can only do so up to their prescribed capacity limit.

The Commission recommends:

- better information provision and referral approaches to increase choice of provider;
- the scope for voluntary participation in Intensive Assistance, but not Job Search Training; and
- some limited scope for movement by job seekers between Intensive Assistance providers and for job seekers to exit Intensive Assistance.

Caseload flexibility and changes to auto-referrals that may better facilitate choice are discussed in chapter 11.

Under the Job Network, job seekers may make a choice among competing service providers in their area. This was seen as a major advantage by a number of participants.¹ For example:

The power to choose between different service providers is very important for consumers of human services, especially those such as unemployed people who are economically and politically marginalised. There are many instances of poor quality service provision by organisations that occupy monopoly positions in the provision of human services for vulnerable people (ACOSS sub. 32, p. 16).

Job seekers and employers would benefit from the diversity in provider type, philosophy and approach to employment services by choosing a provider that suited them best. In time, service quality and provider reputation would influence choice and public information on the services and provider performance would facilitate it (DEWR sub. 43, p. 14).

However, in other respects job seekers have limited choice. The Government determines the broad categories of service (such as JM and IA). A profiling instrument (the JSCI) determines the eligibility of job seekers for IA and participation in JST is mandatory after 3 months of unemployment. JM services must be accessed immediately upon receipt of benefits. Benefit recipients are breached if they do not participate in a given program. Once job seekers have chosen, or been assigned to, a Job Network provider to deliver IA or JST, they may not move to another provider (but there is scope for using many JM providers). Within a program, providers determine what services they will supply to job seekers, with little ability by job seekers to influence the amount of individual expenditure or the areas to which this is allocated. As noted by Considine (2001, p. 126):

Job seeker empowerment therefore remains one of the weakest parts of the new order.

This chapter is about whether the existing configuration of choices are appropriate, including:

- the extent to which job seekers exercise informed choice of their Job Network provider (section 8.1);
- the implications of facilitating greater choice for the overall design of the Job Network (section 8.2);
- whether it is necessary to mandate participation in IA and JST for eligible benefit recipients (section 8.3);
- the scope for job seekers to complain about service quality (section 8.4);

¹ DETYA sub. 22, p. 4; Innisfail sub. 5, p. 4; Employment National sub. 28, p. 2; Kimberley Area Consultative Committee sub. 15, p. 1; Tangentyere Job Shop sub. 13, p. 1.

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- the potential for job seekers to change their providers if they are unsatisfied with their services (section 8.5); and
 - whether there are circumstances in which job seekers have rights to terminate their involvement in IA, without being breached (section 8.6).

8.1 Choice of Job Network provider

DEWRSB (2000a, p. 78) suggest that 56 per cent of IA clients choose their own Job Network provider on the basis of provider attributes, while another 11 per cent made a choice on another basis (table 8.1). These were the figures cited by the OECD in its (largely positive) assessment of the program (2001, p. 128).

However, these data are at odds with the perceptions of Job Network providers and others. Job Futures claimed that the general view was that only a ‘tiny minority of IA job seekers self select and that Centrelink automatically refers the giant majority of job seekers to Job Network providers on a random basis’ (sub. 30, p. 4). It saw the absence of publicly available administrative data on choice as symptomatic of a general lack of transparency in the system (a point explored in chapter 5). Other inquiry participants also considered that choice was rarely exercised (Salvation Army Employment Plus sub. 35, p. 14; Un(der)employed People’s Movement Against Poverty sub. 3, pp. 3, 11).

On the basis of administrative data, Centrelink estimated that only about 20 per cent of job seekers chose their own provider (sub. 45, p. 20), with the remainder being allocated a provider through the automated referral system. However, these data relate to all referrals, rather than commencements. Many referrals to IA do not commence (37 per cent²). It seems likely that choosers are more likely to commence than those referred through the auto-referral system. Using an estimate that 20 per cent of referrals choose their own provider, that 100 per cent of job seekers who choose also commence, and that 63 per cent of referrals commence implies that around 32 per cent of commencements chose their own provider.³

In normal markets, choices by consumers have a major effect on firm performance and incentives for provision of quality services. However, for this incentive effect to work, consumer choices must be informed and must systematically favour better over worse enterprises. It is therefore useful to examine the basis for choice in the

² Based on DEWR’s performance information pack for November 2001.

³ DEWR’s estimate of the level of choice was based on a survey of job seekers who commenced, and so adopts the correct sample frame for looking at choice. However, their 67 per cent cannot be reconciled with the administrative data. Other aspects of the survey suggest it may be subject to non-response bias and other non-sampling errors that could inflate the estimates (chapter 6).

Job Network and the extent to which choice is associated with different outcomes for the (few) job seekers who exercise it.

From DEWR's job seeker satisfaction survey, it appears that of those making a choice, convenient location seems to be the most important criterion for judgment, while performance of providers is considerably less crucial (table 8.1).⁴

Table 8.1 **Choice of Intensive Assistance provider**
1999

<i>Nature of choice of Intensive Assistance provider</i>	<i>Share of respondents</i>
Job seeker chose Job Network provider on the basis of provider attributes	55.7
Convenience of location	30.2
Reputation or recommendation	11.5
Response to advertising/personal approach	3.7
Special services	3.3
Personal experience	2.6
Other attributes of the provider	4.4
Chose, but not based on attributes (eg random)	11.1
Did not choose	28.4
Don't know/not answered	4.8

^a The data are based on a voluntary survey and is subject to error, particularly non-response bias. While there are some doubts about the reliability of the survey's overall estimate of the proportion of job seekers who choose, the survey may still provide reasonable estimates of the basis for choice of those who do exercise choice.

Source: Job Seeker Satisfaction with Job Network Members Survey 1999 cited in DEWR SB (2000a, p. 78).

There is some doubt, therefore, that even where it takes place, choice has been informed by the performance of alternative Job Network providers.

Barriers to choice

Participants in the inquiry saw many obstacles to effective choice (box 8.2), mainly related to poor information about the characteristics of competing Job Network providers. They were critical of the quality, type and context in which information was provided to job seekers about the Job Network and competing providers in their local area.

⁴ Preliminary analysis by the Commission of DEWR's survey of job seeker satisfaction also finds little differences in the rates at which choosers and non-choosers obtain outcomes or express satisfaction with the system, which is also suggestive that choice was not strongly informed by the performance of the providers.

Box 8.2 **Participants' views on barriers to choice**

People do not exercise their choice, other than convenience of location, because there is no true choice. There is not enough quality information available about why one service should be chosen over another. The information available (success rate of job matching and employment outcome) does not say much about what services a provider offers which set him/her apart from other providers (Un(der)employed People's Movement Against Poverty sub. 3, p. 11).

... many job seekers are so ill informed about the whole program of Intensive Assistance and have limited knowledge of the various providers that they do not exercise a choice and are referred through an automated process ... Furthermore the bureaucratic letters and complex messages given to job seekers when informing them of program assistance often obscure the benefits and do not engage job seekers positively in the process (Salvation Army Employment Plus sub. 35, p. 14).

A further concern is the lack of assistance that job seekers are given in selecting the Job Network provider, where that choice is available. It can cost substantial time and stress to 'shop around' for a provider, if you have only been provided with a list of organisation names by Centrelink. It further can cost substantial funds for a job seeker to travel to a provider to find out more information (Uniting Care sub. 12, p. 8).

Language barriers and literacy skills may hinder people who need to make a choice of Job Network providers. A person may be automatically referred to an Intensive Assistance provider after not responding to the time frame given for them to make a choice. The job seeker receives a letter and a list of providers with contact details and nothing more, it is not surprising that they may leave it up to Centrelink to make the decision for them ... Job seekers need to be "empowered," to make the kinds of choices mentioned here. According to some unemployed people who are registered with Centrelink they feel disempowered in a number of ways. When job seekers first register there is a great deal for them to think about and take in, for many this is at a time of great stress. Vulnerable job seekers, (CSP, mature aged, NESB) are particularly disempowered. Job seekers are not given information about success rates of Job Networks; they are given a piece of paper with a number of names and addresses of Job Networks and told they can make a choice if they want to. Centrelink staff are reluctant, (and most say they won't) recommend one service over another, presumably this includes talking about success (WISE Employment – Certain Employees sub. 24, p. 14).

ATSIC's own consultations and research has revealed that there is a poor understanding among Indigenous job seekers about the Job Network and the services it provides in assisting the unemployed ... A further finding was that some Indigenous people feel confused on how Centrelink and the Job Networks operate and what services they provide. Others feel that the services provided are not culturally appropriate. Because of this they will not approach Centrelink or Job Network to look for work or for employment assistance (ATSIC sub. 18, p. 2).

Currently, there is little information on Job Network providers in Centrelink offices or that is provided as part of the Centrelink interview with the job seeker:

A sheet of providers names with street address and generic description of services is insufficient to make an informed choice (NESA sub. 39, p. 16).

Touchscreens in Centrelink can also be used to find the names of the local Job Network providers. Their star ratings may also be obtained, but by a process that is difficult. A number of informed participants in the inquiry, including in the relevant bureaucracies, were unaware of the provision of star rating information over the touchscreens. In any case, the context underlying the star ratings is not explained, nor are other relevant aspects of the services of Job Network providers.

Providers have little incentive to market their services under the current auto-referral system:

The automated system removes any incentive for JNMs to provide information to customers or otherwise market their services (Centrelink sub. 45, p. 21).

While most Job Network providers rely on IA referrals from the automated referral system, specialised Job Network providers — those dealing with specially disadvantaged unemployed groups, such as job seekers with disabilities or from a non-English speaking background — can only acquire referrals through choice by job seekers.

However, awareness by job seekers of specialist providers may be low (and there is not an extensive distribution of each of the specialist groups across Australia), so that they may enter the automated referral system and be assigned a Job Network provider that is not geared to assist with their particular employment problems:

The current referral process requires Centrelink clients to specifically request to be referred to a specialist service. This system is adequate for those people with a disability who are already in touch with disability services. However, there are many people with disabilities who will not be in contact with disability services and so are unlikely to be aware that specialist employment agencies are an alternative (Blind Citizens sub. 14, pp. 1–2).

The diminished ability to choose is further weakened by contractually fixed capacities of providers. These further reduce the incentives by Job Network providers to provide information about their services and to market themselves effectively — an issue considered in detail below.

Overall, choice plays only a small role in the current Job Network. Reflecting information deficiencies and aspects of the design of the Job Network, few job seekers exercise it. Those who do, do so on the basis of attributes that have little bearing on provider performance. This raises the question of whether and how to

increase the scope for choice in a way that rewards good compared with poorer performers with a greater flow of referrals. The challenge is to increase choice in ways that have desirable impacts on the efficiency and equity of the Job Network. In general, this will require that job seekers are better informed about the quality differences in Job Network providers, and that Job Network providers have incentives to market themselves to job seekers.

How can informed choice be achieved?

It is possible that were the design of the Job Network to be altered (as discussed below), the incentives for better information provision by Job Network providers would be increased, without further action by government. However, this ignores the inadequacies of the touchscreens, the absence of a consolidated information source, possible deficiencies in multilingual information,⁵ the paucity of information about *how* to make a choice and the fact that some disadvantaged job seekers may not have the capacity to make an autonomous considered choice (WISE Employment – Certain Employees sub.24, p.14). In that context, government may have an active role in overcoming these deficiencies, as a number of participants argued (box 8.3).

For example, touchscreens could provide more information about Job Network providers, more akin to the information provided on the internet-based service.

In addition, a handout could be developed for job seekers that contained information such as:

- the value of choosing between different providers;
- the makeup and limitations of star ratings (avoiding undue emphasis on the ratings, as their singular pursuit by providers can distort incentives to provide other aspects of service);
- the role of specialist providers;
- questions that job seekers may find useful when assessing providers; and
- supplementary material supplied by local providers.

The guide pack could be provided to job seekers in a brief seminar prior to the exercise of choice, together with optional presentations by local providers. The choice of provider should ideally be made that day and certainly much less than the current ten days, or else the job seeker must meet some other mutual obligation test.

⁵ Multilingual problems are discussed by the Multicultural Development Association Inc and the Multicultural Employment Advocacy Network (QLD) (sub. 34, p. 5).

Otherwise there would be an incentive for some job seekers to delay choice so as to avoid mutual obligation.

Box 8.3 Participants' comments on solutions to overcome information problems

More performance data as well as information on the range of services provided would enable some job seekers to make a better informed decision. More assistance from suitably skilled Centrelink employees would also assist clients, providing the advice was balanced and fair (NESA sub. 39, p. 16).

... we are concerned that some job seekers need assistance in identifying how an agency can support them and address their specific needs, and consequently we believe that more could be done to help expose job seekers to the range of services provided by individual Job Network members without expecting job seekers to seek out agencies to understand the differences in style and operations (Salvation Army Employment Plus sub. 35, p. 17).

Providers should be required to make information on the range of services they offer publicly available, including to potential clients. The "star rating system" offers little guidance to assist job-seekers to make the right choice since it offers them minimal information on the actual services they will receive once they register with a provider, or how they will be provided (ACOSS sub. 32, p. 23).

Centrelink should provide everyone with a brochure that explains that all Job Network providers are different; some are community organisations, some profit making organisations, some work with particular communities or groups of people. This will allow job seekers to be more informed and it will encourage them to make a choice before they are automatically referred to a provider (WISE Employment – Certain Employees sub. 24, p. 15).

ATSIC believe more resources are required to raise awareness of the Job Network amongst the Indigenous community. Information and marketing of the scheme must take in to account potential cultural and language barriers in reaching the intended audience (sub. 18, p. 2).

Pilot testing of basic provision of information about Job Network providers to job seekers by Centrelink and Job Network providers has yielded a very high level of choice (box 8.4) — though it remains to be seen how informed those choices were.

Information programs should be subject to expert advice and periodic assessment to ensure that they remain effective. Videos and tapes are other ways of providing information to job seekers from Job Network providers, but should be backed up by impartial guidance from a Centrelink adviser about how to use the information.

Australians Working Together will introduce personal advisers in Centrelink for some benefit recipients (mature age workers, parents with school age children,

indigenous Australians and job seekers with special needs) to assess their needs better. These advisers may also play a role in facilitating the choice of IA provider for these disadvantaged job seekers, for example, by indicating the presence of relevant specialised service providers.

DRAFT RECOMMENDATION 8.1

The Commission recommends that provision of information to job seekers about the Job Network and the associated referral system be enhanced to allow greater scope for informed choice.

Box 8.4 Pilot testing of information provision to job seekers

Centrelink has trialed a new system of referrals to Job Network providers (the Streamlined Job Network Access and Referral Process Pilots). Under the pilots, eligible job seekers attend an information seminar about the Job Network and receive promotional material from Job Network providers and presentations by representatives from local Job Network providers (though not all will attend given the costs of direct presentations). Afterwards, job seekers are interviewed about which choice of Job Network provider they would like to make, with a call to arrange a meeting with the selected Job Network provider made on the same day if possible (with the purpose of reducing current delays in referrals). Most job seekers make a choice at the interview time (but others indicate they wish to undertake further research or do not make a choice). Approximately 80 per cent of job seekers have made a choice under the pilots — which Centrelink assesses to be around four times greater than under the normal Job Network system.

Unfortunately it is not yet known to what extent these choices are based on the success of the seminar or promotional materials, and how much it is an outcome of simply requesting that a choice be made at the interview. Qualitative research currently under way will investigate the reasons for the choices made.

Source: Information provided by Centrelink.

8.2 Job Network design issues and choice

If choice is to be made more effective it has a number of implications for restrictions on caseloads, sustainability, contracts, the role of the star-rating model, the auto-referral system, and potentially perverse incentives by job seekers and Job Network providers. In principle, a greater capacity for choice under the Job Network has the capacity to reduce regulatory oversight and problems of micro-management, and to increase the empowerment of job seekers.

Supply restrictions and sustainability

Were the scope for choice to be expanded, then more job seekers may be matched with Job Network providers that more closely meet their personal needs. It would encourage Job Network providers to offer services to particular job seeker types (such as mature age, youth, indigenous and disabled) so long as referral numbers made that specialisation viable.

However, under DEWR contracts for IA⁶, individual Job Network providers have fixed contract capacities.⁷ Were choice to be exercised more effectively, some Job Network providers would have a level of demand that exceeded their contracted capacity, so that the preferences of some job seekers could not be met.

Whilst ostensibly job seekers are encouraged to exercise choice, in reality choice is not the overriding factor in referral to a specific provider. For example the supply of job seekers vis a vis the availability of places drives the referral process. If a job seeker makes an informed choice to be referred to a specific provider and there are no available spaces in that provider's contract capacity, then the job seeker will be referred to the next available space (Salvation Army Employment Plus sub. 35, p. 14).

... the Department [DEWR] is under immense pressure to keep providers up to their contract capacity, and these issues override any impact that freedom of choice has on the process (WISE Employment – Certain Employees sub. 24, p. 7).

Moreover, existing caseload quotas for generalist Job Network services combined with automated referrals for these services, but not specialised services, inhibits the development of specialised services. In many cases, a job seeker will not be able to find a Job Network provider that would specialise in their category. For example, there are no specialist providers at all in two states and territories (ACT or Tasmania). There are only 11 youth Job Network providers across four states, notwithstanding the unique problems faced by this group.

There is a tension between increasing the exercise of choice, fixed caseloads and the auto-referral system that needs to be resolved. The Commission advocates relaxation of caseload quotas (chapter 11), which should address this tension.

⁶ There are also fixed caseloads under JST so that the same issues arise for this service. For JM, the Job Network provider is contracted to supply services up to an agreed number of JM placements during the contract period.

⁷ There are limited provisions for changing these constraints by a small margin at the discretion of DEWR.

Auto-referrals

Invariably some job seekers will not make choices even if given greater scope to do so. However, it is inconsistent to adopt a choice-based approach that allows customer-sensitive providers to grow faster, and then continue to adopt the present auto-referral system that would reward providers that were under capacity. Changes to the auto-referral system are discussed in chapter 11.

Perverse incentives?

While choice may increase pressures for performance, it may also be exploited by Job Network providers to increase the scope for 'creaming' — targeting assistance at those job seekers with the best job prospects within any group. However, as noted in chapter 9, 'creaming' may not be such an adverse phenomenon. In any case, as noted by ACOSS (sub. 32, p. 21) there is an incentive under the current fixed caseload model for a provider to recommend multiple breaches for a job seeker who has a low probability of an outcome, which is an adverse form of targeting that would be largely absent in the flexible caseload model that underpins effective choice. The current arrangements also lead to undisclosed 'parking' of some job seekers, whereas greater disclosure to job seekers and choice would reduce this phenomenon.

One possible concern about job seekers' ability to choose is that a few might wish to select 'soft' Job Network providers — those that impose less stringent job search requirements and were less diligent in enforcing activity testing. However, the incentives provided by the star rating system and outcome payments would not make such a 'soft' option viable for a provider.

Another potential issue is that the choices of job seekers might be weakly correlated with the ability of a Job Network provider to find them jobs. For example, choice will also be affected by quality of service considerations such as convenient location, pleasantness and empathy of the staff and the quality of the assistance programs run by the agencies, which may not always be associated with positive outcomes. However, these are also legitimate aspects of the performance of Job Network providers, which may have been underplayed by the current system.

On the other hand, to the extent that job seekers make ill-informed choices (for example, random choice, or choice based on unfounded rumours) then choice does not genuinely empower job seekers or provide strong performance incentives for Job Network providers. In that case, star ratings and contracts might have to fulfil their present roles. This suggests that mechanisms employed in facilitating informed

choice are very important ingredients in making a choice-based approach truly useful.

A further possible concern is that were the exercise of choice to be significantly expanded it would probably increase the importance of locational convenience as a business strategy for Job Network providers. In some locations there might be competition between Job Network providers for scarce office space, with the rents earned by Job Network providers being competed away by landlords. However, while it appears that locational convenience is currently the most salient aspect of choice (table 8.1), it is not clear that it would be once job seekers were better informed about other features of the services of Job Network providers. It is also worth noting that most job seekers are currently happy to be auto-referred even when they know the different locations of the Job Network providers in their area.

Overall, increased scope for job seekers to exercise informed choice of their service providers is empowering, targets services better, and puts greater competitive pressure on providers. It comes with few risks.

8.3 Choice of entry into the program?

Currently, once a benefit recipient is assessed as eligible for IA then attendance at a Job Network provider is generally mandatory⁸ for the program duration or until an eligible outcome is achieved (a job, off-benefits, study). One option would be to make entry into IA voluntary. Thus job seekers who met the IA criteria would be offered the opportunity of participating in the program, but would not be required to do so. Were they not to accept the offer, there could be some other facet of mutual obligation (such as Work for the Dole) that they would be obliged to attend.⁹ Choice of entry has four main advantages.

First, it would mean that the Job Network providers would have no guaranteed market. Even a single provider in a remote location would have to actively seek to convince job seekers that participation in the program is likely to be beneficial. It

⁸ However, there is scope for job seekers to have a special needs assessment that refers them to another program if they have been mistakenly referred to IA. This affects few job seekers. Also, under Australians Working Together, Job Network providers will be permitted to re-refer job seekers to other programs — such as Work for the Dole — in the first month of their IA participation.

⁹ It should be noted that recent amendments to breaching arrangements seem to provide a degree of defacto voluntarism. Job seekers who are breached for refusing to go to IA will be given the opportunity to preserve their benefits if they take up one of the recognised mutual obligation options, including Work for the Dole.

thus overcomes some of the current problems of weak competition between providers in some regional markets.

Second, job seekers who thought that the Job Network was unlikely to benefit them would not be required to attend. It is likely that such job seekers would disproportionately comprise two groups: those with a high probability of getting a job anyway and those with a very low probability of getting a job (including erstwhile repeat users of the program).¹⁰ Since the first group contribute to deadweight costs if they do participate in the program, while the second group do not contribute to program success, choice of entry may increase overall program effectiveness and lower the budgetary costs. A possible drawback is that some job seekers with ill-informed views about their prospects or about the capacities of Job Network providers may not participate when they should. This could partly be remedied by efforts by government to provide information and by Job Network providers to market their services. But otherwise the notion that government should use compulsion as a remedy for this problem ignores the cost of coercion and the inefficiency of requiring everyone to attend a program when only some of the non-voluntary attendees benefit from compulsion.

Third, voluntary participation is likely to engender a more positive attitude about the Job Network, since Job Network providers could more readily market their services as genuine opportunities for achieving employment, rather than a service that job seekers are obliged to consume. Several participants considered that compulsion marred the perception of the Job Network:

... compulsory attendance reinforces a negative perception, instead of giving young people any understanding of how the Job Network can assist them. The entire system is perceived as based on a punitive foundation and thus a culture of resistance develops amongst young people. It is assumed that young people do not want to work, a suggestion that is offensive to many of them. Many young people find interaction with the system so stressful they prefer not to utilise it in a positive manner (WorkPlacement sub. 19, p. 25).

...[the perception of coercion means that if job seekers] are forced into JN they will put little effort into learning about providers or choosing a provider (Quest Solutions sub. 38, p. 3).

Fourth, it would increase the capacity for disadvantaged job seekers to select from a menu of options when responding to their unemployment.

¹⁰ The Commission understands that around 40 per cent of current IA users were previous users of Working Nation programs, and that as the Job Network matures, a significant proportion of IA users will have participated in IA in the past.

It should be emphasised that the lack of compulsion to attend IA does not mean that mutual obligation would cease to apply. It would simply increase the options by which these obligations are fulfilled. Indeed, at present a person that is ‘parked’ in IA may have relatively light mutual obligations. The Commission's proposals to deal with activity testing (chapter 7), re-referrals (chapter 9) and payments (chapter 10) would largely overcome such parking incentives — and combined with choice of entry — would reinforce, not undermine, mutual obligation. Thus, the usual expectation is that a person who refused to go on IA would participate in Work for the Dole or some activity that contributed to the general community and be obliged to meet any activity test.

One aspect of concern is the compliance effect, which, by definition, would no longer hold were participation to be voluntary. However, the compliance effect is relatively modest for IA (chapter 5) and would probably be stronger for the substitute program they would be obliged to attend (Work for the Dole would be the most usual alternative to IA).

In contrast, the compliance effect is high for JST (chapter 5), producing significant budgetary gains. These benefits are achieved earlier than those of rival programs because program eligibility occurs after 3 months of unemployment duration (usually much before eligibility for IA). This, and the fact that compulsion only extends over several weeks, suggests that compulsory attendance be maintained for JST.

DRAFT RECOMMENDATION 8.2

The Commission recommends that entry into Job Search Training remain mandatory for eligible benefit recipients. Entry into Intensive Assistance should be voluntary for eligible benefit recipients rather than mandatory, provided they participate in some activity that meets mutual obligations.

With a voluntary program, it would also be appropriate to allow scope for someone assessed through the JSCI as eligible to enter the program at a later stage if they thought it inappropriate at present. For example, they may say no to IA, undertake some minimum period of Work for the Dole and then be given another opportunity for participation in IA.

8.4 Complaints mechanisms

It is important to have ways in which job seekers can communicate quality problems or other grievances. Un(der)employed People’s Movement Against

Poverty (sub. 3, p. 12) saw such a complaints mechanism as essential for empowering job seekers:

[The Job Network] is responsible for major life changing advice and through their recommendation of breaches, for significant financial losses of their clients. Public accountability and a pathway to reverse decisions or complain about discrimination and lack of quality service is essential in a climate, where government directly cannot be held accountable any longer.

DEWR has established such a mechanism (with analysis of the nature of the complaints discussed in chapter 6). Of calls received by the DEWR Job Network Customer Service Line about half are complaints about the service quality provided by Job Network members.

NESA (sub. 39, p. 16) said:

Current complaints procedures are considered to be adequate. There are clear and unambiguous guidelines for complaints handling by providers which have been established by DEWR. More public reporting regarding the volume, nature and resolution of complaints would be welcomed.

Some participants argued that an independent agency, rather than DEWR, was necessary for hearing job seeker complaints (Uniting Care Australia sub. 12, p. 9; Un(der)employed People's Movement Against Poverty sub. 3, p. 12 and ACOSS sub. 32, p. 3). The value of an independent regulator is raised in chapter 14, but the Commission is concerned that it may not produce significant benefits in this area.

But the effectiveness of a complaints mechanism also depends on other aspects of its design (and particularly the ease of lodging a complaint and the procedures that occur once a complaint is lodged).

The Commission seeks feedback from participants on whether the existing complaints mechanism is effective at enabling job seekers to air their grievances, and if not, to suggest alternative mechanisms.

The existing complaints mechanism allows job seekers to change case managers — and in exceptional circumstances — Job Network providers, if there is a breakdown in their relationship. This raises the question of whether there could be broader scope for portability.

8.5 Portability between Job Network providers

In many services, such as most retail purchases, there is no requirement to stay with a particular provider once an initial purchase is made. This is beneficial because it

allows consumers to try the services of a particular provider and then to stay or go depending on their satisfaction with service quality/match and on their presumption that the service of other providers is better.

Some participants in the inquiry saw a role for allowing job seekers to move to other providers if they wished (Centrelink sub. 45, p. 21; Salvation Army Employment Plus sub. 35, p. 17; ACOSS sub. 32, p. 22; WISE Employment – Certain Employees sub. 24, pp. 15–16). For example, WISE Employment – Certain Employees (sub. 24, p. 16) noted:

The right of the job seeker to choose the best provider for them falls short of expectations when someone chooses a Job Network provider and signs a Mutual Obligation form and then is not happy with the quality of service and is therefore stuck for the duration of the obligation.

However, there are some obstacles to implementing portability in IA.

The major obstacle is that a Job Network provider may have made a significant investment in a job seeker but could lose that investment if the Job Network provider switched to another provider. A Job Network provider has made an implicit contract with the job seeker to provide a set of services over a given period in exchange for possible outcome payments. Were a job seeker able to void the contract at any time by going somewhere else, the incentive for the Job Network provider to make any upfront investments in the employability of their clients would be very weak. The situation is analogous to the contract between a builder and a customer — one cannot wait for most of a building to be completed and then decide on someone else to complete the building without paying the first builder.

It is possible this problem could be overcome by having a lower cost gateway period in IA funded by a service fee, which was mainly oriented at needs assessment and coaching, rather than more costly interventions, such as wage subsidies or external training. Job seekers could move to another provider during this period (one to three months was recommended by WISE Employment – Certain Employees sub. 24, p. 15). However, this phased assistance approach might delay the use of costly interventions that might be effective for particular job seekers. Moreover, the willingness of another provider to sign on a job seeker from another provider would depend on whether they were also able to obtain the service fee for assessment/coaching, which if forthcoming, might represent a significant new budgetary outlay. However, because job seekers are not bearing the cost of portability, they may elect to move when the gains are not that great.

However, it is possible that portability could be permitted in several circumstances:

- in an initial short period — such as the first few days in which a registration meeting between the job seeker and the Job Network provider has taken place

and a planning for work agreement has been drawn up — the job seeker could elect to move to another provider. This would enable job seekers to see if the Job Network provider was likely to meet their needs;

- the Job Network provider has failed to meet its reasonable (implicit contractual) obligations with respect to the job seeker. For example, an IASP might include the provision of fork lift driver training. If the Job Network provider were not to provide this, it might constitute grounds for moving to another provider. However, it should be noted that determining when such a breach is unreasonable could be difficult to judge (for example, a service might not be provided because the job seeker has been poorly motivated). On the other hand, the evidence from use of the complaints mechanism does not suggest that such a provision would be overused; and
- mutual agreement was reached between a job seeker, their current Job Network provider and a prospective Job Network provider (with the latter probably having to pay the other for the right to the client). In most cases, the transaction costs of such arrangements would be prohibitive (for example, records of costs spent on a client, which might form the basis for an exchange, would not be adequately verifiable), but there is no reason to outlaw them per se.

DRAFT RECOMMENDATION 8.3

The Commission recommends that there be some scope for job seekers to change their Intensive Assistance Job Network provider, but that portability should be limited to:

- (a) a short period at the commencement of program participation; or*
- (b) where a Job Network provider has failed to meet reasonable obligations to the job seeker; or*
- (c) where mutual consent is given by the job seeker and current and prospective Job Network providers.*

8.6 Choice of exit?

Finding a job, undertaking eligible training or going off-benefit are always viable program exit options for a job seeker. In chapter 9, the report discusses the possible capacity of a Job Network provider to re-refer a participant in IA to another program. The question is whether job seekers should possess similar reciprocal rights, which would allow them to leave IA if they wished to, move onto another eligible mutual obligation activity and yet retain social security benefits. The same difficulties that beset portability also affect the scope for such a right. In particular,

it would reduce the returns from investing in job seeker skills and employability, with adverse effects on program performance. However, as with the portability case, there may be grounds for exit where the Job Network provider has not met their obligations.

DRAFT RECOMMENDATION 8.4

The Commission recommends that job seekers be able to exit Intensive Assistance if a Job Network provider's reasonable obligations to a job seeker have not been met, provided that they participate in some activity that meets mutual obligations.

9 Targeting

Box 9.1 Key messages

The JSCI needs to be further refined and better implemented.

- While there may be short-term pragmatic grounds for automatic admission of the long-term unemployed to Intensive Assistance, in the longer-run, an evidence-based approach based on risk-assessment and efficacy should remain the major basis for eligibility to the program.

Problems in classifying job seekers using the JSCI, the structure of the payments for Job Network providers, and weak responsiveness by some job seekers to labour market interventions mean that a significant number of job seekers receive little assistance while participating in 'Intensive' Assistance — these are the so-called 'parked' job seekers.

More consistent activity testing (chapter 7), the real availability of choice (chapter 8) and changes to pricing (chapter 10), are likely to reduce targeting and parking problems in Intensive Assistance. However, other reforms are likely to be useful:

- building on changes anticipated by Australians Working Together, there should be greater scope for Job Network providers to re-refer job seekers to other, more appropriate, programs if it is judged that they will not be helped by Intensive Assistance; and
- there should be mechanisms that discourage ineffective recycling of job seekers through the same programs.

There should be no constraints on the capacity of Job Network providers to specialise — so that they can cater for any mixture of job seekers.

Further refinement of procedures in Centrelink for referrals to IA may be needed to overcome barriers to participation by certain disadvantaged groups — existing pilots should be extended.

Other Job Network programs — particularly NEIS and SED — are poorly targeted. SED should be terminated. If not, it and NEIS need to target more selectively those who can participate.

9.1 Introduction

Targeting assistance and streaming job seekers to the most appropriate program are essential requirements of efficiently and effectively run employment services. The roles of targeting and streaming are to ensure that:

- unnecessary funds are not spent on job seekers who are capable of finding a job without such assistance;
- Job Network funds are allocated to those job seekers who are responsive to interventions, but with funding levels that take account of the different benefits from achieving outcomes for different types of job seeker; and
- those for whom employment is not yet a realistic outcome are referred to other programs.

These issues are addressed in several ways in the Job Network.

First, using the JSCI (described in chapter 4), job seekers are classified into broad groups based on their risk of future prolonged unemployment. The presumption is that the greater the anticipated duration of unemployment, the greater are the social returns from early intervention and the less likely it is that the job seeker will get a job without assistance. Job seekers are then streamed to parts of the Job Network and related programs that provide higher levels of assistance the greater is their estimated risk. For example, under IA, higher outcomes payments are made for higher risk classes — though present differentiation by risk category is rather crude (chapter 10). Some job seekers with special needs are referred to programs outside the Job Network, such as the CSP (chapter 4).

Second, Job Network providers are given substantial discretion to determine how much assistance to provide to individual job seekers and are rewarded by outcome payments and higher performance ratings if they achieve job or other eligible outcomes. This provides incentives for providers to target assistance at job seekers who would not otherwise get outcomes, but who are responsive to interventions.

Third, Job Network providers have some limited capacity to re-refer job seekers who they consider have been inappropriately referred — though this capacity is to be widened with Australians Working Together.

Fourth, there is scope for Job Network providers to specialise in assisting particular groups of job seekers. Specialisation allows a Job Network provider to tailor its services to a group that has distinctive barriers to employment or that responds better to some interventions than others. Some degree of specialisation may improve outcomes for such groups (such as Indigenous, young, NESB or job seekers with disabilities).

This chapter examines the major weaknesses in present targeting arrangements and suggests some options for reform. It:

- examines whether job seekers' needs and risks — the basis for streaming clients into different parts of the Job Network — can be classified better (section 9.2). This mainly relates to the JSCI, its implementation and alternative methods for determining who is eligible for IA;
- investigates the incentives for providing little assistance to certain job seekers (so-called 'parking') and considers the effects of these incentives on efficiency and equity (section 9.3). The sources of the parking are multi-dimensional and complex — as are its solutions. Section 9.4 examines options for re-referral of job seekers who are not going to be realistically assisted by the Job Network and also points to other parts of this report where measures that could limit parking are discussed;
- considers whether there is scope to improve the capacity for specialisation of Job Network providers, so that they can tailor arrangements for groups of job seekers who share common characteristics (section 9.5); and
- considers pathways for the more disadvantaged job seekers — such as Indigenous job seekers (section 9.6).

The focus of this chapter is on IA, given that most resources flow to this program and that it deals with the most disadvantaged group of job seekers. However, targeting issues also arise for other Job Network programs — JST, SEDS and NEIS — and options for change are examined in section 9.7.

9.2 Classifying job seekers

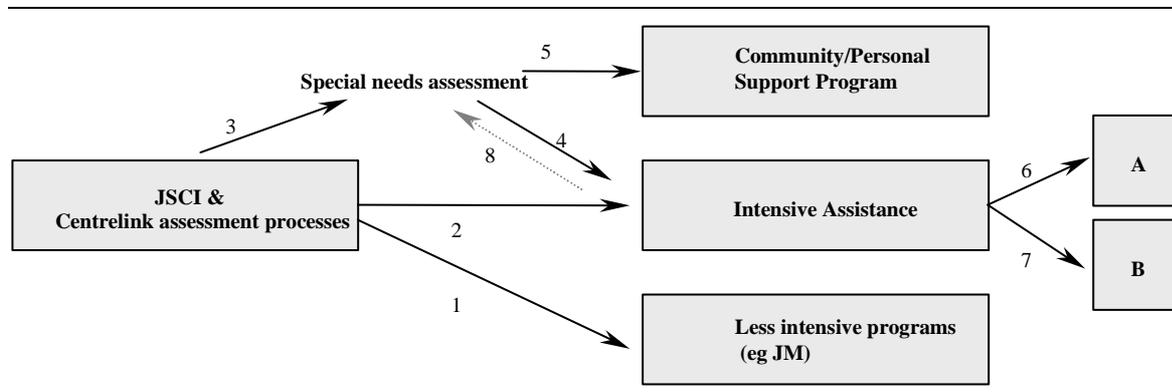
The Job Seeker Classification Instrument (JSCI)

The main purpose of the JSCI (described in chapter 4) is to classify job seekers by their risk of continuing unemployment. The JSCI plays a central role in the Job Network, since its thresholds determine whether a job seeker is eligible for participation in IA — and once in that program — to one of the two different payment categories. The thresholds also determine the overall level of demand for IA services. Other information gathered during the assessment may result in referrals to programs outside the Job Network.

Any profiling instrument is subject to some error. Each of the numbered arrows in figure 9.1 are classification decisions that are prone to error. This implies that within any of the final destinations for job seekers (shaded grey) there will be

people who should have been assigned alternative destinations (there are in fact 12 combinations of error that arise from the system).

Figure 9.1 The classification process



Referral errors can have substantial implications for the Government's budget, the appropriate assistance for unemployed job seekers and for the viability of Job Network providers. For example, if:

- newly unemployed job seekers with high risks of unemployment are missed by the instrument then the social and budgetary costs of helping them later when they have experienced a prolonged period of unemployment may be much higher;
- a significant percentage of job seekers classified to IA are parked because the costs of removing their employment barriers are too high relative to outcome payments, then a whole sub-group of job seekers appear to be getting assistance, but are in fact getting very little help. The classification of these job seekers as disadvantaged is not wrong, but arguably their referral to IA is inappropriate if it cannot help them; or
- job seekers with mental, drug or other severe social problems are inappropriately referred to the program, then Job Network providers will face administrative, assessment and counselling costs prior to their revelation and re-referral.

These potential errors underline the importance of designing and implementing the JSCI properly. But they also emphasise the rationale for the instrument in the first place, since alternative rule-of-thumb approaches for eligibility are likely to have higher classification errors than an evidence-based profiling instrument.

Incorrect referrals to IA

Overwhelmingly, concerns expressed by the industry related to classification errors that meant that job seekers were referred to IA when:

-
- they should have been referred to CSP (soon to be replaced by the PSP). This partly reflects disclosure problems (discussed later) and also raises the role of re-referrals (which is covered in section 9.4); or
 - their eligibility for IA had lapsed prior to commencement at the Job Network provider. This arises because there is a, sometimes significant, delay between implementation of the JSCI and referral to a provider — in which time a job seeker may become ineligible for IA (for example, because they go off benefits or become a lone parent). NESAs indicated there were many cases where job seekers were exited *prior* to formal commencement with a provider because of inappropriate referral of this kind (sub. 39, p. 9).¹ This ‘classification’ issue can be attributed to delay in the auto-referral system rather than the JSCI itself. DEWR has proposed and piloted streamlined referral processes (described in chapter 8 and analysed in chapter 11) to reduce referral delays.

Other classification errors are also very likely, but they may not be as fully reported by Job Network providers. For example, incorrect diagnosis of a job seeker for eligibility for IA where JM would have been more appropriate provides a windfall commencement fee and a good prospect of the (higher) IA outcome payment to the provider.

Goddard, in summarising the industry view about referral errors (sub. 2, p. 5), commented:

Anecdotal evidence from a wide range of intensive assistance providers throughout Australia contacted in the course of my 1999 research study clearly suggested to me that inappropriate referrals to intensive assistance providers was a significant issue nationally. I was repeatedly informed that inappropriate referral of clients to intensive assistance is wide spread, a significant source of job stress for the intensive assistance manager and a difficult phenomenon to address with the referral agency.

However, there is little substantive evidence on the extent of the problem. There are relatively few requests by Job Network providers for re-assessment by Centrelink of job seekers *after* registration of the job seeker with the provider. This probably reflects several factors and does not necessarily repudiate the existence of a problem:

- if a Job Network provider has spare capacity, the motivation to request a re-assessment is low since it can receive the commencement fee and park the job seeker without forgoing an alternative referral (as discussed in box 9.4);

¹ In fact, there is no formal DEWR mechanism for exiting an IA referral prior to commencement. However, in a number of cases, in the period between implementation of the JSCI and the prospective commencement (which can be up to six months), the job seeker’s circumstances may have changed (eg their partner may get a job) making them ineligible for IA.

-
- the motivation by the Job Network provider to only seek such re-classification if the disadvantage is greater than that identified by the JSCI; and
 - as noted in section 9.4, Job Network providers must pay a charge for re-assessment once a job seeker has registered with their service (and the provider has received a commencement fee). This somewhat discourages requests for re-assessment after registration.

Implementation problems

The JSCI is undertaken early in a job seeker's time of interaction with Centrelink and the Job Network. Centrelink, (sub. 45, p. 17) commented:

The JSCI is not as effective as it could be when asked at initial new claim interview. Many job seekers are visibly stressed about their qualification for payment. They see assessment of barriers for employment purposes as secondary or not relevant. At new claim interview customers are wary of identifying barriers, and will answer the questions attempting to guess what they think the Centrelink officer wants to hear rather than reveal their real circumstances.

In addition, the JSCI relies heavily on self-disclosure for the accuracy of the information it contains. There appears to be some reluctance on the part of job seekers to disclose certain types of information without having established any trust with the interviewer (box 9.2).

Almost all aspects of the implementation of the JSCI were criticised as leading to these disclosure problems:

- the focus of the job seeker in the interview on benefit eligibility both colours their willingness to disclose information for the JSCI and results in a lack of attention or understanding, on the part of the job seeker, of the importance of the job network part of the interview process (FaCS sub.42, p.17; Centrelink sub. 45, pp. 16–17).
- Job seekers misconstrued the nature of the interview and considered that disclosing a barrier to employment might actually reduce their chance of being helped to find a job (Uniting Care Australia sub. 12, p. 7);
- there was insufficient time in the interview to build trust with the interviewer or to cover the questions thoroughly (WorkPlacement sub. 19, p.25; Mission Australia sub. 44, p.10; Uniting Care Australia sub. 12, p. 7);
- Centrelink staff were inadequately trained or their application of the instrument has been inconsistent across interviewers (NESA sub. 39, p. 9; Mission Australia sub. 44, p. 10; Uniting Care Australia sub. 12, p. 7 and WorkPlacement sub. 19, p. 25);

- JSCI questions must be asked verbatim, even when it is clear that the job seeker does not understand them when put that way. This can be particularly difficult for clients with impaired intellectual abilities or language difficulties (Centrelink sub. 45, pp. 16–17) ;
- information not disclosed by the job seeker, but which are apparent to the interviewer, cannot be used (Centrelink sub. 45, pp. 16–17). ATSIIC (sub. 18, p. 2) also criticised the self-assessment nature of the instrument for Indigenous job seekers ; and
- self-assessment of literacy skills provide a poor guide to underlying literacy skills (Centrelink sub. 45, pp. 16–17). DEWR (sub.43, p.68) have also pinpointed deficiencies in data items relating to language and literacy. There is no assessment of numeracy.

Box 9.2 Some participants' comments on disclosure

Quality is influenced by the willingness of job seekers to disclose information they perceive to be sensitive, the ability of Centrelink officers to elicit this information and the accuracy with which any information is recorded. (DEWSRB 2001a, p. 32).

Like any other assessment tool, the effectiveness of the JSCI is dependent on the willingness of job seekers to self-disclose. Anecdotal evidence suggests that many job seekers do not disclose information they consider personal but which is essential in determining their level of disadvantage. (FaCS sub. 42, p. 17).

A problem with self-disclosure is non-disclosure. For example a disability may be pre-recorded on the system but the customer may choose not to answer the question resulting in incorrect referrals. Another example is a job seeker with clear substance abuse problems who chooses not to answer the question honestly or does not recognise their lifestyle as a barrier to employment or as an addiction (Centrelink sub. 54, p. 16).

... job seekers [may] choose not to disclose certain information, such as their residential status or substance abuse problems ... (Uniting Care Australia sub. 12, p. 7).

The centrality of the JSCI as an assessment tool is fundamentally flawed because it relies on the rational disclosure of personal information by job seekers. However disclosure is unlikely to a system perceived by some at least as hostile, and likely to compromise their chances of being given work (WorkPlacement sub. 19, p. 25).

There are a range of possible solutions to these problems (such as better training of interviewers, more time for the interview, a separate interview for the JSCI, and flexibility in the administration of the instrument by Centrelink staff). Some of these may be effective in reducing classification errors.

However, rather than prescribing these potential solutions — another mechanism may be to provide greater flexibility to Centrelink in implementing the instrument, and provide rewards for higher overall accuracy (the issue of outcome-based payments for Centrelink is raised in chapter 15). This approach — which mirrors the spirit of the design of the Job Network itself — encourages Centrelink to develop the best implementation methods. This would permit Centrelink staff to ask additional clarifying questions were they to suspect that a job seeker did not understand a JSCI question, or were making statements inconsistent with other evidence.² It would be possible to pilot such a flexible approach and compare the accuracy of the flexible approach with the rigid application of the JSCI.

DRAFT RECOMMENDATION 9.1

The Commission recommends that a pilot be undertaken to test the benefits of the flexible implementation of the Job Seeker Classification Instrument by Centrelink.

Centrelink also proposed that the JSCI not be applied in certain circumstances, arguing that:

It is also well documented that 34 per cent of job seekers find work in the first three months. The associated work with a JSCI is often not useful for these customers. ...Other possible approaches would be to ... only assess those with clear problems up front, with the rest some time later (say three months when 34 per cent will have found employment thus returning significant savings). The opposite approach would be to identify those likely to be only short term and book them for a JSCI three months after first registration (Centrelink sub. 45, pp. 17–18).

The feasibility of this approach depends on whether a short screener can be developed that can identify those with clear early problems.

It is also uncertain whether job seeker classification should be a discrete or continuous function. Centrelink, Job Network providers, and other program deliverers (PSP, Work for the Dole) undertake formal or informal assessment of job seekers in their day to day interactions — but the information they collect largely cannot be used to improve the accuracy of job seeker classification and referral. The use of Centrelink personal adviser interviews for some categories of job seekers under the Australians Working Together reforms will complement JSCI assessments (FaCS sub. 42, p. 17), but there may be scope for more general use of information from others that interact with job seekers. ACOSS (sub. 32, p. 8), for

² For example, they might be showing obvious difficulty understanding and responding to questions, but assert no problem with English, or they may be providing an answer that contradicts records already held by Centrelink.

example, argued that there be a gateway period in the Job Network when assessment of needs was a major function of the Job Network provider.

The Commission supports a more fluid process for information collection (a case history approach) that could feed into better profiling of job seekers and improved on-going case management — subject to privacy concerns and avoiding possible perverse incentives by Job Network providers to distort the severity of job seeker's obstacles to employment. The case history approach and the question of the involvement of Job Network providers in profiling are further considered in chapter 8.

Improving the JSCI as a classification tool

As noted by NESAs (sub. 39, p. 9), many Job Network providers misunderstand the role of the JSCI. It is primarily used as a streaming tool to allocate groups of job seekers of a certain relative disadvantage to the right sub-programs, but it is not intended to be a highly accurate individual diagnostic tool (Centrelink sub. 45, p. 16). Consequently, even if there are significant individual errors, it may be generally successful in referring the large bulk of job seekers to their correct destinations. Of course, there are still gains in reducing individual errors. There are strong grounds for ongoing development and refinement of the JSCI — including research into its predictive accuracy — given that classification errors can have significant social, equity and budgetary implications. DEWR is currently re-estimating the JSCI (sub. 43, p. 68).

The limits to the JSCI also suggest that there may be benefits from research into other instruments. One option is a diagnostic tool that measures the barriers to employment for the most disadvantaged clients to assist targeting of job-oriented assistance on a narrow group of disadvantaged job seekers. This could be along the lines of the 'milestone' approach discussed in section 9.4. In part, Centrelink personal advisers will have a role in the identification of such barriers and would be the appropriate administrators of any diagnostic, but the cost of such advisers has limited their use to only some disadvantaged groups, with others, most notably youth, missing out.

A second option is 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. In essence, this is nothing more than applying the same demands for evidence that are increasingly being applied for medical treatments. The development of such an instrument

requires linking of administrative data and longitudinal analysis, but this is not an insurmountable obstacle. The greatest barrier to its implementation is that it is hard to control for the evolving nature of the ‘treatments’ provided to job seekers. However, it may still be possible to identify sets of individual traits that are typically more responsive to a range of treatments than other sets — and use this in more effective targeting.

Use of the JSCI to manage the Job Network flow of work

It appears that the JSCI is sometimes used as a ‘tap’ to control the flow of clients to Job Network providers to satisfy their capacity objectives:

The Department of Employment, Workplace Relations and Small Business (DEWRSB) regulates the flow of job seekers into Intensive Assistance, and their assigned fee level, by setting JSCI score bandwidths. These bandwidths are set so that there is a sufficient pool of job seekers available in the various locations to fill the number of places contracted for (DEWRSB 2000a, p. 74).

In part, this function of the JSCI is a consequence of the current contract arrangements whereby the government endeavours to ensure that all Job Network providers sites are operating at between 85 and 100 per cent of their capacity, and 90 per cent of their national capacity (which are also recorded as a key performance indicator for Centrelink).

Removal of caseload quotas (chapter 11) should remove any need for DEWR to ever use the JSCI to assist Job Network providers meet capacity objectives. It could then concentrate on the JSCI as a tool to identify the needs of job seekers.

DRAFT RECOMMENDATION 9.2

The Commission recommends that the Job Seeker Classification Instrument not be used to manage the workload within the Job Network.

Long-term unemployment as a trigger for participation in IA

A number of participants argued that some key sub-groups did not get reasonable access to IA. In particular, there was concern by some that long-term unemployed did not automatically qualify for IA (NESA sub. 39, p. 8; ACOSS sub. 32, p. 2; Centrelink sub. 45, p. 18). Centrelink (sub. 45, p. 18) estimated that there were 30 000 job seekers who had been unemployed for over twelve months but still did not achieve a high enough score to warrant referral to IA.

There is little question that many long-term unemployed are disadvantaged, but this alone is not enough basis for automatic qualification of the entire group to IA. Job

seekers are very heterogeneous, and disadvantage reflects a mix of traits, of which long-term unemployment is only one indicator. If a program has limited funds and intends to target those who have the highest *future* unemployment risk, then a profiling instrument, such as the JSCI, can allocate the scarce places to those assessed to be at greatest risk. To the extent that the JSCI is reasonably accurate, the use of an alternative classification process that automatically qualifies groups outside those selected by the JSCI must displace some people with greater levels of risk. However, DEWR, in assessing the role of long-term unemployment in the JSCI, implied that its weighting is probably insufficient:

While duration of unemployment is a weighted factor in the JSCI, the Department is currently considering whether all job seekers should automatically be referred to Intensive Assistance after a specified period of unemployment. [But] when a person has not found work and yet appears highly employable in all other respects, this in itself can indicate a need for assistance which is outside the scope of the present JSCI factors (sub. 43, p. 69).

If in fact a long-term unemployed person appears to be employable, but has not got a job, then tests of the predictive accuracy of the JSCI should reveal systematic prediction errors for the long-term unemployed — which could then be appropriately corrected by changing the scoring in the JSCI. It is inconsistent with the underlying rationale for an empirically-based classification tool such as the JSCI to supplement it with additional arbitrary risk weighting — unless there are demonstrated problems in the data underlying the modelling.³

Further, automatic qualification to IA for the long-term unemployed would (in the absence of displacement of other disadvantaged job seekers) increase the budgetary costs of the program. It may not — unless combined with other changes in the design of the Job Network — actually target the additional funds on the long-term unemployed any better than the current system. This is because the market-based response of a Job Network provider is to allocate funds to those who are most responsive to interventions, not to the most disadvantaged per se.

Even so, the JSCI is still an instrument that is being refined and there may be some uncertainty about the appropriate weighting on long-term unemployment in the model. In that case, automatic referral at 12 months unemployment may be a pragmatic, transitory measure prior to the development of a better instrument. However, in the longer run, *to the extent that statistically robust and reliable models can be constructed*, it is appropriate to use an evidence-based approach to classify job seekers to Job Network programs, rather than simple rules of thumb like long-term unemployment.

³ This is true for factors such as homelessness and ex-offender status, but not for long-term unemployment, which is disclosed with relative accuracy.

9.3 Parking — sources, implications and solutions

The incentive to provide little assistance to certain job seekers

All things being equal, providers have incentives to spend less on a job seeker whose probability of a payable outcome does not change much with higher levels of expenditure. Job seekers are highly heterogeneous, so that there will be some that are responsive to expenditures and others who are not. The latter includes:

- job seekers who have very high probabilities of getting a job without any help from Job Network providers — so that the scope for assistance to raise their probability of employment by much more is limited,⁴ and
- job seekers who have very low probabilities of getting a job even with reasonably high expenditures. For example, on pecuniary grounds, a provider would not be willing to spend \$3000 helping a job seeker to raise their probability of getting a job by 2 percentage points (at existing outcome payment levels).

The incentive to provide assistance also depends on the magnitude of the outcome payment received by the provider. If there were sufficiently high outcome payments, it would pay for providers to help all job seekers (though it may not be economically worthwhile to do so). However, outcome payments are not at that level — so that there are incentives to park some job seekers.

Moreover, the existing system for classifying job seekers recognises only two classes — an ‘A’ and a ‘B’ group — with the latter higher risk group occasioning higher outcome payments for Job Network providers. While it might be thought that parking would be expected to affect the most disadvantaged job seekers — those in the ‘B’ group — in theory it could also affect those in the ‘A’ group for whom the ‘A’ payment is insufficient relative to their responsiveness to interventions. To solve this problem would require outcome payments matched to job seekers’ individual levels of responsiveness to assistance. This is clearly not feasible, so that parking may not only affect the most disadvantaged job seekers.

In practice the incentives and capacity for Job Network providers to vary intensity of assistance to particular job seekers is more complex than this.

First, it is not easy to identify those job seekers who are unresponsive to assistance. In many of the Commission’s visits to Job Network providers, they indicated that

⁴ While these job seekers may receive little help, they are not usually referred to as ‘parked’ because they have a high expectation of getting an outcome and moving off the program.

they had a mixed ability to classify *ex ante* the degree to which job seekers would respond to help. This mitigates parking —at least in the first few months of the program when the Job Network provider is still learning about the characteristics of the job seeker. It is notable that many Job Network providers request the JSCI score of job seekers — which, by its nature, provides some information about job seekers' employment probabilities.

Second, the star rating system rewards Job Network providers (in terms of the ease with which contracts will be renewed) on the basis of outcomes (job placements and other eligible outcomes). As they attempt to achieve higher star ratings, Job Network providers are likely to compete away 'excess' profits earned from easy-to-place clients through cross-subsidies to more difficult-to-place clients. NESAs noted:

Much has been discussed in relation to the practices of 'parking' and 'creaming' in the delivery of intensive assistance in order to optimise outcome payments... However, given that contract roll-over will be dependent upon the performance star rating achieved these ratings control for manipulative performance by placing higher weighting on achieving outcomes for disadvantaged jobseekers. Therefore, if a provider is only working with the easiest to place in order to optimise income their employment services business will be short lived because their star ratings won't compare as well to those organisations that deliver services equitably to all clients (sub. 39, p. 13).

To this extent, star ratings eliminate some of the effects of outcome payment thresholds, because at the margin a provider may be willing to spend more than suggested by such thresholds in order to get a better rating.

Third, the possibility of parking was anticipated when the Job Network was designed, and measures were introduced to counter it. DEWR (sub. 43, p. 19), drawing on statements made in 1996, said:

Under a competitive arrangement, providers may be tempted to 'park' (ie, fail to serve) disadvantaged job seekers and concentrate their efforts on job seekers who are easier to place in employment. To manage this risk, contracts would be designed to ensure equity of service provision and quality assurance by including a 'best endeavours requirement' (ie, providers would seek to achieve effective outcomes for their clients) and an adherence to principles of fairness, equal employment opportunities and other non-discriminatory principles facilitating non-discriminatory behaviour (Vanstone 1996).

Changes made in the second contract — the introduction of contractual Declarations of Intent and Intensive Assistance Support Plans (IASPs) — further mitigate incentives to park some job seekers by requiring providers to give some help to all job seekers.

However, the Declarations and IASPs need not specify the services that all job seekers will receive, and in any case, the degree to which they are monitored by DEWR is unclear (chapter 12).

Finally, many organisations and case-managers may consider that, on professional and ethical grounds, they have an obligation to attempt to help all job seekers even if the chance of an outcome is slight.

Despite these checks in the system, it is widely acknowledged by participants in this inquiry that parking of some job seekers does occur (box 9.3 and chapter 6).

The equity and efficiency effects of parking

There are few equity or efficiency problems associated with highly job-ready job seekers who receive little assistance from Job Network providers. Indeed, to insist on the provision of services to this group would be wasteful since they are likely to get an outcome without such assistance. Nor need it be the case that the upfront and outcome fees paid for such clients are deadweight costs of the program — so long as the star rating system provides incentives for these profits to be spent on other more disadvantaged clients.

Even so, their inclusion in the program represents an identification problem, addressed by fine tuning the JSCI so that those who do not need such a high level of assistance are not sent to IA (although this may be a formidable task⁵).

However, removing such high quality job seekers from IA would also reduce the average employability of participants. This would decrease overall outcome payments received by Job Network providers — which as noted above, can be a (hidden) source of funding for more disadvantaged job seekers. There would, therefore, be grounds for supplementing payments for the remaining IA participants were easy-to-place job seekers removed, so long as these did not generate abnormal profits or encourage the use of wage subsidies to ‘buy’ inappropriate job outcomes (chapters 7 and 10).

Parking is most acute for severely disadvantaged job seekers and raises some more important equity and efficiency issues. It undermines the expectations that IA helps the most disadvantaged job seekers, and sometimes damages their morale (chapter 6). For such clients, IA is pretence of aid. Because the activity requirements for job seekers within IA can be less than normal Centrelink activity

⁵ This is because the information on which to base such fine tuning may be hard to gather. Providers have no incentives to seek re-classification of job seekers whose outcome payments are higher than they need, so DEWR has little information on who these job seekers are.

testing, there may be a program ‘attachment’ effect whereby parked job seekers may have a reduced chance of getting a job under IA than outside the program (chapter 7). In that sense, parking in IA may possibly be a ‘soft’ option for some relatively unmotivated job seekers.

Box 9.3 Some participants’ comments on parking

... the present funding arrangements discourage Intensive Assistance providers from making optimal investments in assistance to overcome workforce barriers for the most disadvantage job-seekers (ACOSS sub. 32, p. 4).

The discretion of the provider can be seen as one of the strengths of the system as it potentially allows the provider to tailor programs for specific job seekers ... [but] Because providers are so dependent on outcome payments, it does not pay for them to help job seekers who have little chance of gaining employment; thus the discretion can often work against job seekers (Uniting Care Australia sub. 12, pp. 5–6).

The increased marginalisation of those with complex needs in the face of organisational responses which seek out the ‘easier’, more profitable and productive clients or which place a priority on a competitive tender in terms of price (that is, asking for less resources in a submission as there is limited or no demonstrated commitment to meeting the more demanding needs of some individuals). This raises the issue of the ‘last resort’ role of government (Office of the Public Advocate sub. 26, p. 3).

Inherent in the new Job Network structure is the assumption that potential placement fees are sufficient incentive to devote time and resources to disadvantaged and difficult job seekers. This is clearly not the case ... There is no incentive to provide assistance to the group of clients who are unlikely to find employment within 12 months. This equates to about 60 per cent of the IA cohort based on current levels of performance. There ought to be a review of a structure that has such a limited range of ‘outcomes’; has a built in disincentive to assist ‘hard to place’ job seekers; and has an in built incentive to ‘churn’ difficult job seekers to increase up front payments ... The term ‘parking’ is well understood and consistently denied. There would be no doubt though that the level of assistance offered to the ‘unsuccessful’ jobseeker cohort (no outcome after IA assistance) would be significantly less than that offered and provided to jobseekers regarded as easily placed in employment. (WISE Employment – Certain Employees sub. 24, p. 5).

In the first contract period allegations were raised about Intensive Assistance providers doing little or nothing to assist clients return to work. In response, the Department made changes to the second contract to increase the accountability of providers delivering Intensive Assistance (DEWR sub. 43, p. 27).

Parking can be seen as primarily a referral, funding and/or incentive problem. It is

- a problem arising from limits to funding if increases in funding under IA to existing parked job seekers would generate net outcomes that justified the investment;

-
- an incentive problem if the funding level is appropriate, but changes to the structure of outcome payment rates or to the weights of the star rating model were to encourage providers to assist job seekers (in a way that again produced net benefits); and
 - a referral problem if interventions outside the Job Network are more appropriate. For some job seekers, job-focussed obligations may not be appropriate and other outcomes, outside IA, may be superior (such as community work for people with no long-term job prospects or programs that deal with multiple obstacles to employment, such as CSP/PSP). One factor that influences the number of job seekers parked in Intensive Assistance is that access to CSP places has been limited. Australians Working Together has increased the available places (from 15 000 in 2001-02 to 45 000 places a year) under the Personal Support Program, which is planned to replace the CSP from 1 July 2002.

However, parking's concealed and hard-to-measure nature militates against more appropriate processes. The uncounted are generally ignored.

There is another incentive within the Job Network system that may have unfortunate consequences for parked, or potentially parked job seekers. This results from the impact of essentially fixed quotas of job seekers for Job Network providers. In many instances, a Job Network provider may be content to collect the sign-up fee and park the more difficult-to-place job seekers. However, if their books are full they may resort to a 'vigorous' application of the breaching rule. If Centrelink imposes their recommended breaches, this enables them to clear such clients off their books to make space for those for whom an outcome payment is more likely⁶:

It is not coincidental that there has been an outcry over the number of breaches applied. There is a cash-flow pressure on organisations to maintain a turnover in their caseloads as well as possibly picking up some easy outcomes (WISE Employment – Certain Employees sub. 24, pp. 6-7).

It would also help improve relations between providers and many job seekers if providers had less incentive to 'breach' hard-to-place job seekers in order to make room for extra referrals within their contracted capacity (ACOSS sub. 32, p. 21).

These incentives are akin to the (in that case, appropriate) incentive that exists for a capacity-constrained provider to seek a special-needs re-assessment for a job seeker that reveals special needs after commencement (section 9.4). While such breaching recommendations may be technically correct, it is a form of exiting that is

⁶ It may also increase their star rating if it enables them to get a greater throughput of easier-to-place clients.

particularly costly to the job seeker because of the large reductions in benefits and in some cases, loss of personal esteem.

However, it is uncertain how widespread such strategic motivations are for such breaching. Many of the (marked) variations in the breach recommendations by providers can be explained by other factors (chapter 6). Moreover, these strategic incentives are not that easy to exploit — it is only when Centrelink has imposed a third breach that a Job Network provider could eliminate such job seekers from their caseload. Not-for-profit agencies also have offsetting incentives to avoid strategic breaching, since the charitable arms of their agencies face some of the costs of breaching through increased emergency relief. Relaxation of fixed caseloads (chapter 8) and greater scope for re-referral (section 9.4) will, in any case, largely remove any residual problems associated with strategic breaching of otherwise parked job seekers.

While much of the discussion of parking relates to IA, Employment National identified the same incentives in Job Matching, saying:

The incentive structure for Job Matching is not conducive to achieving diverse or market segment specific policy objectives. The current fee structure provides a flat payment per placement regardless of what type of job seeker has been successfully placed or for what time period (beyond a minimum of 15 hours per week). Consequently the incentives and standard of performance favour: high throughput of job seekers through casual or labour hire arrangements, rather than placement in permanent positions; and assistance to relatively simple to serve categories of job seekers, rather than more time consuming candidates like retrenched workers, school leavers and other groups with special needs (sub. 28, p. 4).

However, the principal role of the JM provider is to gather vacancies by developing relationships with employers and to screen job applicants competently — and as such, the concept of parking does not readily apply.

Policy responses to parking

As noted earlier, parking is a multi-dimensional problem that requires several solutions. Several policy measures that can have a significant impact on parking are examined as part of other policy issues in other chapters. These are:

- a range of options related to changes to the payment systems or the structure of payments (including the number of payment categories). These are strongly related to other pricing issues and are examined in chapter 10. These offer good prospects for improving targeting and reducing parking for some job seekers;
- introducing a greater degree of choice for job seekers, which for some would result in choices not to participate in IA. In most other areas of the economy,

self-referral is more efficient and better targeted than decisions made by others. There are practical limits to self-referral in the Job Network (discussed in chapter 8), but more scope for choice will probably reduce ineffective re-cycling of job seekers through programs that have a track-record of not helping them;

- mandating a minimum level of expenditure and/or activity for all IA job seekers. This would ensure that no job seeker was completely parked. The Commission is cautious about the application of minimum expenditure levels at the *commencement* of IA because much of the expenditure would be wasted on people who would get a job anyway. Nor would minimum expenditures significantly increase outcome probabilities for parked job seekers (that is why they are parked). However, strong requirements for all job seekers to search regularly for jobs (activity testing) are likely to be beneficial. This would be likely to increase the involvement of otherwise parked job seekers with the labour market. Such service and quality issues are mainly examined in chapter 7; and
- compressing IA into a six month program would remove the ‘hole’ of inactivity for many job seekers in the middle (chapter 7).

This chapter examines several other policy approaches that could ameliorate parking, and in particular, re-referral to other, more appropriate, services (section 9.4). (It should also be noted that changes to re-referral are also required for other reasons.) Changes to the screening process recommended in section 9.2 are also likely to reduce parking.

9.4 Referral to other services

Re-assessment of job seekers with special needs

Job Network providers have mixed incentives to seek a re-assessment of a job seeker whose subsequently revealed special needs makes them ill-suited to IA.

These incentives are affected by the requirement to pay Centrelink a charge for such a re-assessment. This charge is not reimbursed even if the assessment confirms the judgment of the Job Network provider. In the bulk of cases, where a Job Network provider is not capacity constrained, the present system provides incentives for providers to park clients that subsequently reveal their special needs, rather than to try to get them referred elsewhere (box 9.4). While many Job Network providers may well still seek re-assessment — against their own financial interests — it is appropriate to provide financial incentives for appropriate referral of such job seekers. More balanced incentives would be created by only imposing a charge for

re-assessment if Centrelink (or an independent assessment organisation) finds that the client does not have special needs.

Box 9.4 Charges for re-assessment

The financial benefit (B) of seeking a special needs re-assessment is:

$$B = \pi(\lambda\bar{V} + C - Y) - F$$

where π is the probability that Centrelink confirms the special needs of the client, $\lambda=1$ if the Job Network provider is capacity constrained (else = 0), \bar{V} is the expected net value of taking on a new client (including the commencement fee, any expected outcome payments, less the marginal costs of dealing with that new client), C and Y are respectively the costs that the provider would bear and the expected value of any outcome payments had they kept the job seeker in their caseload, and F is the charge paid to Centrelink for a special needs assessment.

For a job seeker with genuine special needs, Y is likely to be very low. C is chosen by the Job Network provider, and in the case of parked clients, is also likely to be low. If a provider is capacity constrained and is confident that Centrelink will uphold its judgment about the special needs of the client (ie $\pi \rightarrow 1$) then it is likely that $B>0$. This is because C-Y is close to zero, while \bar{V} is positive and higher than F (especially noting that the commencement fee for a new client — a component of \bar{V} — exceeds F).

On the other hand, if a provider is not capacity constrained ($\lambda=0$) then it is likely that $B<0$ (unless there is a requirement that the provider spend significant resources on the client). Therefore, the existing system encourages (non-capacity constrained) providers to keep on their books job seekers who disclose special needs, but to do little with them.

This incentive would be substantially reduced by making the charge for assessment reimbursable if the judgment of the provider is upheld by Centrelink's assessment (so that F was always multiplied by $(1-\pi)$) — or identically, only charging when the Job Network provider's call for re-assessment is found to be incorrect.

One concern about this change is that it might increase the incentive for capacity constrained Job Network providers to 'disguise' a harder-to-place (but non-special needs) client as a special needs client in order to get a new referral with a higher average chance of getting an outcome. However, most special needs assessments rely on objective measures (such as ex-offender status and homelessness) so that the scope for exploitation is modest. Even where that is not the case (literacy and personal characteristics requiring professional judgment), significant strategic exploitation would require that Centrelink's special needs assessment had a high false positive error rate. Overall, a reimbursable charge is not readily open to exploitation.

Changes under Australians Working Together allow for Job Network providers to undertake assessment of job seekers in the first month of registration, and then to

freely refer them to other programs. This provides substantial relief from the problems of inappropriate referrals of job seekers with special needs. However, as many Job Network providers indicated to the Commission, the characteristics of job seekers can change radically over time, so that a person without special needs in one month can have them in another (for example, loss of home or commencement of substance abuse). This suggests that there should still be a mechanism for appropriate re-referrals after the one month window provided by Australians Working Together.

In the next section, the Commission recommends much greater freedom for Job Network providers to re-refer job seekers to other programs at any time during IA. However, were the Government not to implement this recommendation, changes to the re-referral process for special needs job seekers are justified.

DRAFT RECOMMENDATION 9.3

If the Government does not implement recommendation 9.5, the Commission recommends that charges only be imposed on Job Network providers for re-assessment of job seekers' special needs if Centrelink or an independent assessment organisation establishes that the clients do not have special needs.

A second concern relating to job seekers who require re-assessment is that the resources to do so appear stretched in some areas — and in particular, a shortage of Centrelink's occupational psychologists in some regions. Participants claimed there were long delays for re-assessment, sometimes as much as six months (WorkPlacement sub. 19, p. 25; Northern Territory Area Consultative Council sub. 36, p. 7; Mission Australia sub. 44, p. 10). Such delays would have the effect of further reducing the incentive to even seek a re-assessment.

There are a number of possible solutions to the problem, including more Centrelink specialist staff and outsourcing to private practitioners of the re-assessment function. A penalty payment to Job Network providers for delays over a certain period would provide the incentives for the responsible agency⁷ to remedy the problem through adequate resourcing.

DRAFT RECOMMENDATION 9.4

The Commission recommends that there be a target maximum delay associated with special needs re-assessment, subject to automatic penalty payments to Job Network providers if this period is exceeded.

⁷ Centrelink is the responsible agency under contract from DEWR. Penalty arrangements applying to Centrelink might also require variation of the contract terms and conditions between DEWR and Centrelink.

Allowing Job Network providers to more generally re-direct parked clients

While the above approaches may reduce some instances of parking, it is likely that most job seekers who are parked fall into other categories. They may:

- have very poor job prospects because of a combination of relatively immutable personal characteristics (such as a low skill person close to retirement). This poor prospect may be exacerbated by a weak local labour market;
- be poorly motivated to work — and in some cases, relatively happy to be parked because of the weaker activity tests in IA;
- face specific significant barriers to employment — such as low literacy, poor communication skills and inadequate inter-personal skills — which could probably be overcome with investment by a service provider — if the program time, resources or incentives permitted it; and
- be job seekers who don't neatly fall into the above categories, but who have demonstrated repeated unresponsiveness to active labour market interventions. Mission Australia, (sub. 44, p. 11) commented:

As the Job Network continues it is becoming apparent that IA participants are beginning to 'churn' through IA programs for a second time.⁸

More intensive activity requirements may help with the second category of job seeker. In theory, changes to the payment structure might also help with the third category (chapter 10) — although an alternative approach is also discussed below for this category. However, regardless of changes to the payment structure or service standards, it will be evident to Job Network providers that some job seekers would still be very unlikely to respond to their interventions, and these will remain parked. This does not mean these job seekers are unemployable — just that conventional active labour market interventions are either unsuccessful or not cost-effective for this group.

One option is to leave them in IA, while undertaking token expenditure on essentially unproductive activity. This gives the appearance that something is being done, but it promotes false expectations about what IA can do. It is akin to treating an illness with a known ineffective treatment. As parking is inherently a hidden phenomenon, it also conceals valuable information about those groups of job seekers who are parked.

⁸ It is believed that, at one stage, 40 per cent of IA clients were ex Working Nation clients, and that currently the majority of those now entering IA have been in IA before.

It may be better to allow Job Network providers to assess job seekers and then re-direct those where an eligible job or training outcome is unlikely under IA to alternative interventions — an option that has partly been foreshadowed under Australians Working Together (box 9.5). Re-referral could occur at any time from commencement, since the information on which such a referral is based may only become apparent after many months.

Box 9.5 Re-referrals by IA providers under Australians Working Together

Some options for job seekers to be reassigned to other programs is being introduced under Australian's Working Together, though it is still intended that these referrals usually be a prelude to subsequent admission to IA.

Australians Working Together, Fact Sheet 3, *Helping people find jobs – improving employment services*, p. 2 states:

Providers will assess whether job seekers who would gain from other services, such as Work for the Dole, Literacy and Numeracy Training, or the new Personal Support Program, should use these services before they commence Intensive Assistance.

Australians Working Together, Fact Sheet 6, *Intensive Assistance – better assessment, greater flexibility, more opportunities*, states:

Job seekers will be carefully assessed by their Intensive Assistance provider within four weeks of their referral. Providers will work with job seekers to determine whether the best option is referral to a complementary program before they start Intensive Assistance (p.1).

The reason for this change was given as:

Some job seekers find it difficult to disclose personal information during their unemployment registration interview. Better assessment of individual job seekers' obstacles and their assistance needs will only become clear over time as a closer relationship is built up with the service provider. (p. 3).

Providers are given a four week window in which to make the referral.

Re-direction from IA would not mean that mutual obligation ceases to apply to these job seekers. Rather, alternative mutual obligation options would be offered, including Work for the Dole or community work, while retaining activity requirements relating to job search.

In the period immediately after redirection, job seekers could be given the option to approach another IA Job Network provider if they considered that the redirection of the first provider was unwarranted. If they were not successful within a limited period of time, job seekers would be re-assessed by a personal adviser and redirected to other programs by Centrelink.

It could be argued that the capacity for re-referrals makes it easier for Job Network providers to ‘cream’ — to only handle job seekers for whom a job can be found easily and cheaply. But, in reality, this is what is being done already by parking some job seekers within the system, but with the disadvantage that it is hidden under a veil of pretended assistance. Re-referrals would have the advantage that:

- they are transparent;
- the characteristics of those re-referred could be systematically gathered. This could be used to:
 - change the JSCI so that in future some job seekers would immediately be referred elsewhere; and
 - determine whether higher outcome payments under IA might provide incentives to help selected sub-groups of job seekers in the future;
- they direct job seekers to an activity that has higher values of social participation or greater benefits for the wider community (such as community work);
- in those screened cases, where tailored assistance was warranted (see below), job seekers would be referred to a highly intensive milestone-oriented program that would reduce obstacles to employment; and
- they would eliminate any strategic use of breaching of unwanted job seekers by capacity constrained providers.

DRAFT RECOMMENDATION 9.5

The Commission recommends that where a Job Network provider considers that Intensive Assistance is unlikely to generate an outcome for a job seeker:

- ***the Job Network provider have the capacity to re-direct job seekers to Centrelink for referral to other programs;***
- ***mutual obligation and activity tests generally be maintained for re-directed clients; and***
- ***the characteristics of re-directed job seekers be assessed, recorded and analysed, so as to improve future profiling of clients prior to commencement with Intensive Assistance and potentially to increase outcome payments in selective instances.***

One possible concern might be abuse by some providers of the capacity for re-referral. Providers could take on a job seeker, appropriate the commencement fee

and then exit them.⁹ However, providers have weak incentives to exit any job seeker for whom a payable outcome is feasible at less than the cost of the assistance they provide. Second, the star rating model counters inappropriate exiting since outcomes are measured relative to commencements — and a high exiting provider would have many commencements, but fewer outcomes. Moreover, any measure that tries to stop a provider from exiting a job seeker would merely encourage them to park them again.

Even so, it would be prudent for DEWR to gather information on exit rates across Job Network providers to ensure that job seekers are not being exited inappropriately (for example, by a provider that is planning to leave the business at the end of the contract period). It would be possible to detect exit rates that were beyond some reasonable limit — or which comprised job seekers who should really be left within the Job Network. The key disadvantage of this approach is that the thresholds for such a ‘reasonable limit’ must be somewhat arbitrary

DRAFT RECOMMENDATION 9.6

The Commission recommends that if recommendation 9.5 is adopted, then DEWR develop criteria to detect the possible strategic use of re-referrals.

The capacity to re-refer may need to be buttressed by another policy change to reduce parking for some clients. Where a provider is not capacity constrained and can maintain a job seeker on their caseload at very low cost, they may still have weak incentives to re-refer them. This is because the low expected benefits from a job outcome may still exceed the even lower costs of having them on their caseload. There are several options for dealing with this.

One possibility is to introduce a requirement that, after a ‘honeymoon’ period, Job Network providers spend a minimum amount on all job seekers. The honeymoon period would have to be long enough to avoid spending money on job seekers who were likely to get a job anyway, but not so long that the exit decision is delayed inordinately. Such a minimum expenditure requirement would be aimed at encouraging Job Network providers to re-refer job seekers who are not likely to benefit from participation in IA (noting that the objective is to *avoid* spending the minimum amount). However, such a system involves some monitoring costs associated with verifying expenditures and would also have to specify the period over which the spending must occur. It inevitably would incur deadweight costs.

⁹ In fact, under the counterfactual of no exit potential, the provider still appropriates the commencement fee for a parked client, but simply does little for the client while keeping them on their books.

Another possibility would be to pay a (relatively small) exit fee to providers to neutralise the incentive to park hard-to-place job seekers. This overcomes the deadweight and compliance costs of the alternative. It would also increase resources spent on disadvantaged job seekers, since the imperative to get better performance ratings would force Job Network providers to spend any resulting excess profits on outcomes. However, in order to prevent its strategic abuse (eg exiting job seekers one day before completion of IA) the fee would have to fall with duration. Overall, exit fees are superior on technical grounds to minimum expenditure requirements, but might be perceived adversely by exited job seekers unless its context was understood. This problem could be avoided if such an exit fee was seen as payment for assessment and administrative costs associated with re-referred clients.

The Commission seeks feedback on the use of minimum expenditure, exit fees or alternative incentive mechanisms for Job Network providers to appropriately re-refer clients that they would otherwise park.

It is possible that as well as giving providers the capacity to re-refer job seekers, there be ‘lifetime’ accounts that give job seekers a notional budget for employment assistance over a long time period (ten years or more). This might have the advantage of:

- (with voluntary program participation) further reducing the risk that unsuccessful job seekers are rotated endlessly through IA every 18 months. This reflects the likelihood that the gains from IA interventions decline with repetition;
- emphasising to job seekers that opportunities for receiving intensive assistance with employment are not perpetual, but should be grasped while they last and when they were likely to be helpful; and
- producing budget savings without significant effects on unemployment.

On the other hand, a person’s level of disadvantage is not static, but may change with circumstances (for example, change in demand for certain skills, having carer’s responsibilities, falling into or out of substance abuse, an episode in prison). In principle, the amount in a lifetime account should depend on the degree of disadvantage. This would then require ongoing assessment with an instrument such as the JSCI.

An alternative to the lifetime account would be assessment of whether past ineffective participation in an active labour market program had any explanatory power in a model of the effectiveness of participation in a current program. If it had the expected negative effect, this could be used to ration the assignment of job seekers to programs.

The Commission recommends that consideration be given to mechanisms that prevent wasteful recurring participation of job seekers in programs that have proven ineffective for them.

High intensity assistance and milestone contracting

As several commentators told the Commission, the existing IA program is neither intensive nor assistance to some disadvantaged job seekers. There may be grounds for providing more tailored and truly intensive assistance outside the Job Network to a selective group of currently parked job seekers.

Such tailoring seems at odds with the general thrust of this report in favour of the outcome focus of the Job Network. In theory, an outcome-based system does not need to pre-specify the intensity of the intervention, but rather to set funding levels, payment structures and performance measures appropriately.

However, this approach may not function well for small groups of disadvantaged job seekers, whose disadvantage is not readily determined *ex ante* by Centrelink:

- a) higher outcome payments may not be able to be earmarked for such sub-groups. This is because instruments such as the JSCI have a limited capacity to identify such individuals *ex ante*, whereas Job Network providers have a greater capacity to do so after months of engagement with the client. There are then incentive problems if a Job Network provider can re-classify a job seeker to a very high outcomes-payment category — and these incentives are not wholly eliminated if cost-based funding models are used either (chapter 10).
- b) injecting more funding into the present system and using the incentives provided by the star rating system to increase assistance to such sub-groups may fail. If the numbers in the disadvantaged group that can be helped by highly targeted assistance is relatively small, then relative to the normal random variation in the star ratings, the incentive to use the resources on them to get better star ratings is relatively weak.

Consequently, even while an outcome-based system might function well for many job seekers, there may be scope to exploit the information-gathering capacity of Job Network providers and then to refer clients that would respond to highly tailored assistance *outside* the Job Network. (Portable case histories described in chapter 8 would ensure that information on the job seeker would not be lost as they moved to another agency). It is possible that the Job Network provider could still maintain a

link with the job seeker by overseeing their job search activity. Such an approach would also test alternative delivery systems and is amenable to tight budgetary control that would not be possible with at least option b) above.

One system that retains some emphasis on outcomes, yet allows a focus on overcoming particular obstacles to employment is that of milestone contracting. This model appears to be an attractive vehicle for tailored intensive assistance (box 9.6 reports on a review of such a system in Oklahoma).

In essence, milestone contracting involves specifying a series of critical achievements (or milestones) considered essential pre-requisites to achieving the final outcome, and paying for these outcomes progressively as the client overcomes each of the barriers. In the case of the job seeker, it would involve identifying key obstacles to employment that are responsive to intervention. The system retains a significant degree of outcome focus in that the provider may choose exactly how each milestone outcome is to be achieved.

To be successful, a milestone system involves accurate assessment and performance measurement, involving identifying quantitative and qualitative yardsticks, and cost-effective ways of implementation. In comparison to the current system, it would require a high level of management for the particular providers contracted to deliver the service, but it would only apply to a selective group of disadvantaged job seekers deemed likely to respond to such interventions. In that sense, the overall level of micro-management is much less than one in which there is mandated service provision or the verification of expenditure for reimbursement on a fee-for-service basis for *all* job seekers in IA.

The Commission seeks feedback on whether an intensive milestone-based program — outside Job Network IA — is a useful auxiliary approach for certain categories of job seekers.

9.5 The role of specialisation

Current arrangements for specialisation raise a number of issues. First, as noted in chapter 8, greater informed choice by job seekers may allow more scope for specialisation, without any artificial restriction by DEWR over what constitutes an agreed specialisation. For example, specialisation by nature of the job, for mature aged workers or other groups, might emerge if there were complete freedom to ‘badge’ and define the services of Job Network providers and there were fewer referrals through the automated referral system.

Box 9.6 The milestone payment system in Oklahoma

In 1992, Oklahoma changed its fee-for-service reimbursement system for preparing and placing people with disabilities into employment, to one based on payments for milestone outcomes. The schedule of payments went approximately as follows, with an explicit weighting towards the final job placement outcome: determination of need (10 per cent); vocational preparation (10 per cent); placement (10 per cent); four-week job training (10 per cent); 10-week job retention (15 per cent); stabilisation (20 per cent); and '26 closure' (25 per cent).¹⁰

Frumkin (2001) reported that:

The clients are receiving the kind of support that they need and are being placed in jobs in greater numbers and with far more success and satisfaction than before ... most non-profits seem to agree that the new, less-onerous reporting requirements under MPS [Milestone Payments System] have freed the job coaches to spend more time with clients — not less, as had been feared by many non-profits — and have freed the managers to spend more time supporting their job coaches and making sure their organisations are being run efficiently (p. 15).

Two principal objections were voiced about the milestone payment system:

... that the enhanced emphasis of the program on outcomes may potentially force the non-profits to provide a lesser quality service and that outcomes will lead non-profits to screen their clients more carefully for those who are most likely to succeed [creaming] (p. 18).

Frumkin reported that, to ensure quality, the funding agency was:

... vigilant about not approving placements unless the clients were sincerely happy on the job. This gives the service provider considerable incentive to focus on quality and to make sure the job is a good fit from the beginning (p. 18);

and that the issue of creaming was addressed by a two tier payment system to provide an incentive to take on difficult cases.

Frumkin identified the following lessons from the Oklahoma experience:

- collaborate with non-profits in the initial design of milestones;
- use a small number of milestones and use simple reporting forms;
- shape incentives to avoid creaming;
- help non-profits make the shift from fee-for-service systems to outcomes;
- be flexible and revisit milestones once a system is in operation; and
- study effective programs and disseminate best practices for achieving outcomes.

Source: Frumkin 2001.

Second, there are a number of options for recognising the differential costs of achieving outcomes for various disadvantaged sub-groups. Currently, specialist Job Network providers tend to get higher tender contract prices, reflecting the additional

¹⁰ The largest payment is at the final milestone, full employment for 17 weeks plus 90 days, which is known as '26 closure'.

costs of achieving outcomes for their clients.¹¹ However, an alternative approach is to use an evidence-based risk classification system — such as the JSCI — as the basis for higher outcome fees for clients with greater levels of disadvantage (a capitation approach). All other things being the same, a job seeker from a disadvantaged sub-group would receive a premium outcome payment over others. A complementary approach would be to provide additional weights to job outcomes for such groups in the star rating system (as is already the case for Indigenous job seekers).

BAKAS Employment Solutions, a specialist IA provider for people with disabilities, suggested that funding be linked to the disability characteristics of the job seeker, saying:

Fee structures could include a parcel of funding relating directly to the disability needs of clients. For example, work modifications and assistive technologies. BAKAS believes that the Job Network has the capability for more tailored intervention to job seekers (sub. 8, p. 3).

The capitation approach has the advantage that the payment made to a Job Network provider would be determined only on the basis of the characteristics of the job seeker (including the nature of their local labour market). It would provide the same level of assistance to them regardless of the destination Job Network provider (whether specialist or generalist). This provides incentives for Job Network providers — regardless of their type — to invest in the employability of such groups. This is important because specialist agencies actually account for a relatively small share of their target client populations (table 9.1). For example, in the case of job seekers with a disability, specialist agencies account for less than three per cent of those job seekers.

Table 9.1 Share of target populations catered for by specialist agencies

<i>Specialist agencies</i>	<i>Share of specialty group commencements by specialist agency</i>
	%
Indigenous	14.4
NESB	15.4
People with disabilities	2.7

^a In this table, a specialist provider includes any site that provides a specialist service, even if this specialty is supplemented by a generalist contract. The table ignores specialty providers (such as youth) for which information on commencements outside the specialty group is not available.

Source: Based on unpublished performance indicator data from DEWR (November 2001 database).

¹¹ Under the current contract arrangements for specialist providers, some of the premium will be higher risks associated with the loss of access to the auto referral system, rather than related to the higher cost of placing such clients.

Currently, many job seekers who fall into specialist categories either have no nearby specialist agency or are unaware of their existence. The generalist agency that takes them does not get a higher resource base to assist them. This would be ameliorated through the capitation approach.

It should be noted that a capitation system of this kind is not readily compatible with the present IA price bidding system, since, with the exception of A versus B clients, providers do not produce different bids for different types of job seekers. It would probably be overly burdensome to evaluate bids from providers that had to apply different prices for many different categories of risk. However, if prices were set administratively, the JSCI could be used to provide more tiers in the payment system that would recognise the differences in risk entailed by membership of particularly disadvantaged groups (chapter 10).

A capitation system also removes the current contract condition that (to avoid ‘creaming’) requires specialist providers only to service job seekers from the prescribed specialty group.¹²

However, there is a number of concerns about a capitation approach. First, there may be some additional fixed costs associated with catering for some specialised groups that requires a minimum number of clients — for example, hiring specialised staff (such as interpreters) who are experienced with that area of disadvantage. If (due to problems in the referral system) many job seekers from particular disadvantaged sub-groups are referred to generalist providers, but not enough in any given site to support such fixed costs, then services for such disadvantaged groups may be poorer than optimal. However, this is not necessarily a significant criticism when:

- so few of the relevant groups actually attend a specialist agency; and
- of the three major specialty groups, only job seekers from a non-English speaking background have significantly better outcomes when they select specialist providers than when referred to generalists (table 9.2).¹³ And the difference for this group may in part reflect the fact that currently the only basis for referrals to specialist agencies is through the choice of the job seeker. More employable job seekers are more likely to choose than those who are assigned providers through the auto referral system.

¹² Preliminary examination of the performance information data produced by DEWR seems to suggest that generalist job seekers are sometimes referred to specialist providers. This appears to be a data classification problem, rather than genuine referrals of such clients to specialists.

¹³ In the case of Indigenous providers it should not be assumed that this meant that specialists in this area were poor. It is more likely that the comparative performance reflects the fact that Indigenous specialists tend to be most common in weak labour markets.

Table 9.2 Outcomes for specialty groups by type of Job Network provider

<i>Type of group</i>	<i>Indigenous</i>	<i>NESB</i>	<i>Disabilities</i>
	%	%	
Interim outcome rate for specialist agencies ^a	10.6	25.7	16.1
Interim outcome rate for other agencies	11.1	18.0	14.4
Final outcome rate for specialist agencies ^a	4.6	11.5	8.6
Final outcome rate for other agencies	4.6	8.8	6.8

^a The table shows the outcomes (measured as the interim and final outcomes divided by the relevant commencements) for a speciality group for the corresponding specialist agencies and for other providers. For example, 10.6 per cent of Indigenous commencements with Indigenous specialist providers achieved an interim outcome, while 11.1 per cent of Indigenous commencements with other providers (including other specialists) achieved such an outcome.

Source: Based on unpublished performance indicator data from DEWR (November 2001 database).

A further potential limitation of (imperfect) capitation payments and freedom to specialise is that Job Network providers might strategically ‘cream’ job seekers, attracting those where outcomes are likely and avoiding hard-to-place clients. However, there are several brakes on this strategy that reduce its impact:

- capitation payments could be altered periodically — as further information about the profile of client risk is revealed by the behaviour of Job Network providers and the outcomes they get. This reduces the incentives by Job Network providers to invest in the effort of finding exploitable gaps in the capitation payments; and
- the star rating system would award low stars for a provider that only targeted the most employable job seekers — thus threatening their longer term viability.

Overall, the Commission considers that a capitation system is appropriate.

DRAFT RECOMMENDATION 9.8

The Commission recommends that Job Network providers be able to choose whether they wish to offer any combination of generalist and specialist services.

DRAFT RECOMMENDATION 9.9

The Commission recommends the continued use of an evidence-based system — such as the Job Seeker Classification Instrument — as the basis for determining the outcome payments that should be attached to particular groups of job seekers.

Examination of how prices should be structured by job seeker category is examined in chapter 10.

9.6 Better targeting of particular groups of job seekers

Reviews by DEWR, and comments from a number of participants in this inquiry, indicate that there are some identifiable groups that face particular difficulties in looking for work (box 9.7). These difficulties are reflected in a lower participation rate in the Job Network and a lower rate of outcomes once within the system (chapter 5 and DEWR sub. 43, pp. 51-52). Particularly disadvantaged groups include job seekers from Indigenous (covered in more detail in appendix C), youth, disabled, mature age, HIV-infected, ex-offender and sole parent groups.

When disadvantages are combined, the problems faced by individual job seekers can be particularly difficult, as can the targeting of cost-effective assistance. In part, this low level of participation is because much of the income support other than Newstart Allowance is not ‘activity tested’ (for example, sole parents) and thus failure to participate in IA does not involve a threat of loss of payments. Nevertheless, even accounting for this, some groups participate in IA at a rate lower than expected.

In principle, the ability of Job Network providers to tailor assistance to the needs of individuals, together with adoption of the Commission’s capitation proposal (section 9.5) should partly address the needs of these groups of job seekers. Changes to generic aspects of the design of the Job Network — such as payments (chapter 10) and the profiling instrument (the JSCI) — may further reduce the problems facing these groups. However, it is important to examine whether there is also a need to make changes to the Job Network that are specific to particular groups.

DEWR and Centrelink are conducting two pilot programs that are expected to have an impact on participation in IA by currently under-represented groups.

The first involves asking job seekers to choose a Job Network provider at the time of the interview with Centrelink and arranging an appointment with a chosen provider ‘on the spot’ (chapter 8 outlines this pilot in more detail). This shortening of the time between initial interview and contact with a Job Network provider should reduce the drop out rate of those referred to IA. To the extent that this pilot is successful and can be implemented in a cost-effective manner it could be used widely.

The second pilot is for Indigenous job seekers in the Northern Territory and essentially involves Centrelink staff going into the community to approach job seekers in need of assistance, rather than relying on them to contact Centrelink themselves. As well as targeting Indigenous Australians where participation in the Job Network is low, it also makes allowances for the impact that remote location

has on the difficulty and costs for the job seeker maintaining contact with Centrelink offices.

Box 9.7 Participants' comments on the problems facing particular groups of job seekers

The Multicultural Development Association and the Multicultural Employment Advocacy Network (Qld) referred to particular problems facing people of non-English speaking background:

There are a number of issues, which affect many job seekers from migrant and refugee communities, in particular those from non-English speaking background. In summary, they are: difficulties with English language skills; lack of Recognition of Existing qualifications/skills; lack of opportunities provided to migrants/refugees to demonstrate their overseas qualifications, skills and expertise; lack of local work experience; lack of references; lack of understanding of the recruitment process and lack of culturally appropriate employment and training services (sub. 34, p. 2).

DEWR diagnosed an age-related dimension to disadvantage:

With the exception of job seekers aged over 55, sustainable off-benefit outcomes generally declined with age. The increase in off-benefit outcomes for job seekers over 55 probably reflects movement out of the labour force (including to other types of income support), given their relatively low rate of employment outcomes (sub. 43, p. 52).

The Kimberley Area Consultative Committee argued:

Indigenous people, particularly in remote communities and rural centres face unique barriers to employment ... It was felt outcome timelines for Indigenous people maintaining continuous employment for outcomes as too long (13 or 26 weeks) due to cultural issues and seasonal impacts. ... [and there is a need to] encourage development of a work ethic by progressively rewarding small successes (eg short outcome timelines) (sub. 15, pp. 4–5).

NESA perceived differences between metropolitan and non-metropolitan areas:

Administrative frameworks and pricing structures are not sufficiently robust to account for differences in service delivery between metropolitan and non-metropolitan areas, resulting in reduced service delivery capacity in regional and remote areas compared with metropolitan areas.

... including the capacity for the provider to structure their services more flexibly (for example, through outreach) rather than following a prescriptive infrastructure model such as the requirement to establish a full-time office. Sometimes prescriptive requirements work against more comprehensive service delivery as organisations choose not to establish themselves in a remote location because it is not commercially viable (sub. 39, pp. 14–15).

FaCS referred to the following conclusion from the Youth Pathways report:

Our institutions and services often focus on providing a specific service to young people and fail to respond to their overall needs. Consequently there is no consistent and coordinated response to the breadth of issues facing young people today. This failure of services to operate as part of a cohesive system is at the core of the weakness this Taskforce has identified (sub. 42, p. 10).

ATSIC (sub. 18, p. 2) commented on the general lack of field visits by Centrelink staff, especially in remoter areas of Australia, saying further that:

ATSIC's own consultations and research has revealed that there is a poor understanding among Indigenous job seekers about the Job Network and the services it provides in assisting the unemployed. Many Indigenous job seekers live in locations where both Centrelink and Job Network members are often hundreds of kilometres away. A further finding was that some Indigenous people feel confused on how Centrelink and the Job Networks operate and what services they provide. Others feel that the services provided are not culturally appropriate. Because of this they will not approach Centrelink or Job Network to look for work or for employment assistance.

A more active program of contacting Indigenous job seekers should assist to overcome this problem. Indications are that this pilot has been successful in increasing the participation rate, but the cost for Centrelink is not trivial.

These pilots demonstrate that assessment and modification of procedures can make them more relevant to particular groups in the community. Such pilot projects should be continued and if they lead to cost effective ways of improving the targeting of job seekers, they should be implemented more widely.

Both pilots related to procedures over which DEWR and Centrelink had direct control, rather than to the activities of Job Network providers themselves. In general, there should be a reluctance to prescribe the internal processes of Job Network providers to 'improve' outcomes for specific disadvantaged groups. To do so would be inimical to the underlying principle of an outcome-based system in which good (and therefore surviving) agencies find the best way to achieve outcomes for job seekers. That said, changes to payments — and on occasion re-referral along the lines discussed above — may be important to achieve better outcomes for some disadvantaged groups.

9.7 Targeting issues outside Intensive Assistance

While the focus of this report is primarily on IA, there are several targeting issues relating to other programs in the Job Network.

Job Matching

At present JM is a poorly targeted program available to all unemployment beneficiaries and even to some non-allowees. In chapter 8, the Commission recommends that JM subsidies be available only for the most disadvantaged job seekers.

Job Search Training

JST might appear poorly targeted for job seekers in weak labour markets, since there are few available jobs to search for. However, this ignores that the program is partly motivated by its effect on compliance. In any case, even in remote and weak labour markets, there might be a genuine foundation for the job search training component per se were it to be combined with selective mobility allowances. However, one possible targeting problem in the program is that, like IA, job seekers may be cycled through the program several times.¹⁴ JST is likely to have its biggest program effects on its first application. However, its compliance effect may still apply, even after repeated participation.

The Commission seeks feedback on the desirability of limiting the repeated use of JST.

New Enterprise Incentive Scheme (NEIS)

NEIS is targeted at benefit-receiving job seekers with the potential for starting a small business. The National Seniors Association (sub. 10, p. 5) and Mission Australia argued that its eligibility needed to be widened to include job seekers who were ineligible for benefits. For example:

A large number of mature aged job seekers are presently unable to access the NEIS program because they are not eligible for government benefits. This is most often due to their levels of superannuation or savings and other assets. This group of unemployed people are at a stage in their lives when a major career change is a highly relevant alternative for them and one where they have the capital to fund a new business. What many of them lack are the skills, assessment and mentoring to establish a small business that NEIS could provide. The opportunity for community capacity building through providing access to the NEIS program to this group of job seekers is obvious. (Mission Australia sub. 44, p. 12).

However, there are several concerns about widening eligibility to the program in this way.

First, there are many public and private alternatives for people to develop skills and to receive mentoring and other assistance in starting up a small business. Advice from accountants, other small firms, trade associations and solicitors are typically rated by small business owners as very useful (Atkinson 1994, p. 166). These are all accessible outside NEIS for those with financial resources. Moreover, there are a

¹⁴ A job seeker could undertake JST several times if they had periodic spells of employment and unemployment.

range of public programs run by state and territory governments, such as the WA Small Business Development Corporation, Canberra Business Centres and the Victorian Small Business Advisory Service. There are other training options available through TAFE.

Second, the goal of an employment program is to produce outcomes additional to those that would have otherwise occurred. Widening the scheme to those with significant financial resources interested in commencing a business is likely to bring into NEIS a group that would set up a business anyway.

Rather than widening eligibility for NEIS, there are grounds for more selective targeting. Because of its voluntary nature, the known challenges of establishing a small business and the exclusion of candidates deemed less likely to succeed, NEIS 'selects' a particular group of generally highly employable job seekers. Its targeting is therefore at the opposite end to that used for IA. Kelly et al. (2001, p. 71) argued:

... NEIS in its current format caters mostly to people who do not face barriers to mainstream employment. The way the scheme is currently targeted mitigates directly against its role in providing disadvantaged job seekers an avenue into employment, as a significant share of places go to job seekers who are anything but disadvantaged.

This explains the generally high *gross* outcome rates for the program (chapter 5). And unlike IA, where the program design encourages Job Network providers to minimise efforts for highly employable job seekers (thus reducing deadweight costs), NEIS expends resources on highly employable candidates.

More pre-screening by DEWR/Centrelink could be attempted to focus the program on more disadvantaged job seekers and to reduce access to the program by job seekers who would have started a business anyway. It is also important to continue and intensify a screening process that eliminates NEIS candidates with little prospect of success, particularly given that a significant proportion of the owners of non-surviving businesses face significant debt problems, worsening their disadvantage. The conjunction of these two screening processes is likely to significantly lower the number of referrals. It will also lower the gross outcome rate of referrals, but probably decrease the cost per net outcome.

An alternative approach would be to change the payment structure so that lower (higher) outcome payments would be paid to Job Network providers that achieved an outcome with a job seeker with a higher (lower) ex ante probability of getting an outcome without NEIS. Job Network providers could decide how to allocate their resources to job seekers, given these different outcome payment incentives.

The Commission recommends that the New Enterprise Incentive Scheme be targeted at disadvantaged job seekers who would not otherwise have started a small business, but for whom there is a reasonable prospect of success.

Self Employment Development (SED)

SED is relatively poorly targeted. First, it is generally expected that successful graduates of SED be admitted to NEIS, yet their eligibility conditions are inconsistent. Job seekers are eligible for NEIS immediately after unemployment, while they must wait six months to be eligible for SED. As noted by Kelly et al. (2001, p. 58) in their recent evaluation:

Of some interest is the difference in eligibility criteria between the SED program and NEIS. It was thought that the difference in eligibility criteria between the two schemes was difficult to justify.

Second, the Commission understands that very few SED applications are refused by SED providers compared with NEIS applications, suggesting that people with poor self-employment prospects are able to participate.

Third, SED participants are not subject to activity testing while they develop their business proposals. This encourages entry into SED of job seekers who wish to escape activity testing (for its three-month period). This is clearly not a substantial problem at present, given small referral numbers, but it is not clear that development of a business idea and continued job search are irreconcilable (chapter 8).

The Commission has recommended that SED be abolished (chapter 8). However, if it is not, the Commission considers eligibility and targeting for SED should be tightened.

Harvest Program

This is a poorly targeted program. Indeed, as noted in chapter 8, the Harvest Program is effectively a farm-benefit scheme, rather than a program aimed at assisting disadvantaged job seekers at all. The Commission has recommended the removal of funding.

10 Pricing

Box 10.1 Key messages

The existing competitive tendering arrangements are not effective in genuinely distinguishing the quality of Job Network providers. This has led to an excessive focus on price in tendering for some programs, but for IA most tenders rely on the administrative floor price.

The Commission recommends that default prices for IA be set administratively, but with the possibility of trialing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default.

The existence of the IA floor price, combined with the requirement that all IA providers also supply JM services, has led to some inefficiently low JM prices. This is solved by either eliminating the broad JM function or by de-linking JM and IA services.

Many participants claimed that payments under IA were not enough to warrant any genuine intensive assistance for disadvantaged job seekers. However, while they are concealed, the marginal incentive effects present in the existing system may actually be high for *some* job seekers.

There are grounds for incremental shifts in the payment mix from commencement to outcome fees, but radical changes risk abuse unless countered by other substantial changes to the nature of eligible outcomes.

There is also a case for more payment categories to provide incentives to assist groups of unemployed with different risk profiles, but this should only occur if the JSCI can reliably inform such new classifications.

It is possible to get substantial payments for educational and training 'outcomes', even if the job seeker fails to complete the course. The Commission recommends that payments only be made on successful course completion.

Some shorter-duration jobs can be socially valuable, but are not eligible for outcome payments. Some flexibility would be achieved by paying interim primary outcomes in two instalments — one at 7 weeks and the other at 13 weeks.

The business cycle has profound effects on the revenue of JM providers, but much less so for IA providers.

10.1 The key issues

The design of the pricing and funding system is a central component of the Job Network. It determines the overall resources allocated to helping disadvantaged job seekers and affects the incentives for service providers to work with particular groups of job seekers. If well designed, it can drive innovation, quality orientation and efficiency. If dysfunctional, it can lead to low cost, low quality services or cost-padded inefficient ones, or excess profits/surplus for Job Network providers.

The main choices concerning the design of such a system are examined successively:

- the extent of funding that should be provided (section 10.2);
- the choice of administrative versus bidding arrangements for determining price, including the role, if any, for price floors (section 10.3);
- the incentives for providing assistance to different classes of disadvantaged job seekers (section 10.4);
- the pricing of primary versus secondary outcomes and of education outcomes (section 10.5)
- the nature of the eligible outcomes that should be remunerated and associated verification requirements (section 10.6);
- the timing of payments to providers (section 10.7); and
- variations in payments over the business cycle (section 10.8).

As in most other chapters, the focus is on IA. However, section 10.9 deals with a residual pricing issue for JST.

10.2 Total amount of funding

The overall amount of funding to the Job Network should be a function of its effectiveness at the margin. Ideally, funding should be increased until the point that incremental additions of funding would get better returns elsewhere. As noted by the OECD (2001, pp. 265ff), and ACOSS (sub. 32, pp. 2, 16), the ‘returns’ relevant to this calculation should incorporate not only reductions in overall benefit payments, but also improved social participation and reduced crime and intergenerational dependency. Unfortunately, it is very difficult to measure the aggregate net returns of the program (chapter 5), let alone its marginal effects.

The OECD (2001, p. 267) investigated the option of not specifying a funding level, but aligning the marginal outcome payment with the marginal benefit of outcomes for the most disadvantaged job seekers:

Optimal outcomes are obtained when the government as ‘principal’ pays providers as ‘agent’ 100 per cent of the benefit which is derived from their actions, at the margin... If employment outcome fees are correctly defined, increasing them up to the point where they reflect the value of unemployment benefits saved and taxes gained will in the long run actually improve the government’s budget balance.

However, the informational requirements of this innovative approach appear to be significant.

That said, there may be gains in specifying payment arrangements with more explicit higher outcome-payment rates for more difficult-to-place job seekers (further considered in section 10.4) — and then see whether, in fact, providers are able to earn these payments. The ‘optimal’ funding level would then be *revealed* by the outcomes achieved.

A number of participants argued that IA was under-funded. For example, ACOSS argued that if the full benefits from reducing unemployment were factored into payments, then:

... Intensive Assistance payments would be much higher on average than current Intensive Assistance payments for long-term unemployed people (sub. 32, p. 16).

There is little question that the full benefits of successfully reducing unemployment exceed saved social security outlays. But there is little consensus that spending more on active labour market assistance using existing approaches will make much difference to net unemployment, especially given the relatively modest program effects detected to date (chapter 5). Preliminary research also suggests that those providers that bid above floor IA prices achieved only slightly better outcomes than other providers (box 11.4 in chapter 11).

The risk of greater spending using existing approaches would be that the budget would expand, but not outcomes. A preferable alternative is to try to target resources better (chapter 9) and develop a payment structure that has the right incentives for delivering outcomes, and then, to the extent practicable, let funding be determined endogenously. (ACOSS’s own proposed mixed funding model would significantly inject new resources into the Job Network only if it were successful at generating outcomes.)

10.3 Bidding versus administrative price setting

As noted in chapter 3, in many services, competitive tendering allows government to choose the suppliers that offer the best mix of price and quality.

The second round tenders in the Job Network gave a 75 per cent weighting to the quality of the services in the tender bid. In principle, this enabled higher prices for Job Network providers that might achieve greater outcomes than the average. To the extent that the likely outcomes of a Job Network provider can be verified *ex ante* or can be credibly committed to by bidders (for example, because there are contract penalties for failing to achieve the contracted standard), then contracting allows good scope for government to trade off quality (greater outcomes) and price.

However, as argued in chapter 3, it is not clear that currently quality (or the level of anticipated outcomes) is adequately verifiable or signaled in the current process. This may lead to price being a more important variable in competition between bidders, despite its relatively low weighting. In the absence of a floor price, quality might well fall below that actually desired by the purchaser. DEWR noted that in the first IA contract, prices were set administratively because of concerns that the bidders would initially lack the expertise to cost the new service. In the second round, prices were subject to competitive bidding, but a floor price was set.

To ease the transition to a fully competitive market for Intensive Assistance, and as a safeguard to protect service quality and reduce the risk of market failure, a minimum price was set, below which tenderers could not bid (DEWR sub. 43, p. 31).

The floor price protected quality, but to a large degree it also set the price for many Job Network providers as they bid down to the floor:

Although tender documents are clear on the importance attached to quality, the managers interviewed reflected that the tender mix of the variable price with minimum price has served to compel financially insecure agencies to quote the minimum price (WorkPlacement sub. 19, pp. 20-21).

ACOSS noted that:

In the second round, prices were set by competitive tender but we understand that the majority of providers bid at or near to the Department's floor price (which was significantly lower than the previous fixed rates of payment) (sub. 32, p. 6).

This was confirmed by the Commission by examining IA price data. As a consequence, while it may appear that prices are set by tender processes, many are, in effect, administratively set.

The existing system, however, does provide some scope for prices higher than the floor. Nevertheless, in the light of the issues raised in chapter 3, it is not clear that

those providers that get price premiums are necessarily those that are best at achieving higher marginal net outcomes. Nor is a bidding system along the current lines the only way in which the effects of higher prices on outcomes could be tested.

Experimental administrative pricing

One option is to simply set prices administratively, but periodically change prices to test whether the outcomes respond. This could be done across Australia, or more experimentally, in particular regions. Such pricing experimentation is anathema in normal decentralized markets with stable supply and demand functions, for which an optimal price equilibrium exists. But supply conditions are uncertain (chapter 3), while government must act on behalf of job seekers and taxpayers when determining how much to demand. In that context, experimental price setting is justified and may be superior to the existing bidding system, given its inadequacies.

Optional incentive plans

Another possibility is to offer Job Network providers a choice about whether they would like to sign:

- a contract in which prices were set administratively; or
- a more risky contract that would allow higher prices for those Job Network providers that could use those higher prices to achieve higher outcome rates (but with lower overall returns than administrative pricing if the Job Network provider was unable to achieve such outcomes).

This would differentiate those Job Network providers that have the potential to achieve improved socially beneficial outcomes at higher prices from those that could not.

One incentive scheme of this type is a stepped or marginal payment system — similar to progressive tax scales used in income tax — that increases payment levels as outcome rates increase. Payments at the average outcome rate would achieve payment rates that were lower than the administrative prices, but outcome rates that exceeded these would get premium payments. For example, outcome rates below 20 per cent might receive payments that are only 80 per cent of the administrative price, but outcomes between 20 and 30 per cent might receive a 10 per cent premium, those from 30 to 40 per cent a 30 per cent premium and those above 40 per cent a 50 per cent premium. Only those providers that had solid expectations of achieving higher outcome rates would choose such a payment option.

This particular incentive scheme has some obvious drawbacks:

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- premiums are set administratively, instead of negotiated;
 - premiums are staggered rather than continuous;
 - it fails to recognise that local labour market conditions and job seeker characteristics vary across employment zones — so that it would mainly reward the lucky rather than the competent; and
 - it would encourage ‘creaming’ by providers to change the client mix to more easily placed job seekers so as to attain higher marginal payments. In that context, it would probably require that job seekers were assigned to Job Network providers randomly, rather than through choice — losing an important facet of the design of the Job Network.

However, these problems can largely be overcome with more elaborate designs for incentives. Two examples are given in box 10.2. Whether these are operational — given their complexity — is uncertain, but there may be some gains in allowing providers to *contingently* raise prices above otherwise administratively-set prices, with the higher prices only being paid if higher net outcomes are achieved (unlike the present arrangements where Job Network providers that get higher prices do not have to pay anything back if they fail to get better results).¹

One concern about moving away from the existing bidding system is that costs may vary across Australia and over time in a way that needs to be reflected in prices. If administrative prices are set that do not take into account such costs, then service quality and outcomes will vary over regions and time. However, it is possible to measure costs — especially given the relative simplicity of the ‘technology’ used for providing Job Network services. NESAs (sub. 39, p. 12), while not endorsing full administrative pricing, considered that prices could readily be changed by DEWR to reflect cost changes.

Indeed, it seems likely that administrative pricing might allow for *greater* cognizance of cost variations than the present system. For example, the Commission found very little regional variation in IA bid prices. This probably reflects the impact of the ‘race to the bottom’ problem (chapter 3) and the floor price.

¹ Other than complexity, another concern with these sorts of contracts is that one agency may secure gains at the expense of other agencies. For example, a higher bid price may enable a provider to use high wage subsidies that then displace unemployed job seekers from another agency, with no or little net impact on unemployment in that area.

Box 10.2 Incentive contracts that allow price variations

Design 1: Providers can choose to be paid under a default option at the prevailing administrative price (which might have variations for different costs in different regions). However, they could also be given the option to select an incentive contract that exposes them to some risk, but which provides higher prices if they secure outcomes that are higher than the counterfactual. Accordingly, the net revenue (R_1) would be:

$$R_1 = C.f + \theta.p.C + (z + \varepsilon - \theta)\tilde{p}.C - M(z) - F$$

where C is commencements, f is the commencement fee, p is the administrative price, θ is the counterfactual gross job outcome rate, z is the actual gross job outcome rate achieved, ε is a risk premium rate, \tilde{p} is the price premium for getting above counterfactual outcome rates, $M(z)$ are the variable costs of achieving a z outcome rate and F are fixed costs. θ is akin to the expected outcome generated by the star rating model. θ would take account of the client characteristics and labour market conditions that applied over the relevant period that payment related to. Thus *realised* labour market conditions and job seeker characteristics would be used to set θ , not *ex ante* guesses of them. This is very important to avoid creaming, especially in a Job Network design that accentuated job seeker choice. However:

- providers need to be paid prior to calculating θ and so a guess of θ could be produced based on past labour market conditions and job seeker characteristics and then a reconciliation payment made when the 'true' θ is estimated;
- while *ex post* labour market conditions and job seeker characteristics would be used, the coefficients that would be used to weight these would have to be *ex ante* ones. Otherwise, if many providers were to adopt incentive contracts, this would affect the coefficients that might be estimated *ex post* and eliminate the incentives for better outcomes.

ε is also important in the incentive contract, because it provides partial relief from the increased risk of being exposed to the incentive contract. The need for ε is demonstrated by what happens if it is absent. A provider that expected outcomes that were equal to the counterfactual ($E(z)=\theta$) would not write an incentive contract, because of its higher risk compared to the default contract. But the cost of that risk means that even a provider whose $E(z)$ was just above θ would also not write an incentive contract, though there are benefits from having them do so. ε overcomes this.

Design 2: This is similar to option one, but does not require the formal specification of θ . Instead, providers that elected an incentive contract would indicate a threshold gross outcome (T) they would achieve and would negotiate a premium price that would apply if they exceeded that threshold. Accordingly:

$$R_2 = C.f + z.p.C + (z + \varepsilon - T)(\tilde{p} - p).C - M(z) - F$$

Clearly the value of \tilde{p} that DEWR would be willing to pay would depend on how high T was relative to the counterfactual outcome rate. But that rate would not have to be specified and DEWR could use the negotiations as another way of gaining information on the underlying counterfactual, rather than just a pre-specified model.

The Commission recommends that default prices for Intensive Assistance be set administratively, but with the possibility of trialing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default.

If administrative prices are not implemented, a floor price should be maintained for IA services.

The consequences of the floor prices

The IA floor price protects quality, but it also has some unforeseen impacts when combined with other design aspects of the Job Network.

The requirement that IA providers also bid for JM, which does not have a floor price, can lead to cross-subsidisation of JM by IA providers (chapter 13). Cross-subsidisation was tempered by a provision in the second contract that permitted an IA provider that was suitable for IA, but which had bid an uncompetitive price for JM, to be offered JM places at the weighted average JM price in the relevant region. Even so, many IA providers appeared to have bid at unrealistically low prices for JM services in the belief that this would help them to win the overall contract. This has two effects.

First, it reduced the resources under IA that were available for disadvantaged job seekers — in effect, the floor price on IA was being undermined. Second, it distorted the prices of JM services, potentially generating inefficient supply of JM services by some IA providers that were ill equipped to provide them.

The Commission has recommended the removal of subsidies for non-IA JM places. However, if this recommendation is not implemented then rather than remove the floor on IA prices (as recommended by Employment National, sub. 28, p. 4), the appropriate remedy is to remove the requirement that IA suppliers also provide subsidised JM services. A possible alternative would be to set quotas for JM places that are equal to the anticipated JM places achieved by IA clients alone, but this would be imprecise and difficult to implement.

If recommendation 7.1 is not implemented, the Commission recommends that Intensive Assistance providers should not be required to also supply Job Matching services.

The application of floor prices also has the implication that the more disadvantaged job seekers in good labour markets are likely to receive more assistance than job seekers with the same level of disadvantage in poor labour markets, even if that is not warranted in terms of social benefits. There are three stages to this claim:

- There is a lot of variation in local labour markets and in the characteristics of job seekers who are referred to Job Network providers. This means that even if there were no differences in the ability of Job Network providers to achieve *net* outcomes, *gross* outcome rates will be very different (it is quite common to have two Job Network providers with the same star ratings with gross outcome rates that are different by a multiple of two).
- But outcome payments are based on gross, not net outcomes. This implies that Job Network providers with the same inherent capabilities may be rewarded very differently depending on the nature of their job seekers and on the labour market in which they are operating.
- As there are floor prices, the additional returns per commencement in good labour markets are not bid away through lower prices. However, the desire to win profitable segments of the market makes providers very focused on DEWR's assessment of their performance through the 'star rating' system (chapter 4 and 11) — since this is a major factor in determining whether they win subsequent bids. Thus, in 'lucrative' markets there is an incentive for Job Network providers to spend any notionally excess returns on increasingly disadvantaged job seekers in order to try to get more stars. Accordingly, the maximum (implicit) subsidy to disadvantaged job seekers is higher in good labour markets than in poor ones.

Accordingly, the difficulties in observing net outcomes, combined with an outcomes-based payment system lead to potentially large distortions in the allocation of resources to disadvantaged job seekers across Job Network providers in different labour markets. Notably, some alternative incentive contracts could overcome this problem, though they may not be practical (for example, option one in box 10.2 explicitly does so).

10.4 Providing incentives to assist disadvantaged job seekers

The extent to which job seekers with different degrees of disadvantage are helped by Job Network providers is dependent on the structure of prices and payments, as well as the effectiveness of profiling techniques and any resulting targeting (chapter 9).

Low rates of assistance to disadvantaged job seekers?

Harding (1998) and the OECD (2001, p. 107) argued that the incentive effects of the payment system, at least under the first contract, did not encourage much effort by providers for more disadvantaged job seekers. For example:

...the rhetoric of the Job Network is that it harnesses the efficiencies of market processes. This rhetoric is not reflected in the design of the Job Network, since it provides no incentives for profit-oriented providers to use wage subsidies which are the most cost-effective method of getting unemployed job seekers back to work (Harding 1998, p. 13).

The concern stems from the fact that the probability of an outcome is not very sensitive to increased expenditure on interventions for job seekers (reflected in the small net outcomes measured for IA — chapter 5). Accordingly, outcome fees would apparently have to be considerably higher to warrant expenditures on job seekers.

Indeed, using an updated version of Harding's model, it would appear that at the IA floor prices, the average Job Network provider could get revenue of around \$1 960 per commenced IA job seeker without doing anything compared with overall revenue of about \$2 145 at the observed outcome rates (appendix D). This reflects relatively high payments that are not related to outcomes and the fact that most job seekers would get an outcome in the absence of any intervention.

However, incentives to spend resources on disadvantaged job seekers are greater than this simple analysis suggests.

Why incentives to assist may be high

There are several reasons why providers actually spend resources on job seekers, even though it appears to reduce their revenue. The most obvious of these is that the option of establishing a shell company and doing nothing with enrolled job seekers is not available because of monitoring by DEWR. Thus, it would be expected that job seekers would obtain a minimum of services, mainly face-to-face contacts with a case manager.

Second, as Harding notes, providers may be motivated by more than profit.

Third, individual case managers don't deal with a homogenous group of job seekers with a common responsiveness to interventions, but with individuals that have different sensitivities to interventions. In that context, providers will have incentives to selectively intervene — even with wage subsidies — for responsive job seekers. For example, if a case manager can increase the probability of an interim primary

outcome for a B category job seeker by 45 percentage points and a final primary outcome by 30 percentage points by offering a \$100 per week wage subsidy for 13 weeks, then the net return to the agency is \$1 550. One of the key advantages of allowing flexible responses by Job Network providers is that they can allocate scarce resources to those job seekers most likely to respond to them, and have strong incentives to develop diagnostics or to hire case managers that are good at distinguishing responsive job seekers.

Fourth, job seekers' responsiveness to interventions varies by location and Job Network provider. There are large differences in the ability of providers to achieve value added (which is probably highly associated with net outcomes) (table 10.1), even if the average ability is rather small. Some of the variation in the value added by different providers will reflect random factors, and some will reflect systematic differences in the quality of the interactions of the Job Network providers with their job seekers. If a substantial share of the differences in value added were due to random factors, the incentives to use (costly) quality interventions would be low, because luck would play a bigger role in results than effort. However, the fact that some agencies get consistently high results across sites suggests that well-directed interventions and interactions with job seekers are important in explaining performance differentials. While DEWR has conducted some research into best-practice among Job Network providers, the extent to which value-added outcomes are systematically related to their practices needs further research. This goes to the heart of the ability of an outcomes-based pricing system to deliver significantly better outcomes.

Finally, as noted in chapter 9, the funds that a Job Network provider acquires from outcomes that would have occurred anyway are not necessarily lost as a windfall gain to the provider because of the incentive effects produced by the star rating system. Thus, the profits obtained from having an enrolled job seeker quickly gain employment with little assistance may be dissipated through expenditure on the group of most responsive job seekers.

The ability to get large impacts for some job seekers can be reconciled with low average net outcomes because:

- a) there are only a given number of job seekers who are very responsive to interventions;
- b) the ability to detect responsive job seekers is imperfect and varies among Job Network providers;
- c) some job seekers probably get negative net outcomes from the intervention (for example, due to weak activity testing under IA — chapter 7), offsetting positive outcomes for other job seekers;

-
- d) some Job Network providers achieve relatively poor outcomes compared to others, again bringing down average results; and
 - e) resources are expended on all job seekers to some extent — even if they are not likely to get an outcome.

Higher payments would partly address (a) and (e), but not overcome the remaining constraints. Heterogeneity among Job Network providers and the existing limits to targeting job seekers present a substantial barrier to achieving better net outcomes. An advantage of competition — engendered by outcome payments and the performance rating system — is that it should improve targeting and reduce the number of poor performers among Job Network providers. More consistent activity testing (chapter 7) should reduce (c) as a constraint, while a more general capacity to exit job seekers (chapter 9) may alleviate (e).

In summary, while they are concealed, the marginal incentive effects present in the existing system may actually be high for *some* job seekers. In that sense, the present payment system does *not* preclude the use of expensive interventions — such as wage subsidies. It merely encourages that they be targeted at job seekers who are most responsive to them.

Table 10.1 Differences in value added by providers^a

<i>Star rating</i>	<i>Performance differential</i>
	%
1	-10.2
1.5	-7.7
2	-6.1
2.5	-4.5
3	-2.5
3.5	-0.3
4	3.1
4.5	6.0
5	11.7

^a Star ratings reflect performance from 28 February 2000 to 31 August 2001. The star ratings (an ordinal measure) are based on underlying cardinal measures of performance — effectively the value added of the providers. These value added performance measures are calculated as the difference between the actual and predicted outcomes levels for each provider, with those exceeding expected outcomes getting higher ratings. These value added measures control for differences in the characteristics of job seekers and local labour markets (on the basis of the logistic regressions underlying the star rating model used by DEWR). Value added should be correlated with net impacts. The table shows the *difference* in this value added measure (based only on interim outcomes) between providers with different star ratings. They should not be mistaken for differences in *gross* outcomes. It is also important to note that in difference form, they are strictly relative, and a negative value does not imply that no value is added but rather that it is lower in a relative sense.

Source: Unpublished data from DEWR.

Changing the mix of payments?

The relative importance of outcome versus non-outcome payments may also be relevant to the incentives to assist disadvantaged job seekers. For example:

In the first tender round, the problem of under-investment in employment assistance was exacerbated by the relatively high up-front payments. This meant that providers did not have to rely heavily on outcome payments to remain in business (ACOSS sub. 32, p. 6).

A feature of the Intensive Assistance fee structure is the relatively high initial commencement fee for each client. ... a consequence of this feature is that profitability of Intensive Assistance work is guaranteed, so long as not too much is spent by the provider on ongoing service provision. ... In this context, there may be a case for reconsidering the size of the commencement fee for IA. The main rationale for providing 30 per cent of total funding as commencement fee was to enable providers to set up business and establish the necessary infrastructure. As the employment services market was undeveloped at the time, this policy was necessary to nurture service providers. It may be that with a more mature market this level of up-front financial support is no longer required in all instances although some flexibility may be required in areas of market failure (FaCS sub. 42, p. 15).

DEWR changed the mix of non-outcome and outcome based fees in the second contract. In the second contract, commencement fees represented 23 per cent of a provider's return if it secured a primary outcome, compared to 33–35 per cent in the first contract (table 10.2).

However, ACOSS (sub. 32, p 6) questioned whether the shift to a higher outcome orientation has had any appreciable effect. In part, the lack of apparent impact might reflect the fact that outcome payment levels for the most disadvantaged job seekers have not changed significantly. The total level B outcome payments in the second contract for a successful final primary outcome was about 14 per cent higher than the level 3 outcome payments in the first contract for the same outcome.

DEWR (sub. 43, p. 66) also noted that different mixes of upfront versus outcome fees have been used around the world (table 10.3), but with 'varying levels of success'.²

² However, it is probably not possible to disengage the effects of a payment structure from other aspects of the design of labour market interventions, weakening the validity of international comparisons of these kinds.

Table 10.2 Fee structure in the 1st and 2nd IA contracts for the Job Network

	1st contract			Second contract	
	Level 1	Level 2	Level 3	A	B
Fee structure					
Commencement fee (\$)	1 500	2 250	3 000	1 077	2 122
Primary interim outcome fee (\$)	1 500	2 250	3 200	2 514	4 953
Secondary interim outcome fee (\$)	500	500	500	536	536
Primary final outcome fee (\$)	1 200	2 200	3 000	1 072	2 144
Secondary final outcome fee (\$)	500	500	500	536	536
Total outcome payment to a provider if a final outcome is achieved					
Primary (\$)	2 700	4 450	6 200	3 586	7 097
Secondary (\$)	1 000	1 000	1 000	1 072	1 072
Percentage distribution if a final outcome is achieved^b					
<i>Primary</i>					
Commencement (%)	35.7	33.6	32.6	23.1	23.0
Interim (%)	35.7	33.6	34.8	53.9	53.7
Final (%)	28.6	32.8	32.6	23.0	23.3
<i>Secondary</i>					
Commencement (%)	60.0	69.2	75.0	50.1	66.4
Interim (%)	20.0	15.4	12.5	24.9	16.8
Final (%)	20.0	15.4	12.5	24.9	16.8

^a JM placement fees have been ignored, but if included would slightly increase the outcome share of payments for primary outcomes. ^b The distributional shares differ from those produced by DEWR for funding level 3.

Source: DEWR (sub. 43, p. 66).

Nevertheless, if the payment mix was increasingly tilted towards primary outcome payments, impacts on outcome rates could be anticipated (appendix D). However, the resultant outcome fees would have to be at levels that did not generate strategic responses by Job Network providers (and employers) or produce employment outcomes whose cost exceeded their benefit. As noted by several participants, *large* outcome payments resulting from a change in the payment mix would:

... greatly increase the risk of providers engaging in artificial arrangements, such as creating work experience style jobs or paying individuals a ‘wage’ to stay off income support for 13 weeks (DEWR sub. 43, p. 65).

... intensify present public concerns about accountability for employment assistance funds. It is doubtful that such a system would survive the processes of political scrutiny for very long (ACOSS sub. 32, p. 6).

Table 10.3 Fee incentive structures

Australia and the US

<i>Payment point</i>	<i>Job Network 1st contract</i>	<i>Job Network 2nd contract^a</i>	<i>Pennsylvania^b</i>	<i>Florida^c</i>	<i>New York^d</i>
	%	%	%	%	%
Up-front	35	23	50	40	0
At job placement	0	0	25	50	18
After person is employed for 3 months	35	54	25	0	0
After person is employed for 4 months	0	0	0	0	70
After person is employed for 6 months	30	23	0	10	0
After person is employed for 7 months	0	0	0	0	12

^a Refers to a bid at the floor price under Job Network's second tender. ^b Contractors under Pennsylvania's Community Solutions Program are paid 50% of their costs at the time of client enrolment, 25% at job placement and 25% at the 90-day retention mark ^c WAGES limits upfront payments to no more than 40% of the total costs of providing services. Providers receive compensation for 50% of the costs at job placement and the final 10% after the job seeker retains the job for six months. ^d The company receives 18% of its payment at the initial, temporary job placement, 70% if the employer hires the person as a permanent employee after four months and the final 12% in the person remains in the job for an additional 90 days.

Source: DEWR sub. 43, p. 67.

Concerns over strategic behaviour suggest that:

- any shifts in the payment mix should be incremental and subject to close monitoring. If outcomes were superior, this could allow further small adjustments; or
- the outcomes that are eligible for payments be re-defined. For example, in the case of wage subsidies, the outcome might be defined as the job seeker securing an unsubsidised job for a reasonable period after the cessation of the subsidy.

Any shifts in the payment mix would also have effects on the liquidity of the industry, which may require upfront contingent payments (section 10.7).

The Commission seeks feedback on the desirability of small adjustments to primary outcome payments.

Increasing the number of categories?

In theory, there is no need to have any payment differentiation between categories of job seekers, but simply let windfall gains on low risk job seekers be bid away on

higher risk ones, as competing Job Network providers try to get higher star ratings. However, while the star rating model accentuates incentives to assist disadvantaged job seekers, it does not do so perfectly:

- to the extent that luck plays a significant role in the star ratings achieved, then the return from costly interventions for job seekers is reduced;
- its incentive effects depend on the quality and intensity of local competition. If that is poor, then a better performing Job Network provider can take the gains from placing easy-to-place clients in jobs as windfalls and not feel impelled to spend them on disadvantaged job seekers;
- for small groups of disadvantaged job seekers, (and for individuals who do not have similarities with sufficient numbers of other job seekers) the increase in star ratings from investing in better outcomes may be relatively small against the background ‘noise’ in the outcome rates (for example, if a provider is a generalist provider with 10 per cent Indigenous clients); and
- the star rating model adjusts gross outcomes for differences in unemployment risk of job seekers, but not for the differences in social returns associated with outcomes. Unemployment risk and the social benefits from intervention are likely to be correlated, but imperfectly. Some job seekers with similar unemployment risk will have a greater tendency for crime, drug abuse or intergenerational problems than others.

This suggests a possible return from further payment categories for job seekers that would allow greater payments for higher risk (or higher social benefit) clients. Again, there would be a need to avoid the perverse incentives that can arise when payment levels are high. However, these perverse incentives are more easily avoided if the high cost group to be monitored is small.

In chapter 9, it was also suggested that rather than pay premiums to specialist Job Network providers, it would be better to pay additional outcome payments for the types of clients that these agencies specialised in.

Increasing the number of categories does, however, put greater pressure on the classification instrument, which would be required to undertake an ever finer grading of job seeker risk. Indeed, in the second tender round, the number of IA categories was reduced from three to two. However, this was effectively offset by the introduction of specialist IA providers. In effect, they represent the introduction of additional categories with different payment levels based on particular characteristics of the job seeker rather than on their risk profile as identified by the JSCI.

The scope for further payment categories will have to be assessed as the JSCI is refined. Premature widening of payment categories could have some adverse efficiency results if false positive or false negative rates are high in any given classification category. For example, if the false positive rate is high and local competition is weak, the deadweight costs of the program could be very high in some areas.

DRAFT RECOMMENDATION 10.3

The Commission recommends that there be more outcome payment categories for Intensive Assistance to take account of existing special groups of job seekers, but that further payment categories should only be created if the supporting Job Seeker Classification Instrument classifications are sufficiently reliable.

Fee-for-service payments

A fee-for-service is an input-based method for payment. Agencies would be required to deliver certain services in a particular timeframe and then would be paid for those services. For example, JST has a fee-for-service component.

Commencement fees in IA might also be seen in that light since providers are required to interview job seekers and to sign a planning-for-work agreement. However, the amount paid far exceeds the costs of such upfront services. The real rationale for non-outcome fees in IA is to ‘ensure cash flow problems do not occur which might limit the provision of services’ (DEWR sub. 43, p. 65). The question then arises of whether there is any place for fee-for-service payments in IA.

Potentially there are grounds for such fees for compliance and assessment procedures that the government requires be undertaken for job seekers, such as:

- monitoring activity as part of the government’s mutual obligation objectives; and
- assessment of job seekers for referral to other areas of the program (as required under Australians Working Together).

These services are relatively low cost and can properly be applied to all job seekers.

The milestone sub-program discussed in chapter 9 would provide fees for the effective delivery of certain services, but the services would be highly targeted.

A widened fee-for-service approach in the Job Network would overcome some problems, while creating others. For example, the problem of ‘parking’ could be overcome by moving to a fee-for-service system in which any of a wide range of

service types would simply be paid for by government when delivered to job seekers. In that case, parked job seekers would receive services because it would now be in the interests of providers to maximise service delivery, rather than outcomes. However, any wider move towards fee-for-service runs well known risks, such as over-servicing and poorly targeted service delivery. Many job seekers who did not need a particular service would receive it. These problems can be reduced, but only through measures like bureaucratic control over who is eligible for particular services — and is contrary to the intention of the Job Network approach that allows flexibility and innovation. It is likely that adoption of a fee-for-service approach would increase costs substantially with little gain in outcome.

Cost-based remuneration suffers similar defects, but with the added problem that incentives for efficiency are also blunted (because any cost increase is recovered through the fee).

ACOSS (sub. 32, pp. 7-9) has proposed a hybrid funding model that incorporates the existing elements of the Job Network pricing model, supplemented by cost-based remuneration with cost-sharing between government and providers to reduce the incentive problems of pure cost-based pricing (box 10.3).

The gateway period in the ACOSS model is a mechanism for constraining the costs of providing services to those job seekers who were going to get outcomes anyway (these typically do so in the first three months). Such costs would be further reduced if IA providers had the discretion to select which job seekers to target for assistance using the external funds.

The ACOSS model increases incentives to assist disadvantaged job seekers. Abstracting from the influence of the star rating model on incentives, under the present system a Job Network provider will incur an expenditure (E), if the increased probability (p) of a payable outcome (at rate F) is above E/F. Under the ACOSS proposal, the investment will be made when $p > 0.25 E/F = E/(4.F)$. The effect on incentives to undertake higher expenditures is therefore identical to a dramatic increase in the outcome fee, and would require payable outcomes to be re-defined (for example, a reasonable period of an unsubsidised job) to avoid abuse.

In the case of wage subsidies, the contribution by the provider is even smaller proportionately than above, because of the way ACOSS calculates the net cost of a wage subsidy (box 10.4). This might appear to risk an explosion in the use of wage subsidies, which despite their favourable effects on employment probability, are also likely to risk (hidden) displacement of other job seekers (chapter 2 and 7).

Box 10.3 The ACOSS mixed funding model

Our preferred solution is a 'mixed' funding model for Intensive Assistance that rewards outcomes while at the same time mandating certain minimum levels and standards of service and directly subsidising those services required by each disadvantaged job-seeker to overcome employment barriers (up to a limit, as discussed below). These services would address substantial barriers such as vocational skills deficits, literacy, a lack of recent employment experience, or locational disadvantage. They would not be prescribed in advance by Government (as was substantially the case with the Job Compact), but providers would be accountable to the funding body to deliver them.

Under this *mixed funding* model, the precise mix of services offered by Intensive Assistance providers to each long-term unemployed person would be determined by the provider following a three-month assistance and assessment period, similar to the United Kingdom's "Gateway". During this period providers would offer a range of services similar to current Intensive Assistance services, including job search training and "coaching". This would enable providers to make a more accurate assessment of job-seeker needs than Centrelink can using the JSCI. It would also help ration access to the more costly services that are offered after completion of this stage.

A significant proportion of job-seekers leave Intensive Assistance within the first 3 months, usually to commence employment. This is also the case in the UK, where a majority of job-seekers in the "New Deal for young people" leave the system before they have completed the three month Gateway period. At the expiry of this three month period, each long-term unemployed job-seeker would be offered substantial help to overcome his or her particular workforce barriers, pursuant to an Intensive Assistance Support Plan. These particular services (as distinct from 'lower-level' services such as counselling and job search training) would be financed by a cost-sharing arrangement between the provider and the Department. For example, the provider might be required to commit 25% of their cost, drawing the other 75% from an annual funding pool established for this purpose, based on the provider's client profile over that year.

The funding pool could comprise either a fixed amount for each job-seeker, or a pool of funds for all intensive assistance clients who pass through the 'Gateway' without securing employment or needing referral to specialist services such as the Personal Support Program. The latter option would give providers more flexibility to vary their level of investment according to the different needs of job-seekers. The main disadvantage is that it would be more difficult to guarantee that each long-term unemployed job-seeker would receive help of a substantial nature. Whichever option is chosen, providers would be required to account to their clients and the funding body for the expenditure of funds drawn from the pool, pursuant to their Intensive Assistance Support Plans.

The proposed system would therefore combine up-front, outcome, and input-based payments, with the latter payments targeted towards those long-term unemployed people who remain in Intensive Assistance for at least three months. This system would have to be carefully designed to minimise moral hazard problems and deadweight loss. However, it would be likely to allocate employment assistance resources more efficiently to meet individual needs than either a program based funding system or a pure outcomes-based system. Adjustments could also be made to up-front and outcome payments. However, since the main problem with the present arrangements is under-investment, these payments should not be substantially reduced to meet the cost of the input or service-based payments.

Source: ACOSS sub. 32, pp. 7-8.

Box 10.4 Wage subsidies under the ACOSS proposal

ACOSS (2002, p. 73) gives an example of how the new funding model might work in the provision of a wage subsidy. A job seeker is provided with a wage subsidy for 6 months, with the gross cost of the wage subsidy (WS) being the Newstart allowance, plus an additional \$2 000 so that the wage subsidy is around half the award wage. This implies:

$$WS = 26 \times \$178.50 + \$2\,000 = \$6\,641$$

The 'net' cost of the wage subsidy is calculated as WS less the social security offset (the Newstart allowance), which is then \$2 000. Under the 25 per cent cost sharing arrangement, the Job Network provider must only pay \$500 to access the \$6 641 subsidy.

One of the possible effects of the ACOSS proposal is that it might lead to large windfall gains to Job Network providers due to outcome payments for those who would have got a job already. Under the present system, there is a tendency to bid away these windfalls to get better star ratings. However, the scope for effectively assisting many more disadvantaged job seekers might be close to exhausted if the most responsive disadvantaged job seekers have already been assisted through the cost-sharing arrangement. This would lower the returns from investing the windfalls in better performance ratings. The smaller the prospective gain in the ratings from an intervention, the more it is also likely to be swamped by random factors affecting the star rating achieved. Accordingly, the incentives to bid for more stars would be low, and the windfalls would be kept (or in an open entry system to the Job Network, bid away through wasteful excess site numbers). This could be somewhat controlled by removing outcome payments for the gateway period. But then this reduces incentives to appropriately target coaching and counselling during this period and may also lead to strategically delaying job seeker outcomes past the gateway period to earn outcome payments.

The ACOSS proposal is a radical one, equivalent to quadrupling outcome fees. It would require careful controls to prevent abuse. For example, it would require controls on the absolute size of the funding pool, a ceiling on the amount that could be accessed by any individual job seeker and re-definition of payable outcomes. If it were implemented, greater cost sharing than 25 per cent by Job Network providers would be appropriate — for the same reason that any increases in outcome fees should be incremental. The ACOSS model may be preferred to the existing funding model if the Commission's view about the strong incentive effects of the star rating model are incorrect. For, in that case, the present system would provide weak incentives to help the disadvantaged and yet generate windfall gains for providers. Such windfalls would still occur in the ACOSS model (unless another mechanism

were used to bid them away), but at least there would be incentives to generate outcomes for disadvantaged job seekers.

The Commission seeks feedback from other participants on the weaknesses and strengths of the ACOSS mixed funding model.

10.5 Pricing of primary and secondary outcomes

Primary outcomes³ are paid at much higher rates than secondary outcomes.⁴ For example, an interim primary outcome payment for a level B job seeker is more than nine times higher than the payment for an interim secondary outcome.

The lower total payment for secondary outcomes reflects a belief that, on average, secondary outcomes contribute less to a job seeker. Data for the 13 week versus 26 week payable outcome rate confirms this. Around 62 per cent of primary interim outcomes are converted to final outcomes, but the corresponding conversion rate for secondary outcomes is only 23 per cent.

Moreover, for job outcomes, primary outcomes provide greater wages to job seekers and greater benefit savings to government over the measured outcome period. In this sense, a primary outcome is more valuable to the community than a secondary outcome, justifying a higher payment to the provider. However:

- the fact that the job seeker earns more over a particular 13 week period does not necessarily imply that the job seeker will continue to earn more over the longer term. For some job seekers, the primary outcome might not in fact be sustainable, whereas the secondary outcome with fewer weekly hours or a lower hourly rate of pay may continue. In this situation, a continuing secondary employment outcome could be more ‘valuable’ than a discontinued primary; and
- it is not clear that when a secondary job outcome does deliver lower returns, that this is by the extent suggested by the present high payment relativities.

Data limitations constrain policy responses to the first problem. However, it may be possible to ameliorate the second problem by measuring the wage and benefit effects of primary versus secondary job outcomes. This would then permit payments for primary and secondary job outcomes to be set in a way that was more proportionate to their effects on wages and benefit savings.

³ These are usually jobs that generate sufficient income so as to achieve an off-benefit outcome, but they can also include training and education for certain eligible young job seekers.

⁴ These are jobs that generate sufficient income to reduce benefit payments by at least 70 per cent or approved training and education outcomes for all ages of job seeker.

Another issue is whether primary education and training outcomes should receive the same (relatively high) outcome payments as primary job outcomes. Such an outcome can be attained by eligible (young) job seekers, for example, if one semester of an equivalent full time study load is completed, provided the eligible course is at least two semesters in duration. The primary interim outcome fees would be sufficiently high to allow the provider to pay 100 per cent of the job seeker's education and training fees, with a margin over. This situation makes it possible for providers to 'buy' outcomes (and improve star ratings) — provided the job seeker is agreeable to it. Educational and training institutions catering to these groups may not set high hurdles for entry as high as employers.

This suggests that candidates with relatively poor prospects may commence a course and then, despite failing it after the first semester, still generate a substantial outcome payment for a Job Network provider.

The problem is less severe for secondary outcomes, since these would not usually be sufficient to 'buy' an outcome, but the question of whether interim payments should occur for half-completed courses remains.

Improved educational outcomes, particularly for young people that have had interrupted schooling, can improve subsequent employment prospects significantly, so that a pathway through education to better jobs is important (chapter 14). However, these gains are unlikely to be produced unless the job seeker completes the entire course and successfully obtains the qualification.

Accordingly, there are grounds to only pay for such educational and training outcomes when a job seeker has successfully completed the course and obtained the relevant qualification.

DRAFT RECOMMENDATION 10.4

The Commission recommends that interim outcome payments for educational and training outcomes be abandoned and replaced by a higher final payment when the course has been successfully completed.

10.6 Modifying eligible outcomes

A number of participants suggested that the eligible outcomes subject to payments be modified, or that the range of eligible outcomes be increased (box 10.5).

Box 10.5 Some participants' comments on the range of eligible outcomes attracting payment

The Salvation Army Employment Plus (sub. 35, p. 5) suggested that employment outcomes should differentiate between full time or part time employment, and should be measured by the number of hours a job seeker achieves in work.

NESA (sub. 39, p. 5) said:

In considering what duration is appropriate to measure sustainable employment it's interesting to note that there is a shift towards longer term client management and post placement support over two years or more, with corresponding funding, in the U.S. and the U.K. Such an approach hasn't, as yet, been extensively tested in Australia.

Some participants have suggested that such modifications to outcomes be linked to incentive payments aimed at achieving a higher quality of outcome:

In relation to sustainable employment outcomes, I think the key is to provide bonuses at the 26-week and 39 week and 52 week point and less upfront (Mr Ray Blessing sub. 7, p. 2).

It would be preferable to define employment outcomes as "lasting employment, moving off benefit to sustainable employment." It would therefore be necessary to look towards the long-term outcomes of placements. Providers could be encouraged to look for more lasting outcomes by providing an extra payment for any placed client that is still in employment 12 months after the initial placement (UnitingCare Australia sub. 12, p. 5).

FaCS is interested in the balance between the short-term placement of job seekers and longer-term sustainable employment. One possible way of achieving more sustainable outcomes could be an increased focus on quantitative and qualitative performance measures, including the durability of employment and job seeker and employer satisfaction ... Increasingly Job Network system design will need to cater for both the activity tested job seekers, who have to participate in order to continue receiving income support, and for job seekers, such as sole parents, whose participation in Job Network is largely voluntary. One issue would be the current outcome structure. Some sole parents, in particular, may be seeking a lower level of part time work than the 15 hours a week currently required for an outcome payment. (FaCS sub. 42, pp. 15ff).

Some participants also wished to recognise the desirability of short-term placements for some individuals and groups of job seekers:

However, for some long term unemployed people who have been absent from the labour market for lengthy periods, short term placements can sometimes provide the most appropriate pathway back to a more permanent connection with the labour market. Furthermore, given the increase in temporary and casual employment, there are some labour markets and industries which do not present permanent full time employment options (Salvation Army Employment Plus sub. 35, p. 6).

There are also major issues with seasonality in the Northern Region of Australia (Kimberley, Northern Territory and Far North Queensland) where outcome might require either 13 or 26 weeks periods of employment. However, the position is terminated due to the dry or tourist season ending before the outcome claim period can be reached ... Indigenous people, particularly in remote communities and rural centres face unique barriers to employment ... It was felt outcome timelines for Indigenous people maintaining continuous employment for outcomes as too long (13 or 26 weeks) due to cultural issues and seasonal impacts ... [there is a need to] encourage development of a work ethic by progressively rewarding small successes (eg short outcome timelines) (Kimberley Area Consultative Committee sub. 15, pp. 2ff).

These covered the following broad areas:

- differential payments related to the quality of the job obtained, such as whether the job is part-time or full-time;
- rewarding sustainable employment (greater than the current 26 weeks), and a consideration of longer-term client management (one to two years);
- a recognition that for some job seekers (sole parents or job seekers close to retirement age) part-time work of less than 15 hours a week may be appropriate; and
- rewarding outcomes less than 13 or 26 weeks (recognising that in some regions seasonal work is of limited duration, and that for Indigenous job seekers, for example, an attachment to the workplace may need to be developed in smaller steps).

There are possible grounds for distinguishing the quality of different outcomes. Hourly earning rates would probably be the most appropriate single measure, since it is correlated with the other aspects of job quality. For example, an outcome fee could be some set amount for the acquisition of a job, plus a multiple of the hourly wage rate (for example, 100 times the hourly wage rate).

However, this may encourage a Job Network provider to seek a high hourly rate part-time job over a lower paying, but full-time job, even if the latter better meets the preferences of the job seeker. On the other hand, paying outcomes on earnings over the 13 week outcome period would have the opposite bias. The problem arises because the preferences of the job seeker are only incompletely accommodated. Consequently, there are some practical implementation problems in basing outcome payments on earnings.

It is even less clear, abstracting from the earnings issue, that permanent part-time jobs should be regarded as worse than full-time jobs, given that many job seekers prefer the former.

The prima facie case for payments for genuinely sustainable outcomes is strong, since a permanent job (full-time or part-time) would clearly have prolonged social and economic benefits over a short duration job that returns the job seeker to benefits. However, the monitoring costs associated with verifying longer duration jobs may be quite high, some job seekers may be reluctant to verify outcomes that have occurred so long after the initial intervention, and the effect of outcome payments on incentives may be weakened if the payment is delayed significantly.

The desirability of introducing further payments for longer term outcomes (or adjusting the mix of outcome payments towards longer duration jobs) depends on

whether existing shorter term placements are sustained. If the chance is high that a job seeker who holds a job for 26 weeks will retain employment over the longer-term, then the return for paying a higher outcome fee for longer-term outcomes will be low. Government will be paying such fees for many people who would have held the job anyway. Unfortunately, rather incomplete data are available on this question. Around 60 per cent of interim primary outcomes also achieve final primary outcomes,⁵ but longer term data have not yet been published.

Rewarding outcomes of *less* than 13 or 26 weeks raises different questions. In terms of the objectives of sustainable employment and reducing welfare dependence, rewarding lesser outcomes may provide little net benefit. However, for some job seekers, short term seasonal work, or a succession of short-term employment episodes represents the appropriate or most feasible involvement in the job market. While no individual period of employment is long enough to warrant a payment, the succession of jobs represents a continuing involvement in the job market, and a longer-term reduction in the level of welfare payment. It would seem appropriate to reward such outcomes (box 10.5). The Kimberley Area Consultative Committee (sub. 15, p. 5) has suggested that it may be particularly relevant for Indigenous job seekers.

This could be achieved by phasing the existing outcome payments — for example, by paying the interim outcome payment in instalments at 7 weeks and 13 weeks, with 7/13 paid in the first instalment and the remainder in the second.⁶ Many more points of payment would probably become excessively burdensome in terms of verification and paperwork. Furthermore, the shorter the duration of the job, the more opportunities there are for some Job Network providers to attempt to pass poorer quality job seekers to employers, hoping that an outcome fee will be received before their true quality is discovered. This would undermine the reputation of the Job Network as a whole, which would affect the general willingness of employers to fill vacancies from this source.

DRAFT RECOMMENDATION 10.5

The Commission recommends that primary interim outcome payments should be split into two instalments made at the 7 and 13 week periods of a job.

⁵ Based on unpublished performance indicator data for the period to 30 November 2001, provided by DEWR.

⁶ It might be thought that as the job duration eligible for a payment falls, there might be greater scope for more ‘artificial’ jobs and for recycling job seekers through a particular vacancy. As with other outcomes, DEWR’s standard monitoring arrangements could control any such risk.

Verification issues

An associated issue to eligible outcomes is verification. Outcome payments are only made to Job Network providers if the outcome can be verified within 28 days of the job seeker starting the job.

Verification can be hard to achieve because job seekers no longer see the Job Network provider as relevant to their circumstances or may believe that the Job Network provider had little role in getting them a job.⁷ Job Network providers can also approach employers to obtain verification, but these also often have little particular interest in complying. Consequently, the use of gifts that are contingent on the receipt of completed paperwork from employers or employees is commonplace. Given that the ATO would receive information that the job seeker is in a job, it may be preferable to link Centrelink and ATO data to provide automatic verification. This does not appear to raise any privacy concerns, but it might reduce the incentive for providers to develop trust and to deliver quality services to job seekers (in the sense that a successful job seeker who is unhappy with the service they received can currently refuse to cooperate with verification).

The Commission seeks feedback on the feasibility of an automated verification system.

To the extent that such a system is not feasible, then the 28 day period cutoff would still present a problem for many Job Network providers. In meetings with the Commission, a number indicated that significant payments were lost because of this strict timeline. It is not clear why any cutoff period is justified.

DRAFT RECOMMENDATION 10.6

The Commission recommends that the existing 28 day cut-off for verification of outcomes be removed.

10.7 The timing of payments

The timing of payments, including the non-outcome fee (currently paid at commencement), has been largely determined by concerns about the liquidity of Job

⁷ It might be thought appropriate to not get a payment in that case, but most job seekers will get a job even if the Job Network did not exist. The windfall gains from such outcomes are used to pay overheads and as resources for more disadvantaged job seekers. If payments were not made for outcomes that would have occurred any way, then higher payments would be necessary for other outcomes.

Network providers. The question of liquidity was particularly important at the time that the Job Network was being introduced. The market was new, so that there was limited information on how the business of providing IA would operate and on the likely rate of outcomes that could be achieved.

The Job Network has been in operation for some 5 years now and is approaching its third contract period. Firms are well established and there is better information on outcome rates and the flow of funds, which decreases these liquidity concerns. In section 10.4, the Commission raised the prospect of small incremental shifts in the mix of commencement and outcome fees. Changes of such a marginal kind would probably not raise any liquidity concerns in this more mature environment.

However, were there to be a more radical shift away from commencement fees, then this might affect liquidity. Nevertheless, if it is considered that upfront payments are necessary to assist the liquidity of IA providers, this may not have to be at the expense of an increased outcome focus. Upfront payments could be made contingent on achieving an outcome, with funds being refunded if an outcome has not been achieved by the end of the IA period (usually 12 months). Such contingent upfront payments already exist to a limited degree within the Job Network. In payments for NEIS:

At the start of each year of the contract period, an advance of 10 per cent of the total contract value will be paid. ... DEWRSB will recover fees from NEIS providers at the end of the contract period if the advance payments have not been acquitted as a result of a shortfall in achieving contracted places (DEWRSB 1999, p. 90).

However, the introduction of contingent upfront payments do not solve the liquidity problems of moving to a fully outcomes-based payment system, especially over the business cycle (appendix F), and may not therefore be feasible.

10.8 The impact of the business cycle

The broader business cycle of the economy presents a number of challenges for the Job Network, because referrals and outcome rates will be subject to large variations. The challenges vary according to the payment structures of the various sub-programs.

Some participants have argued that the government should introduce supplementary payments to accommodate any reduction in activity and returns to Job Network providers that could result from an economic downturn.

During recessions, payments to providers should be adjusted upwards, and a temporary subsidy made available to help maintain service infrastructure (ACOSS sub. 32, p. 9).

The improvements in pricing structures that could be made would include flexibility in distribution across various staged payments in intensive assistance in the event of an economic downturn (NESA sub. 39, p. 13).

The essential question is whether the payment structure leads to significant variations in revenue over the business cycle in such a way as to threaten the viability of a significant number of providers, thus undermining the sustainability of the purchaser provider model. The Commission has undertaken some preliminary simulations of the effects of the business cycle (appendix F), with the main results being:

- There are potentially severe risks for exclusively JM providers because their income is dependent on vacancies, which are strongly procyclical. The Commission has recommended that only disadvantaged job seekers should receive JM services and that these be part of their intensive assistance, but in the event that a broader JM function is retained, then commencement fees or retention payments may be required to maintain a viable industry;
- JST is close to a fee-for-service arrangement and would benefit from an increased number of clients during a downturn in the economy, but be less buoyant during upswings in activity.
- For IA providers, the effects of the business cycle appear to be relatively small — and not as extreme as some other parts of the economy. This is because commencement fees from rising numbers of unemployed act as a buffer for lowered outcome rates. It does not appear that the pricing model would need to be altered to take account of the business cycle unless there was a marked shift away from commencement fees.
- There is scope for diversifying and reducing risks associated with cyclical demand, for example, by offering JST and IA together and by instituting flexible employment arrangements with staff.

10.9 Additional pricing issues for JST

As noted above, the JST payment structure is strongly biased towards commencement fees — rather than outcomes as in IA (with commencement fees comprising around 60 per cent of total revenue for a successful outcome). To some extent this is justified. JST is not an individually tailored service, but fairly rudimentary course work and access to facilities over a short time for all participants. It also seems likely that the service varies by much less than IA over different providers. In that sense, a commencement fee is akin to a fee for a prescribed service.

However, it is desirable to improve the program effect of JST by encouraging Job Network providers to develop better course material and/or to use more effective pedagogy. An increased weighting to outcome payments for jobs would encourage that further.⁸

DRAFT RECOMMENDATION 10.7

The Commission recommends that the payment structure for Job Search Training be shifted more towards outcome payments.

⁸ Currently, a JST provider that achieves a 13 week outcome gets a \$266 outcome fee.

11 Industry dynamics

Box 11.1 Key messages

The change to administrative pricing makes a tender bidding process unnecessary. The Commission considers that a licensing system should be introduced that allows free entry by any for-profit or not-for-profit agency that meets DEWR's accreditation standards.

Exit from the system would occur for normal business reasons or because standards had fallen below a threshold set by DEWR — with the star rating model initially being used as an important benchmark for licence renewal.

Currently, growth of Job Network providers is severely constrained because of fixed caseloads during the contract period. This, and the operation of the auto-referral system, have tended to protect more poorly performing agencies. The Commission recommends that fixed caseloads be abandoned and that the auto referral system be changed so that it favours Job Network providers that are more successful in achieving outcomes.

The star rating model is an important discipline on the performance of Job Network members and provides them with incentives to assist disadvantaged job seekers. There are some technical issues about its validity, but these do not appear to be substantial. However, there are grounds for:

- publishing star ratings at the ESA level to assist job seekers make more informed choices;
- greater transparency about the model's specification and diagnostics; and
- eliminating interim education outcomes from the rating and reducing the weight given to all secondary outcomes.

The Job Network is unlike most normal markets because government shapes so many aspects of the supply of and demand for its services. Not only does Government influence the prices of the Job Network, but it also regulates many of its dynamic features:

- entry and exit into the industry is determined by complex and onerous government contracting arrangements;

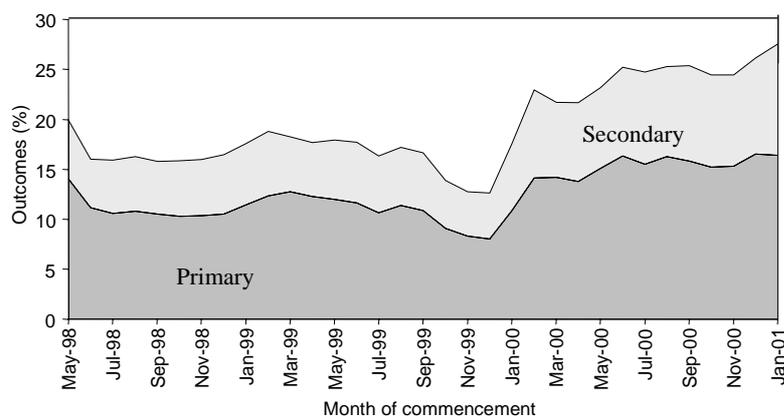
- growth of individual Job Network providers within contract periods is limited by regulated caseload limits while the flows of referrals are principally intermediated not by job seeker choice, but by the auto referral system; and
- performance assessment — the central basis for firm survival — is largely based on an econometric model, rather than the preferences of job seekers.

11.1 Entry

For the first two tender rounds, entry was for a fixed period and was determined by successful tendering (chapter 4). Participants had many views about the strengths and weaknesses of the tendering process (box 11.2).

The second round tender process reduced outcomes at the time because of the disruption caused by tendering (figure 11.1). Tendering processes are also costly for government.

Figure 11.1 IA outcomes over time



Data source: Information supplied by DEWR.

To avoid these costs, the Government has proposed that around 60 per cent of the existing capacity be rolled over under the third contract, with the remaining share being subject to tender bidding.¹

However, it is questionable whether any tender processes should be preserved, given uncertainty that tendering produces positive outcomes, at least for the key IA services. The strongest rationale for a formal tendering process is to allow scope for price competition, but price variations have been actually quite small and not

¹ Based on Liberal Party, 'Our Future Action Plan: More Jobs, Better Future' from www.liberal.org.au.

necessarily appropriate (chapter 3 and 10). Given the Commission's view that prices should be set administratively (with scope for case-by-case price premiums above the default based on agreed incentives), there are strong grounds to cease application of formal tenders as a basis for contract renewal.

Box 11.2 Participant's views about the tender process

[There are] very high transaction costs and disruption to services associated with the tender process (ACOSS sub. 32, p. 14).

DEWR currently manages Job Network activities on behalf of the Commonwealth. DEWR goes to significant lengths to ensure probity in the tender process and equal treatment of all Job Network members. In addition to DEWR's role, there is considerable scrutiny on Job Network activities from other external agencies such as Ombudsman, ACCC and the Privacy Commission (ACCI sub. 40, p. 9).

The mechanism for renewing contracts (roll over or re-tender) is clumsy, and has the potential to cause significant disruption in the industry every three years (Job Net Tasmania sub. 16, p. 1).

The structure of the contract is essentially one that leaves the detail until later. Guidelines are developed on the fly; notices to clarify issues are regular occurrences, as are contract variations. The difficulty arises not in complying with the contract, but in complying with the interpretations ... the contract structure provides its own set of problems for providers. Moving goal posts, retrospective interpretations of policy and contract variations. (WISE Employment – Certain Employees sub. 24, p. 12).

[We recommend] that the current tendering process for the awarding of a Job Network contract be phased out and that evaluation criteria be established for employment service providers wishing to work in the Job Network arena. The method of evaluation for eligibility, particularly in the areas of Job Matching and Job Search Training, need careful consideration and should be met prior to commencement as a Job Network provider (RCSA sub. 46, p. 4).

In the interests of industry stability and given the industry's current level of development five year contracts are proposed. In particular the substantial infrastructure investment, particularly in information technology, makes contracts of less than five years particularly difficult to manage from the perspective of providing a cost effective service whilst accounting for full depreciation on infrastructure costs. The reality of the current system is that providers bear the cost of substantial investment over and above the three year contract period and, therefore, have to assume a significant commercial risk if not recontracted (NESA sub. 39, p. 11).

The most obvious alternative method to contract renewal is licensing as the basis for entry into the industry. Licensing would be dependent on a provider meeting some minimum standards and agreeing to some contract provisions (such as a Code of Conduct, undertaking assessment of job seekers and mandatory activity testing). Renewal of the licence would be tied to performance, so that the vital role

performed by existing arrangements in driving poorer suppliers from the market would be maintained.

For example, this could initially be implemented by removing a licence if a provider were to score two stars or below in the star ratings for two successive years. However, over the long run, the star rating system may need supplementation by other performance assessment measures (section 11.4).

Under the current tender arrangements, entry into the industry is rationed by area, with DEWR determining the number of contracted sites based on projected referral numbers. This reduces risk for providers, but it is unlike most industries in which the choice of sites is determined by the provider.

The Commission's view is that a licensing system should be an open entry model, consistent with current competition policy. This would allow any agency that met the prescribed standards to provide services at the going prices. The standards set would be similar to those established by DEWR for pre-tender qualification.

A move to such a system was also proposed by the Recruitment & Consulting Services Association (sub. 46, p. 4). It would provide strong competition and allow continuous contestability even in markets in which there was only one supplier (whereas under the system used in the first and second contracts, the risk of new entry is staggered at three year intervals). A more efficient entrant could displace a less efficient one at any time.

While undesirable on efficiency grounds, a licensing system could accommodate the rationed-entry approach implicit in the present tendering system. In that case, a fixed number of licences would be granted, with new entry² only permitted if an existing licence were handed back or terminated, or when an increase in referrals justified additional sites.

DRAFT RECOMMENDATION 11.1

The Commission recommends that competitive tendering be abandoned as the method for provider entry and contract renewal in the Job Network. It should be replaced by a licensing system that allows:

- ***free entry at any time to any supplier that meets DEWR's accreditation standards; and***
- ***automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.***

² Based on calls for expressions of interest, with selection based on assessed potential performance.

There was some concern by smaller, more specialised agencies that competition might disadvantage them:

The Job Network tender process must not allow for larger commercial providers to dominate the market at the expense of locally owned not-for-profit organisations (NTACC sub. 36, p. 3).

However, many small specialist operators achieve high star ratings and are able successfully to attract referrals. They are likely to continue this success in an open entry market. There are few reasons to protect smaller providers on the basis of their smallness if they are unable to provide high quality services or attract job seekers. It is true that diversity is a valuable feature of the Job Network market, but it is only valuable to the extent that it allows experimentation (which can achieve better results) or enables a provider to meet better the needs of its job seekers.

Involvement by profit and not-for-profit Job Network providers

There was some hostility among some participants to the presence of for-profit agencies in the provision of human services and some questions about whether they should be permitted to be part of the Job Network at all. The Un(der)employed People's Movement against Poverty argued that:

For profit JNP are usually interested in profits and try to do as little as possible for their difficult-to-place clients (sub. 3, p. 3).

NESA (sub. 39, p. 14) countered that for-profit agencies had performed well:

Much criticism has been levelled at the private sector for its profit motivation in the delivery of a social service. What is missed in the philosophical argument is the incredible contribution that the vast majority of these providers are making to the service delivery framework that is currently being developed by their willingness to trial new approaches and challenge traditional paradigms. Much comment has been directed at having private providers participating in tax-payer funded human services delivery but, of course, there are many examples of private organizations or individuals delivering complex human services in a very effective and high quality manner. Characteristically, private providers participating in this industry are triple bottom line-oriented.

The Commission has examined different features of the behaviour and outcomes of for-profit versus not-for-profit Job Network providers. The differences are not large, but point to slightly superior performance by for-profit agencies in a number of dimensions (table 11.1):

- for-profit agencies had a higher likelihood of achieving primary rather than secondary outcomes;

- outcome rates were slightly higher for for-profit agencies, but the rate at which 13 week outcomes were maintained to 26 weeks was slightly lower;
- average star ratings were somewhat higher for for-profit agencies;
- more of the commencements of the for-profit agencies were Indigenous, from a non-English speaking background or were people with disabilities than in non-profit agencies, and interim outcome rates for these groups were slightly better in for-profit agencies; and
- for-profit Job Network providers (particularly large ones) had, all other things being equal, a significantly higher IA breaching rate for job seekers than other providers (chapter 6), but there was no evidence that their breaching was improper or that it was strategically motivated (chapter 9).

Of course, these (slightly) better outcomes may reflect a greater willingness of for-profit agencies to target their assistance carefully within any group of disadvantaged job seekers.

Table 11.1 Performance measures for Job Network providers
By profit versus non-profit agencies

	<i>Not-for-profits</i>	<i>For-profits</i>
	%	%
Interim outcome rate	23.7	22.3
Final outcome rate	13.8	13.2
Secondary to primary outcome ratio	36.2	46.9
Primary interim outcomes preserved at 26 weeks	59.5	63.3
Secondary interim outcomes preserved at 26 weeks	22.2	23.8
Share of commencements that are from special disadvantaged groups ^a	42.9	40.3
Indigenous interim outcome rate	11.9	10.4
NESB interim outcome rate	20.0	18.5
Interim outcome rate for people with disabilities	14.9	14.0
Star rating ^b	3.4	2.6

^a These groups are Indigenous, disabled and NESB. ^b While other data are appropriately weighted, the star ratings are simply based on averages across agencies.

Source: Based on unpublished performance indicator data from DEWR (November 2001 database).

The Commission does not consider there are any grounds to limit the involvement of for-profit agencies in the Job Network. (Other issues relating to the joint involvement in the Job Network of for-profit and not-for-profit agencies are discussed in chapter 13.)

11.2 Growth

The existing contracts place limits on the supply of services by Job Network providers —by specifying maximum point-in-time capacity and/or contract client numbers over the contract period. This constrains the growth of Job Network providers during the contract period (although in subsequent tender rounds, capacities are revised and growth is possible). Growth is currently therefore a more discontinuous process than in most other industries.

Moreover, in many industries, it may be economic to have only one provider. Yet typically the Job Network tender process requires more than one provider in the relevant ESAs so as to maintain contemporaneous competition. This provides an additional constraint on growth that is maintained across contracts.

These restrictions on growth are linked to an auto-referral system for IA and JST that (where the job seeker does not exercise choice) provides random referrals to generalist providers that are sufficiently under their contracted capacities.³ It does this regardless of the size or relative performance of the Job Network provider. This is in contrast to a normal market where demand shifts to those providers that can best meet the needs of their customers. Several participants saw the operation of the auto-referral system and fixed caseloads as penalising good quality providers, with adverse effects on job seekers.

... a job-seeker's choice of provider is limited by the 'contracted capacity' quotas embedded in Job Network tenders. This means that providers are practically guaranteed a minimum number of referrals, and that high performing local providers who reach the limit of their contracted capacity cannot displace poor performers in their region (ACOSS sub. 32, p. 22).

A fundamental principle of commercial business is growth, however JNMs are allocated a finite level of business, and are not paid for work done once milestone numbers have been achieved. This is restrictive practice and penalises JNMs who are excelling and performing well above projections. The allocation method has disadvantages for all parties. For example, if a JNM is allocated 100 clients, what happens to the 101st applicant? Does the JN provider turn the client away? Does the JN provider service the client not knowing if it will ever be paid for the service? Is the employer disadvantaged as the JNM can't or won't offer the Job Seeker employment? The end result may be that the jobseeker remains unemployed, the government must then continue to support the unemployed person and the provider is denied an opportunity for valid business growth. In reality, JNMs generally do not turn away clients, choosing instead to provide the service without payment if no other option is available, however this is not a reasonable or fair result for the JNM (Kimberley Area Consultative Committee sub. 15, pp. 2–3).

³ In some cases this is anywhere below 100 per cent, but in others it appears that the threshold has been 85 per cent for IA.

The main [effect of our recommendation] from the current arrangement is to remove the contract capacity of each provider. The market determines demand for Intensive Assistance services that best meet the needs of the consumer (Job Net Tasmania sub. 16, p. 7).

The influence of the auto-referral system is partly offset by choices made by job seekers. However, few job seekers currently choose providers⁴ and in any case when they do so, mostly base their judgments on factors other than provider performance (chapter 8). Consequently, demand — whether a product of the auto-referral system or job seeker choice — does not have the usual discipline on performance.

Indeed, there appears to be a *negative* correlation between point-in-time capacities of IA Job Network providers at the ESA level and their star ratings, so that providers with higher ratings tend to have lower capacity utilisation (figure 11.2). It might have been suspected that this effect would be weakened for specialist providers since they at least have to attract their clientele — but in fact, the effect is accentuated for such providers.⁵ This suggests that it is informed choice that must be activated by reforms, not just choice per se (chapter 8).

One possible explanation for the negative relationship between star ratings and point-in-time capacity is that providers with higher star ratings have higher exit probabilities for job seekers, so that in times when referrals are low (which characterised the period concerned), their outflows are not matched by their inflows. Poor performers by contrast would tend to have a higher inflow/outflow ratio unless inflows were directed away from them. Empirical analysis confirms that job seeker inflow rates did not seem to vary much by star ratings, but that outflow rates did.⁶

⁴ Other than those that provide specialist services.

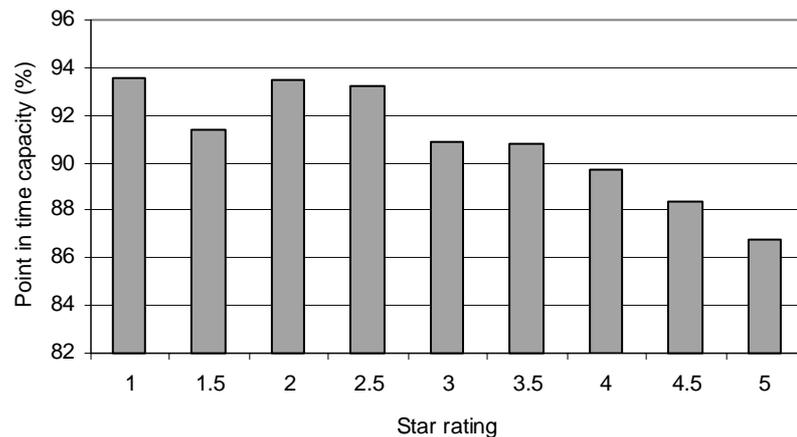
⁵ The point in time capacity (PIC) of IA providers at the ESA level was regressed against star ratings for generalist (GSTAR) and specialist providers (SSTAR), where specialist providers are those that offered at least some specialty services in their ESA. Using a general to specific modelling strategy and employing tobit estimation to account for right and left censoring of the capacity data (as capacity must be limited between zero and 100 per cent), it was found that stars were significantly negatively related to point-in-time capacity ($PIC = 100.0 - 3.2 SSTAR - 2.3 GSTAR$. $SSTAR$; observations were 490 and the t statistics were 63.5, 5.6 and 5.1 respectively).

⁶ The inflow rate was measured as the number of new commencements between May 2001 and November 2001 divided by the caseload capacity of the provider. The outflow rate was proxied by the number of interim outcomes divided by the number of 26 week commencements from DEWR's performance indicator database for IA providers at the ESA level for November 2001. The difference in the inflow rate between high and low star rating providers was small (around a 1.7 per cent improvement in the inflow rate for each star rating), while the difference in the outflow rate was very large.

Consequently, net inflow rates were significantly negatively correlated with star ratings.

Figure 11.2 Star ratings and point in time capacity

IA providers, November 2001



^a Data are based on IA Job Network providers at the ESA level from DEWR's November 2001 performance indicator database.

Data source: Unpublished data from DEWR.

These results suggest that client referrals need to be directed more to better performers. While this might be partly achieved through informed choice and by removing capacity constraints, it also suggests reforms to the auto-referral system.

One possibility would be to randomly allocate new job seekers to Job Network providers with a probability that was equal to the share of outcomes in that area achieved by the Job Network provider.⁷ An alternative might be to use probabilities that were positively related to the star rating of the Job Network provider.⁸

The outcome share approach also has the advantage that it overcomes another potential bias of the present auto-referral system against larger Job Network providers. Currently, the system assigns a new referral randomly to any under-capacity Job Network provider in an area, without any account for the sizes of these providers. For example, suppose there are two providers in an area, one with a caseload of 100 and another with a caseload of 300, with both operating at 80 per

⁷ This indicator was suggested as a performance measure by Employment National (sub. 28, p. 6). Caseload shares could also be used, but would encourage parking.

⁸ Providers would also have to indicate to Centrelink when they had no current places (since capacity constraints would still occur from time to time, as in usual commercial operations) — and Centrelink could then refer to another provider.

cent capacity. Another 20 referrals are made through the auto-referral system. With random allocation it is expected that 10 will be allocated to each provider so that the small provider achieves 90 per cent capacity and the large provider only 83 per cent capacity.⁹

DRAFT RECOMMENDATION 11.2

The Commission recommends that there be no regulated limits on caseloads and/or the absolute number of payable outcomes for individual Job Network providers in subsequent contracts.

DRAFT RECOMMENDATION 11.3

The Commission recommends that the auto-referral system be changed so that it favours Job Network providers that are more successful in achieving outcomes for job seekers.

Another issue relates to flows of job seekers into IA — which affects business levels. Currently, job seekers are given ten days in which to make a choice and there are further delays prior to commencement. DEWR and Centrelink have been trialing a streamlined referral process (box 8.4 in chapter 8). As well as providing better information to job seekers and greater scope for choice (which the Commission supports), the Streamlined Job Network Access and Referral Process Pilots have also substantially increased the speed of referrals to providers. Speedier referrals have obvious advantages for Job Network providers since they increase their commencement to referral ratios, and generate further commencement and possibly even outcome payments. However, it is not clear that speedier referrals are of significant benefit to job seekers, or indeed, of any benefit for taxpayers. The only major concern of the existing system would be if the delay:

- were being used by job seekers to escape efforts for job search, but that could be enforced using normal Centrelink activity testing; or
- denied job seekers access to assistance that was essential for acquiring employment. However, this seems unlikely given the low estimates of the net impact of IA and, in any case, a job seeker keen to commence IA could choose a provider and sign up immediately.

⁹ Some evidence suggests this is not a widespread problem as neither average point in time capacities nor average job seeker inflow rates are lower for larger (IA) Job Network providers than smaller ones (based on examining performance indicator data at both the site and ESA levels). However, there may be occasions where the problem has arisen, which is concealed by averaged data.

The Commission seeks feedback on whether speedier referrals — being trialed as part of the Streamlined Job Network Access and Referral Process Pilots — will produce significant benefits for job seekers and taxpayers.

11.3 Risk and exits

Under the existing arrangements, normal business risks stemming from local demand shifts are substantially reduced through the auto-referral system and constraints on growth of competitors. Job Network providers remain exposed to some risks posed by the business cycle, although commencement fees provide an important buffer (chapter 10 and appendix F).

However, at the end of the contract period, business risk climbs sharply as providers again bid to retain the rationed capacity. Based on the experiences of the first contract, many agencies are not successful in their bids for subsequent contracts, lose their presence in some regions or face abruptly reduced market share:

About 87 per cent of contracted organisations from ESC 1 were also contracted for ESC 2. Significant changes occurred, however, in the allocation of Job Network business in relation to types of organisations involved, changes within the providers themselves and in specialist services and regional coverage (DEWRSB 2001a, p. 13).

This causes disruption for their job seekers, who have to move to other providers in a near simultaneous Australia-wide exodus. So unlike most industries, there are three year periods of relatively reduced risk, punctuated by short periods of extreme risk.

The Commission's proposed changes affect risk and the prospect for failure in several ways.

First, a licensing system with automatic (albeit contingent) renewal spreads risk over time. Exits would no longer be concentrated on a particular date — which would reduce the adjustment shocks associated with shifting job seekers from exiting agencies to surviving ones. The risks for particular agencies would be more under their control — with decisions about site numbers and projected case loads being made by their managers.

Second, if choice is accommodated by relaxing capacity and supply restrictions then it increases the in-contract risks for Job Network providers. Once caseloads are determined by a free market, then it is likely that some providers will fail because they have not been able to attract a financially viable pool of clients.

Evidence of this risk is suggested by the experiences of IA specialist providers that, while still subject to a capacity ceiling, do not benefit from flows of clients through the auto-referral system. Overall, their average point-in-time capacity is significantly lower than generalist providers, and more particularly, the relative variation around that average is much higher (table 11.2).

Table 11.2 Influence of the automated referral system on capacity variability
November 2001^a

	<i>Specialist</i>	<i>Generalist</i>
Unweighted results		
Mean point in time capacity	82.0	91.9
Median	92.0	95.2
Standard deviation	22.9	10.4
Relative variability (%) ^b	27.9	10.9
Weighted results^c		
Mean point in time capacity	88.5	91.6
Median	94.3	93.1
Standard deviation	14.9	8.5
Relative variability (%)	16.8	9.3

^a Results for (the relatively few) Job Network members that provide both generalist and specialist services from the same site are excluded — but are between the two sets of figures shown here. ^b Relative variability is given by the coefficient of variation (the standard deviation divided by the mean) coefficient. ^c The weighted results are based on weighting the moments by the number assisted. This provides a more accurate overall picture of the effect of the auto-referral system on capacity utilisation for generalists compared to specialists — since it takes into account the different sizes of the Job Network providers.

Source: Based on unpublished performance indicator data at the site level for IA (November 2001 reporting period) from DEWR.

However, while the existing arrangements assist the financial viability of Job Network providers during the contract period, most other industries in the economy remain viable without micro-management by government of demand. Accordingly, there need not be a tradeoff between industry viability and job seeker choice.

11.4 Performance assessment: the Star Rating Model

The star rating model (chapter 4) is a pillar in the Job Network because of its powerful effects on incentives to perform:

The recent releases of performance information through the star ratings system have in a very short time come to occupy a central place in the operation of the market and can be expected to drive Job Network's performance further. As well as providing job seekers with information on the relative success of Job Network members, the star ratings are a valuable tool in giving providers feedback on their relative performance. Qualitative research with providers has indicated that they attach a high degree of

importance to the star ratings which suggests that the system is operating effectively as a motivator for improving performance (DEWR sub. 43, p. 2, 41).

A central feature of the star rating model is that it combats incentives for providers only to work with the easiest to place by giving greater weight on outcomes for more disadvantaged job seekers and taking account of the substantial differences in regional labour markets:

... if a provider is only working with the easiest to place in order to optimise income their employment services business will be short lived because their star ratings won't compare as well to those organisations that deliver services equitably to all clients (NESA sub. 39, p. 13).

In particular, one of its major, but under-appreciated, roles is that it encourages agencies to bid away profits earned on the easier-to-place to the harder-to-place (chapters 9 and 10).

However, despite its important role, many participants were critical about the model, mainly through concerns that it lacked transparency and measured performance on too narrow a basis or with too much error (box 11.3). The central issues raised by participants or by other concerns with the model are considered in the following sections.

Technical concerns

The goal of the star rating model is to measure and compare the value added of Job Network providers operating in very different labour markets and with different client mixes. For example, a provider that achieves 20 per cent outcomes in a weak labour market may actually be adding more value than an agency that achieves 40 per cent outcomes in a buoyant labour market. An adjustment to gross performance measures is needed to correct for such differences.

It is impossible to correct for all factors that might explain differences in performance that are not due to the efforts of providers alone. For example, while the model takes into account labour market variations by incorporating employment growth and unemployment rates into the logistic regression modelling outcome probabilities, other relevant dimensions of a local labour market might not adequately be captured by the specifications used:

The regressions in the ratings model are not complex enough to accurately estimate labour market difficulty by geographic area (using unemployment rates and jobs growth statistics is too simplistic). There are too many peculiar variables between labour sub markets to make accurate regression forecasts on market difficulty and the performance of providers (Mission Australia sub. 44, p. 6).

Box 11.3 Participant's views about the star rating model

At the moment the Star ratings system (measure of comparative performance / quality) is very blunt (WISE Employment – Certain Employees sub. 24, p. 12).

The 'star performance ratings for the larger JNMs seems to be working well. The target marketing, to employers, and 'being seen as a good corporate citizen' has certainly seen an increase. The 'star' rating for the very small providers — seems to making them feel inferior to the larger ones, and it is more difficult for them to improve within the 'star' rating process (TEAC sub. 31, p. 3)

A transparent system of regular, objective performance review (based on some inputs and outputs as well as outcomes) should be introduced in place of the present 'star ratings system'. Providers should have the option to formally seek a review of their assessments. Providers who achieve satisfactory results in their reviews should not be required to tender for contracts in the next funding round ... The 'star rating system offers little guidance to assist job-seekers to make the right choice since it offers them minimal information on the actual services they will receive once they register with a provider, or how they will be provided. (ACOSS sub. 32, pp. 3, 23).

Tying performance, as measured by the 'Star Ratings' performance measuring system, to the ESC3 tender process has had a significant impact on provider behaviour. Providers have focused their activity heavily on achieving outcomes for clients that will 'score' on the rating system. This has resulted in behaviour by providers that goes against the integrity and spirit of the Job Network, as well as a continuing 'push' to achieve appropriate recordable results at the clients' expense (Mission Australia sub. 44, p. 5).

The Star Rating system developed by DEWR to monitor the performance of Job Network providers is inadequate and confusing ... This rating system is very simplistic. It does not address the issue of quality of service to employers or job seekers and only focuses on a very small part of the overall contractual obligations of the provider (ACCI sub. 40, p. 3).

The Key Performance Indicators which provide the basis for the star rating system are extremely complex. The formula used to arrive at a performance rating is so complex that it is not a practical tool for providers (ARA Jobs sub. 25, p. 2)

The star rating system pushes agencies to concentrate on survival rather than quality (WorkPlacement sub. 19, p. 43).

The current round of star ratings advantages some labour market regions or ESAs, where all providers have a high rating, and disadvantage other LMRs or ESAs where all providers have a low rating. This destroys the face validity of the star ratings (Quest sub. 38, pp. 1-2).

BAKAS believes that the focus on outcomes in the star ratings does not allow for consideration of the greater disadvantage that some job seekers face (BAKAS Employment Solutions sub. 8, p. 2).

Prediction errors could arise under several circumstances, such as:

- poor transport infrastructure in a particular area may mean that the probability of acquiring a job at a given unemployment rate in one area may be much lower than the probability of acquiring a job at the same unemployment rate in another area;
- failure to take account of the nature and source of employment growth (for example, the skills, industries, wages and employment conditions of new jobs); and
- the scope for greater mobility of job seekers in and out of some local labour markets affects local job competition and job vacancies.

The Commission found some evidence that there were systematic regional differences in star ratings (box 11.4), but the differences were not profound. This still suggests some specification problems in the star rating model, but this ignores some subtleties in the tender process that could explain this pattern. In some ESAs — particularly rural ones — DEWR was forced to accept poorer quality tender bids than in others because of lack of competition. The average (first contract) score of providers in rural areas that were awarded a second contract was 3.5, compared to 3.7 for metropolitan areas. Moreover, 7 per cent of metropolitan tenderers had been rated with a score of less than 3 for their performance in the first tender period, compared with 18 per cent for rural providers.¹⁰

However, the goal of the star rating model is not perfection (which is impossible), but rather to capture the most salient differences between local labour markets and client mixes. There will be prediction errors, but the counterfactual of using raw performance outcomes as the basis for assessment would introduce far greater problems. Indeed, not only are there good arguments to renew contracts on a value-added performance basis, but to pay outcomes on this basis too (hence the incentive contracts described in chapter 10).

Nevertheless, the Commission has not been able to evaluate the star rating model fully. That would require examination of alternative specifications, diagnostic testing, investigation of differences between prediction errors at the regional level and assessment of false positive and negative rates. DEWR has contracted Access Economics to investigate the star rating models in detail and the results should be available shortly.

¹⁰ Based on information provided by DEWR.

Box 11.4 A regression model of the star rating results for IA providers

In theory, star ratings are the residual performance of a provider in an ESA that can't be attributed to local labour market conditions or client mixes. In that case, it would be expected that a regression of star ratings against regional location variables or provider types should have few statistically significant regressors.

The Commission estimated a number of regressions to examine patterns in the star ratings across ESAs (with the model explaining around 36 per cent of the variation in scores). An OLS model revealed that *some* country areas (Greater Western Australia, Hunter, Illawarra, Northern Territory, Riverina and Tasmania) had, all other things being equal, statistically significant lower star ratings than other areas — usually between 0.25 and 0.5 points lower. City areas in general had higher ratings (but by a small margin of around 0.1 points). However, Job Network providers in Sydney also had star ratings around 0.25 points lower than other locations. Southern Queensland, South Australia country and Western Victoria had somewhat higher star ratings than the average (by again about 0.2 points). Job Network providers that specialised in NESB clients had a 0.2 point advantage, but otherwise specialists did not appear to get higher stars, once other variables were controlled for.

Job Network providers that bid at the floor price in the second contract tended to have achieved a slightly lower star rating — but the difference, while statistically significant, is less than 0.1 of a point (small effects of prices on ratings were also found after controlling for other factors that might explain price variations — suggesting that where they were offered, higher tender prices did not yield big additional social returns). Job Network providers with larger contract capacities got better star ratings than those with smaller capacities, but the effect of size diminished as providers got larger and was never profound. There was also an indication that competition increased star ratings — with ratings rising the more the total number of different Job Network providers as a proportion of the total number of sites within an ESA.

Other (non-OLS) models that took account of the ordinal nature of star ratings were also estimated — but gave qualitatively similar results.

This modelling suggests that while there do appear to be systematic regional differences in stars, they are not profound.

Overall, the Commission regards the star rating model as an important component of the Job Network, but one which should be subject to continuing development.

DRAFT RECOMMENDATION 11.4

The Commission recommends the retention of the star rating model as a basis for assessing the performance of Job Network providers, but it should be subject to continuing refinement.

One research question that needs resolution is the extent to which differences in the star ratings reflect differences in behaviour by Job Network providers or random

errors. This is important in providing the right incentives for improvement by providers. It is hard to test. One possibility is to examine whether the same agencies tend to earn high star ratings over time. If star ratings had a high random component, then it would be expected that they would change considerably from period to period. This could be examined. There may be other strategies for testing this issue — and these should also be pursued.

Clarifying the roles of the star rating model

The primary purpose of the star rating model is to provide information to providers about their comparative performance and as a basis for determining quality in tender bids. The Commission considers that it will remain important in a new licensing system as the basis for licence renewal.

Star ratings can also inform job seekers about the relative performance of providers. Job seekers are able to access information about the star ratings of any provider — but only at the regional level, rather than the ESA or site level (noting that providers are given information at the ESA level but not the site level). However, there are often marked variations in the performance of providers at different sites within an ESA and at different ESAs within a region that considerably reduce the value of regional information for job seekers.

Where such variation occurs, it is possible that an agency with a higher star rating in a region may in a particular ESA be performing more poorly than that of another agency with a lower star rating for that region (table 11.3). The same divergence may also occur between different sites of different providers within an ESA. For example, in the hypothetical example in table 11.3, provider 2 is a superior provider in ESA2 and ESA 4 to provider 1, but a job seeker could not discern this from the published star ratings.

Table 11.3 The effects of not revealing ESA star ratings to job providers

	<i>Job Network provider 1</i>	<i>Job Network provider 2</i>
	Underlying star rating performance measure (%) ^a	Underlying star rating performance measure (%)
ESA 1	25.1	12.3
ESA 2	15.8	16.5
ESA 3	27.8	15.6
ESA 4	11.2	22.5
Regional star rating	4	3

^a The underlying performance measure is the cardinal assessment of value added that is used as the basis for deriving the ordinal star rating.

Star ratings are less reliable the smaller the caseload of a provider, which provides one rationale for not releasing information at too disaggregated a level. However, DEWR supplies star ratings at the ESA level to providers — and it is these ratings that would inform contract bids at this level. If these are reliable enough for that purpose, they are reliable enough for job seekers too.

It is also conceivable that the commencement numbers of some sites are large enough for a star rating to be formulated and published. Publication of star ratings should be determined by the number of commencements of an operator at the site, ESA and regional level, rather than by arbitrarily publishing at only one level of aggregation. As an indication of this inconsistency, star ratings currently would be published for a Job Network provider that operated only one site within a region, even if the number of job seeker commencements was small.

It is also appropriate to indicate the reliability of star rating assessments at the ESA level. Does, for example, an estimate of three stars for an operator with 300 commencements in a region have a 95 per cent confidence interval of between 1.5 to 4.5 stars, or 2.8 to 3.2 stars?

DRAFT RECOMMENDATION 11.5

The Commission recommends that DEWR generally publish:

- ***star ratings at the Employment Service Area level and at the site level where the estimates are reliable; and***
- ***some indication of the reliability of the published estimates.***

JobNet Tasmania suggested a more critical role for star ratings. It argued that were choice informed by it and other performance information, there could be no need to involve government in contract renewal decisions at all. The survival of agencies could then be a function of the decentralised decisions of job seekers (and the outcome payments achieved by providers):

In this context, the DEWRSB star ratings will have greater meaning and a more appropriate place in improving the effectiveness of the Job Network. Rather than being the mechanism for the Department to roll over contracts, it will be one of the mechanisms consumers will inform themselves about the quality of the services they can access (JobNet Tasmania sub. 16, p. 9).

However, such a step would be a radical one and involves some risks. It is not clear that even with greater explanation, job seekers' choices will, in all cases, be informed or appropriate (chapter 8). For example, some agencies might develop a reputation for weak activity testing and a casual attitude to recommending breaches that might appeal to a small number of job seekers. The significant role played by

commencement fees would allow such agencies to survive, unless countered by external disciplines, such as licence renewal based on star ratings.

One possible approach, as recommended by the Commission in this report, is initially to extend and facilitate job seekers' choice (chapter 8) and to control the quality of market participants through an accreditation process. The risks of moving to a model that gives greater consumer sovereignty would then be re-assessed. It is likely that any such shift would require a greater orientation to outcome payments than at present (though there are difficulties in doing this without unintended consequences — chapter 10).

Either way, the star ratings, while useful, are probably not a sufficient basis for informing choice by job seekers. As discussed later, they miss other relevant dimensions of performance. Second, they may be misleading for *particular* job seekers. For example, a Job Network might have a high star rating because it does better than expected with a specific group of hard-to-place job seekers (say youth), but it may not be equally effective with a new job seeker from a different group (such as a mature age job seeker). The latter problem does not detract from the use of star ratings in licence renewal.

The weighting given to secondary outcomes

The existing star rating model gives equal weighting to a secondary outcome as a primary one and it gives more weighting to an interim secondary outcome (40 per cent) than a final secondary outcome (30 per cent). This raises several problems.

First, it is inconsistent with the payment structure of the Job Network, which provides relatively small secondary outcome payments compared to primary ones (chapter 10). It seems odd to pay a primary outcome at the B level at over nine times that of a secondary outcome, but to reward them equally when assessing relative performance. Such conflicting incentive structures weaken the impact of each in their own right.

Second, many secondary outcomes are education rather than job outcomes. There is a concern that education outcomes are open to a greater degree of manipulation:

Currently there is a controversy over educational places and the weight they have in the star ratings. It was reported at a recent NESAs forum that this has been caused by unscrupulous JNMs who are purchasing very expensive courses specifically to boost their star rating. DEWR is canvassing to change the whole system of weighting on star ratings to counteract this problem. We believe DEWR should have the ability to tackle the problem, by sanctioning those providers who are proved to be cynically manipulating the system against the spirit of Job Network, rather than alter the whole

methodology of measurement less than 3 months before the final star rating (Quest sub. 38, p. 4).

While it may be possible to control obvious abuse through risk monitoring by DEWR, there is the concern that interim secondary outcomes have a far lesser probability of being preserved to 26 weeks than interim primary outcomes (table 11.1). Since the eligible courses must be at least two semesters in length, many interim outcomes do not yield a full qualification. The same problem also occurs for those few interim primary outcomes that also relate to education.

Some providers were concerned about any shift in emphasis on education outcomes in the star rating model:

Should training outcomes carry reduced weight in determining star ratings, or have no weight at all, there will be a number of adverse effects for clients ... there will be an inevitable and dramatic reduction in the referral of clients to training ... Earning a secondary outcome from supporting these clients to gain a foothold on the recovery path is just as important as placing the clients in a job. Indeed one activity is a natural precursor to the other. (AMES sub. 41, pp. 1–2).

However, it is not clear that failure to complete a course (the most common result) will in fact assist a job seeker to achieve a sustainable employment outcome. The Commission has recommended that interim education outcomes (primary or secondary) should no longer be payable outcomes — and clearly this should also translate to the star rating model.

DRAFT RECOMMENDATION 11.6

The Commission recommends that:

- ***no weight in the star ratings be given to interim education and training outcomes, but that final outcomes continue to be recognised; and***
- ***secondary outcomes receive a lower weight in the star ratings than primary outcomes, consistent with the payment system.***

Transparency issues

In its visits to Job Network providers, the Commission found that lack of knowledge about the detailed specification of the star rating system was a major source of frustration. This fuelled suspicion about its manipulation and its validity. As noted:

To date virtually no information relating to the design and operation of the model has been publicly available and the industry as a result remains sceptical about its accuracy as a measuring tool (Mission Australia sub. 44, pp. 5-6).

All we see is the results or the ‘face’ of the statistical regression model, rather than the figures, which go into the model. Providers therefore, currently have little faith in the model being a fair and transparent method of measuring apples with apples (Quest sub. 38, p. 2).

The star-rating system used to assess Job Network members is not transparent — especially in respect to an assessment of the services provided to Indigenous job seekers (ATSIC sub. 18, p. 3).

The methodologies used are mostly hidden from public view, and we have doubts about their accuracy (Wesley Uniting Employment sub. 9, p. 2).

The one concern about publication of the model is whether it could be gamed. The model indicates the coefficients on various client characteristics, such as education. If some of these coefficients were wrong, then there might be gains from selectively trying to get outcomes for some job seekers over others in order to increase the star ratings. However, this is not likely to be a profitable business as the coefficients will be subject to change as the model is refined.

To that extent, full disclosure of the model and specification diagnostics should be made publicly available. The underlying data used in its estimation should also be made available to researchers that wish to test the model. Transparency will help alleviate some of the distrust of the model (assuming it is robust) and allow better models to be constructed in the future.

DRAFT RECOMMENDATION 11.7

The Commission recommends that the full details of the star rating model be made publicly available, including any assessments made of its technical validity.

Other dimensions of quality

As noted in chapter 14, DEWR uses a range of other performance measurement tools including job seeker satisfaction surveys, quality audits and benchmarking. Many participants considered that these aspects of performance should also inform contract renewal.

... the Star Ratings cannot be assumed to be a measure of the overall ‘quality’ of service provision. Performance is only one aspect of the services being purchased by DEWRSB and the rollover measure needs to encapsulate a broader assessment of all services purchased, not merely the outputs of the services purchased (Mission Australia sub. 44, p. 6).

Qualitative ratings could be included eg client satisfaction, employer satisfaction, repaid claims etc (Ballina Employment and Training sub. 27, p. 1).

Whilst providers views vary on this, it would be fair to say that many providers believe that quality should be separately defined and measured, just as it has been in previous

tendering arrangements. Therefore, our view is that there should be effective measures of quality as well as quantity (NESA sub. 39, p. 3).

The Commission agrees that the use of additional performance assessments could overcome the possible tendency of providers to only focus on the payable or assessable outcomes, as too narrow a focus may subvert the ultimate objective of the program — sustainable employment outcomes for disadvantaged job seekers.

As they are developed, these additional performance measures (such as job seeker satisfaction) could also be used as a factor relevant for licence renewal. However, the need to correct for labour market differences and the mix of job seekers will probably always remain an important consideration — suggesting a continued complementary role for a star rating model.¹¹

¹¹ Another concern with the star rating model is that its interpretation may change over time — reinforcing the need for complementary performance measures. Stars are ordinal not cardinal measures of performance. Currently, the underlying cardinal difference in performance between one and five star performers is large (chapter 10). However, as best practice diffuses throughout the industry and poorer performers are exited, then the difference may become much smaller. In that case, it could be inappropriate to exit a one star performer (this would be akin to failing the bottom 10 per cent of a class of student in which no one scored below 95 per cent).

12 Contract monitoring and compliance

Box 12.1 Key messages

In contract monitoring and compliance, there is a need to determine the appropriate level of risk management which achieves a balance between a non-interventionist approach which could leave the Job Network open to rorting and undermine its objectives, and too prescriptive an approach which might circumscribe the benefits of provider flexibility and outcomes based payment.

There is some evidence that the balance has swung too far towards detailed monitoring. Some forms of monitoring are applied to all Job Network providers, not just to those identified through risk assessment.

In the next contract round, the compliance burden placed on providers by DEWR should be reduced to the minimum compatible with a prudent risk-based strategy which ensures accountability in the expenditure of public funds and the achievement of clearly specified objective outputs and outcomes.

Consistent with the development of a market based model, contract variations should not be imposed 'unilaterally' by DEWR. Proposed variations should be negotiated with the relevant providers or their industry associations. Significant additional burdens placed on providers by DEWR should be financially compensated.

Greater transparency is needed of the administrative and compliance burden associated with the Job Network. Thus, DEWR should collect and publish relevant data about its nature, extent and cost, as well as information about provider compliance with contract conditions. NESA could contribute to this greater transparency by developing and publishing estimates of the compliance costs placed on providers by the Job Network arrangements.

Under their contracts, Job Network providers have flexibility to provide whatever services they consider necessary to meet the needs of individual clients, recognising that most payments are contingent on the achievement of defined primary or secondary employment or education outcomes.

Conceptually, these market based features significantly reduce the need for detailed monitoring of the processes and procedures through which Job Network providers achieve their outcomes. However, they do not entirely remove that need. First, it is necessary to ensure accountability in the expenditure of public funds. Second, present arrangements aim to ensure that all job seekers receive the assistance they

need to overcome their barriers to employment — lack of monitoring might encourage providers to overlook the needs of the most disadvantaged job seekers, ie those most difficult to place into employment might be ‘parked’. (Elsewhere in the report the Commission makes recommendations that should reduce parking of IA job seekers — as noted in section 12.3, these recommendations should also reduce monitoring requirements.)

There has been an inherent challenge for DEWR, in negotiating and monitoring contracts, to determine the appropriate level of risk management which achieves a balance between:

- a non-interventionist approach which could leave Job Network open to possible rorting, disadvantage those job seekers from whom services are withheld and undermine the program’s current objectives; and
- detailed monitoring which might circumscribe the benefits of flexibility and outcome based payments (and other incentive mechanisms such as the star rating system).

The need to strike an appropriate balance was recognised by several participants. DEWR itself commented that ‘flexibility ... needs to be balanced with the requirement for accountability in the provision of services and public expenditure’ (sub. 43, p. 19) and referred to the problem of ‘parking’. *UnitingCare* considered that:

The discretion of the provider can be seen as one of the strengths of the system ... On the other hand, this discretion also means that some job seekers may only be offered minimal assistance (sub. 12, p. 5).

And WISE Employment – Certain Employees stated:

There is an implied difficulty in developing contracts that offer the flexibility demanded by the providers yet will prevent unintended consequences ... (sub. 24, p. 12).

ACOSS noted that DEWR had ‘increasingly intervened to correct what it perceives to be adverse effects of the funding model’ and referred to ‘a sustained attempt to “micro-manage” the market’:

These and other interventions were necessary and desirable to improve outcomes for job seekers and employers. However, they reveal tensions between the ideal of a largely self-regulating market driven by a sound system of incentives and the reality that Governments cannot achieve the best outcomes for job seekers by adopting a hands-off approach (sub. 32, p. 14).

Some participants were concerned that the provision of flexibility had enabled providers to withhold services from those job seekers judged to have little prospect

of finding work — this issue is discussed in other chapters. On the other hand, several providers were concerned at the increasing burden they faced as a result of the contract monitoring and compliance activities of DEWR. Their comments are outlined below, following a description of the current approach to contract monitoring and compliance. The final section of this chapter presents a discussion of the issues and some recommendations.

12.1 The current approach

In a report into DEWR's management of Job Network contracts for the first round, the ANAO found that the department managed them 'in an efficient and effective manner, bearing in mind that the Job Network is a completely new structure for the delivery of employment services' (ANAO 2000, p. 14). Nevertheless, the ANAO made suggestions for improvement, including the adoption of a risk-based approach, rather than the 100 per cent coverage approach previously adopted (ANAO 2000, pp. 44–5).

DEWR advised that it had adopted a risk management approach to contract monitoring. Each six months it conducts planning and risk reviews to consider the outcomes from monitoring activity over the previous six months, to analyse trends (including identified risks) and to develop key national monitoring activities for the next six months (sub. 43, p. 39). The Commission understands, however, that some forms of monitoring are applied to all Job Network providers, not just to those identified through risk assessment.

In practice, the current monitoring regime is quite extensive and complicated. It makes use of Codes of Conduct, Declarations of Intent and IA Support Plans as well as the Job Network contracts themselves. According to DEWR, the Job Network Code of Conduct is the central feature of consumer protection under Job Network. The aim of the Code is to produce the best outcomes for job seekers and employers by developing a high-quality, continuously improving service that engenders ethical behaviour between all parties. All Job Network members are required to meet the minimum standards set out in the Code, which forms part of their contract with the Commonwealth.

Monitoring goes well beyond confirming outcomes. Also monitored, for example, is 'equity of service provision' to deter parking of the most disadvantaged job seekers (sub. 43, p. 19) and 'adherence to principles of fairness, equal employment opportunities and other non-discriminatory principles' (sub. 43, p. 19). Monitoring in practice has grown to encompass a range of attributes that are proxies for 'equity' and 'quality', as well as the outcomes on which payment is based. Further, the

administrative and compliance burden for all providers appears to have increased recently, as DEWR has attempted to eliminate some ‘unsuitable practices’ identified during 2001.

DEWR’s network of contract managers monitor Job Network members’ contract compliance and performance through scheduled and ad hoc site visits, performance reviews, on going desk monitoring (compliance and performance dimensions), quality audits, performance reviews and ongoing discussions with Job Network members (box 12.2). They determine monitoring priorities at the local level and develop relationships with other stakeholders (such as industry associations and State Governments).

Collectively, the aim of monitoring is not only to improve compliance but also to improve performance and contribute to the future development of the Job Network (sub. 43, p. 39).

The current Code comprises six principles:

1. Ethical, respectful and fair treatment.
2. Accurate, relevant assistance.
3. Prompt, courteous service.
4. An accessible, effective complaints process.
5. Privacy and confidentiality.
6. Responsible advertising.

Organisations tendering for IA in the second round were required to submit Declarations of Intent which described the range of services they would provide to job seekers. The Declaration of Intent forms a part of a provider’s contract with DEWR. Each provider must draw on its Declaration of Intent to draft an Intensive Assistance Support Plan that specifies the activities and services it will provide to each individual job seeker remaining on their caseload 13 weeks after they commence. While the Intensive Assistance Support Plan is not legally binding between the provider and the job seeker, DEWR checks the provider’s delivery of activities as specified in the Support Plan as a part of its contract monitoring activities.

DEWR (sub. 43, p. 40) noted that strengthened ‘integrity measures’ were introduced in 2001 following the identification of ‘unsuitable practices’ (box 12.3). These measures include the establishment of a departmental Integrity Committee to oversight existing measures such as the Job Network Code of Conduct, the complaints investigation arrangements and the compliance and performance monitoring arrangements.

Box 12.2 Forms of contract monitoring

Contract reviews

All changes or amendments to the contract are reflected in a contract variation. The contract and any variations form the entire agreement between the Job Network member and the Department. In accordance with standard departmental contract provisions, variations to contracts must be in writing and signed by both parties.

Milestone reviews

At six monthly intervals, around the end of each milestone period, contract managers review Job Network members against milestones, using agreed methodology/data. The Department takes into account a range of information including performance reports, previous monitoring activity, past milestone history and input from the Job Network member. Milestone review discussions with the Job Network member relate to performance against contracted levels and adherence to other contractual obligations.

The Department also conducts an annual review that focuses on improving performance through meetings with Job Network members. As part of the annual review process some Job Network members may be sanctioned for poor performance (by having their contracted capacity reduced).

Compliance monitoring

Job Network members are required to adhere to all of the terms and provisions of the *Employment Services Contract 2000-2003* and, where applicable, the *Employment Services Contract 1998-1999*. Compliance monitoring may involve the exchange of correspondence/documentation and/or site visits to the Job Network member. Ongoing 'desk type' monitoring is undertaken by State/Territory/District office staff to assess individual Job Network member performance/compliance. Client and public complaint information and claim/payment patterns are also assessed.

Quality audits

Quality audits assess a Job Network member's performance against the principles and service standards specified in the Code of Conduct and involve an extensive examination of the processes a Job Network member has in place to deliver a quality service and comply with the Code. The object of a quality audit is to work collaboratively with the Job Network member to identify problems and improve performance. These audits can involve activities such as job seeker satisfaction surveys, site visits, file assessments, complaints analysis and other activities aimed at assessing quality service delivery.

Source: DEWR submission (sub. 43, pp. 40, 43).

According to DEWR, contract compliance monitoring was the 'mainstay' of monitoring undertaken by the Department during the first contract period (sub. 43, p. 38). However, it indicated that its strategy is increasingly to place contract

monitoring and compliance into the broader framework of encouraging improved performance and greater service quality (sub. 43, pp. 73–4). This is intended to enable DEWR to:

- identify and address problems before they impact on performance;
- know the stakeholders and the relationships between them;
- help build Job Network members' confidence in DEWR;
- help Job Network members improve performance through best practice studies without jeopardising confidentiality;
- help establish links between stakeholders; and
- know in greater detail the strengths and weaknesses of the system (sub. 43, p. 80).

Box 12.3 July 2001 Job Matching Policy Revisions as a result of the identification of 'unsuitable practices'

In hearings of the Senate Employment, Workplace Relations, Small Business and Education Legislation Committee on 4 and 5 June 2001, matters were raised which related to Job Network and in particular to the use of Labour Hire Companies. These matters were subsequently investigated by DEWR, with a report made public in July 2001.

That report found that a significant number of job placements made by one particular Job Network provider (Leonie Green & Associates) were inappropriate, and, in some cases, there was evidence of breaches of the contractual obligations of LGA. Recovery action was taken for payments made in respect of at least 199 JM claims.

The report further found significant failures on the part of DEWR in the contract management processes at the management level.

In response, the Department introduced strengthened 'integrity measures' (see text) and introduced a number of JM policy revisions to apply to all Job Network members. These revisions were intended to deal with the problems of job splitting (splitting jobs purposely to create short duration placements which maximise JM outcome fees) and serial placement (where frequent payments are made for the placement of job seekers with the same employer in the same or similar jobs). The changes were introduced through contract variation, with enhanced administrative monitoring by DEWR.

Source: DEWRSB 2001c, 2001d.

Chapter 14 gives some more detail about the department's Job Network performance management framework. Box 12.4 sets out DEWR's views about the features of effective contract management.

Box 12.4 DEWR's views on effective contract management

Effective contract management involves a number of features, including:

- establishing professional and well-based purchasing policy and associated practices — including considerable attention to legal issues, the impact of pricing strategies, and the development of strategies for succession at the end of contacted periods;
- developing and using performance information effectively — nationally for trends and early warning on systemic issues that may need to be addressed, and locally so that individual providers can adjust their service strategies and build on successes;
- developing and augmenting the professionalism, skills and expertise of the departmental staff who are engaged in contract management and provider liaison activities, and equipping them with the training and tools to handle the full range of issues that are likely to arise, including compliance, performance, quality of services, and integrity;
- applying information technology to support daily operations, the sharing of information and to achieve improvements in processes; and
- developing and applying effective accountability, privacy, security, consumer protection and integrity and risk management strategies.

Source: DEWR's submission (sub. 43, p. 84).

12.2 Participants' views

The Tasmanian Employment Advisory Council (the ACC for Tasmania) considered that there appear to be 'excellent arrangements in place by DEWRSB to monitor the role, responsibilities, compliance and outcomes of the Job Network providers' (sub. 31, p. 3). Several other participants, however, had a range of concerns relating to increased administrative burdens, 'unilateral' contract variations, a compliance focus and other issues, as set out below.

Large and increasing administrative burden

The Salvation Army Employment Plus commented that Job Network agencies understand that public accountability is of 'paramount importance'. However, it was concerned that:

... an overemphasis on administration and bureaucracy will detract from the key focus of working with unemployed people to help them improve their options (sub. 35, p. 8).

It considered that administration was becoming increasingly complex:

The greatest danger to the effectiveness of the Job Network is the increasing complexity developing around process and procedures and definitions of claimable outcomes etc. (sub. 35, p. 8).

The solution was to adopt ‘a sensible risk management strategy’ with ‘a platform of simplified rules’ (sub. 35, p. 8). NESAs also considered that DEWR needed to ensure that its risk management practices are satisfactory ‘so as to achieve an effective compliance regime without so much emphasis and associated cost on detailed reporting or record keeping’:

The industry frequently refers to excessive compliance requirements and the proportionately high amount of time that is spent on dealing with administration. ... During the course of the current contract providers have watched their total pool of money that they can spend on job seekers dwindle progressively as they are required to spend proportionately increased amounts of money on compliance and administrative issues arising from the contract variations introduced (sub. 39, p. 12).

According to Workco, Job Network is ‘becoming bogged down in irrelevant paperwork instead of being allowed to do our jobs — ie place clients into employment’ (sub. 20, p. 1). ‘Compliance is now over the top and unnecessary’ (sub. 20, p. 1).

Contract variation too one-sided

NESA considered that the issues of contract lock-in and variation are ‘one-sided’ (sub. 39, p. 18):

Contracts are offered on a take it or leave it basis. Until recently, there has not been any recourse to the industry for the legal vetting of contract variations (sub. 39, p. 18).

Workco considered that contracts are a ‘totally one-way partnership. [Government] imposes changes on providers with a “take it or leave it” attitude leaving the provider to bear the cost’ (sub. 20, p. 1). ARA Jobs also commented on the costs imposed by contract variations:

There is no provision for negotiation of changes to the contract, nor is there any opportunity to negotiate additional fees for undertaking extra services or other work (sub. 25, p. 2).

However, as noted in chapter 14, payments have been made available by DEWR to cover the costs imposed on providers by extra IT requirements.

Focus on compliance rather than performance

NESA reported some confusion in contract management in regard to quality auditing:

DEWR's contract management sometimes confuses quality auditing with compliance auditing ... better targeted training of DEWR's officers leading to improved contract management practices would result in quality audits that could positively contribute to measuring a provider's performance, as well as contributing to standards and practice improvement in the industry (sub. 39, p. 3).

According to Quest Solutions (sub. 38, p. 2), 'currently audits focus on compliance to filing and record keeping requirements, with scant attention to quality measures'. It considered that 'qualitative KPIs need to be set, monitored and measured'. The Salvation Army Employment Plus called for 'a comprehensive quality audit process ... to ascertain the quality of service' (sub. 35, p. 4).

As noted above, DEWR is increasingly seeking to place its contract monitoring activities into a performance improvement framework. It also stated that:

The Department is committed to improving the knowledge and expertise of its Contract Management staff and to ensure the most efficient use of its resources (sub. 43, p. 80).

Declarations of Intent not monitored

A Declaration of Intent forms part of the contract between the Job Network provider and DEWR in the second round. WISE Employment – Certain Employees, however, stated that it 'is not aware that anyone is being compared against the claims' (sub. 24, p. 4). If this were the case, questions could be raised about the imposition on providers of the need to prepare that documentation. DEWR, however, noted (see above) that it did check the delivery of services as specified in the Intensive Assistance Support Plans agreed between providers and job seekers — these plans draw on the Declarations of Intent.

Problems in dealing with 'unsuitable practices'

One participant, the Un(der)employed People's Movement against Poverty, considered that 'rorts [are] near impossible to control' in Job Network given 'only a self regulation system or promises in codes of conduct' (sub. 3, p. 3). In contrast, WISE Employment – Certain Employees noted that, in regard to unintended effects:

It is traditional to look at unintended effects from the purchasers' perspective, however the contract structure provides its own set of problems for providers. Moving goal posts, retrospective interpretations of policy and contract variations (sub. 24, p. 12).

The administrative burden imposed on Job Network providers has increased as a result of DEWR's approach to reducing 'unsuitable practices' identified during 2001 (box 12.3). It is not clear, however, whether there have been other instances of inappropriate practices which have resulted in increased monitoring and compliance activity.

Centralisation of decision making

The Northern Territory ACC considered that 'centralisation of decision making leads to decisions that are made from a central perspective that are often not responsive to specific local conditions' (sub. 36, p. 12). It advocated that Government 'delegate and devolve decision making to ensure that it is more responsive, efficient and accountable to regional communities' (sub. 36, p. 12).

Somewhat in contrast, The Salvation Army Employment Plus considered that, at least for nationally operating Job Network providers, there should be 'a single National Canberra based contract management arrangement to ensure consistency of information and contract management processes' (sub. 35, p. 18). It considered that state-based contract management staff 'sometimes interpret contract requirements differently' (sub. 35, p. 17).

12.3 Issues and conclusions

Simplifying monitoring and relying more on risk management

As noted in the introduction, there is a need to strike the right balance in the contract management system. There will always be a need for at least a minimal level of compliance monitoring, to ensure that outcomes paid for are in fact delivered and to detect and deter unintended behaviours by providers. But too strict a monitoring regime will impose a high administrative burden on both the Department and on providers, and has the potential to reduce flexibility and deter innovation.

The Commission supports a risk management approach to contract monitoring. Feedback from previous monitoring activities and from job seekers through the complaints mechanism should provide a guide as to which providers should receive most attention. Over time, as case history and confidence builds, the extent of monitoring for compliance should be able to be reduced. Comments from participants suggest that DEWR's current compliance monitoring activities, and the

associated administrative burdens placed on providers, exceed those which would be needed under a full risk management approach.

The Commission considers that DEWR itself has identified a key issue for simplifying and rationalising monitoring — that is, how payments are structured:

Ensuring that the fee structure reflects the appropriate incentives is a major issue for outcomes-based models. Experience with Job Network has shown that provider behaviour is linked to the fee structure (sub. 43, p. 65).

If the design of the Job Network's quasi market and the payable program outcomes could be redefined to encompass more comprehensively the Job Network's objectives, the need for extensive monitoring would be reduced. The recommendations made by the Commission in earlier chapters of this report should assist this aim by improving competition and choice and providing incentives more compatible with those objectives. Parking, for example, should be significantly reduced if those recommendations were adopted — and monitoring could be made simpler as a consequence.

As discussed further in chapters 3 and 15, it can be difficult to encompass equity goals in objective quantitative outcomes. Those chapters suggest that if it is judged necessary to make some use of output measures as proxies for equity and quality of service they also should be specified objectively and quantitatively to the maximum extent possible. Then, if necessary, some component of payment could relate to these outputs in addition to payment based on employment and education outcomes.

DRAFT RECOMMENDATION 12.1

The Commission recommends that in developing a risk management approach to contract monitoring and compliance that encourages innovation and minimises costs, DEWR adopt and apply the following principle in round three of the Job Network:

- ***monitoring and compliance activity be the minimum necessary to ensure accountability in the expenditure of public funds and the achievement of clearly specified objective outputs and outcomes.***

This approach does not mean that documentation such as the Code of Conduct and Declarations of Intent will become irrelevant. Such documents will still be important in establishing expected standards of ethical behaviour by Job Network providers. However, monitoring (and payment) would be able to be more soundly based on objective quantitative measures than at present.

Reduction in compliance monitoring will facilitate the refocusing of monitoring towards assessing performance and quality, as DEWR plans to do. Even in these activities, however, care will need to be taken not to impose excessive burdens on providers. To the maximum extent possible, they should focus on their core business, rather than respond to unnecessary administrative and bureaucratic requirements.

Contract variation

From time to time, DEWR may wish to vary its contracts with Job Network providers. For example, it might find some unsuitable practice or unintended consequence that it wishes to guard against, or it might want to refer to updated IT systems. In the second round of Job Network, there have been six sets of general contract variations in less than two years. Clearly, these variations should be negotiated with providers, or their industry association(s), rather than imposed ‘unilaterally’ by DEWR.

Further, contract variations might be more acceptable to providers if they were compensated for any significant additional administrative or compliance burden placed on them.

DRAFT RECOMMENDATION 12.2

The Commission recommends that DEWR openly negotiate all contract variations with relevant providers, or their industry associations. Providers should be financially compensated for any significant additional administrative or compliance burdens placed on them by the Department.

Further, in dealing with unsuitable practices or unintended consequences, care should be taken to avoid unnecessarily penalising providers whose behaviour has been acceptable. Even where a general contract variation is required, DEWR should consider whether detailed compliance monitoring should concentrate on those providers previously found to be at fault. Such an approach might have avoided the additional administrative burden placed on all providers after unsuitable practices were identified during 2001.

DRAFT RECOMMENDATION 12.3

The Commission recommends that when dealing with identified unsuitable behaviour or unintended consequences, DEWR avoid, to the extent possible, imposing additional compliance costs on providers whose behaviour has been acceptable.

Transparency

The Commission considers that there should be greater transparency of the administrative and compliance burden placed on Job Network providers. Measurement of the compliance burden would assist in maintaining pressure on DEWR to keep it to the minimum necessary to ensure proper accountability and the achievement of the Job Network's objectives.

DRAFT RECOMMENDATION 12.4

The Commission recommends that DEWR collect and publish relevant data about the nature, extent and cost of its contract and compliance monitoring activities, as well as information about provider behaviour (such as cases of fraud found and errors made in claims).

NESA could contribute to this greater transparency by developing and providing estimates of the administrative and compliance costs placed on providers by the Job Network arrangements.

13 Competitive neutrality issues

Box 13.1 Key messages

Under the National Competition Policy Agreement, the Commonwealth Government is committed to competitive neutrality policy which aims to ensure that government businesses do not enjoy competitive advantages over their private sector competitors by virtue of their public ownership. It is also important that government regulation or activity does not selectively distort competition between market participants.

Employment National, the publicly owned Job Network provider, is required to satisfy competitive neutrality principles. However, the Government's financial support for Employment National has affected competition in the Job Network market over the second contract period.

The Commission considers that any Job Network business accepted by Employment National after the second Job Network contract period expires should be on the basis that the business as a whole meets commercial rates of return.

Some distortion in competition between Job Network providers and commercial recruitment agencies is likely to be experienced within the market for basic JM services. But its extent is ameliorated by the contestability of the Job Network market. Further, the Commission is proposing that the scope of government funded JM services be significantly reduced.

Finally, differences in income taxation are not likely to have any significant effect on competition between not-for-profit and for-profit providers, whereas differences in the application of input taxes may do so.

Competitive neutrality was recognised as an issue when the Job Network model was being developed. According to the then Minister:

A fully competitive market for employment placement services will replace existing arrangements for labour market assistance. Fair and genuine competition will be assured through the application of competitive neutrality principles (Vanstone 1996).

Competitive neutrality is important because it promotes efficient competition. As explained in the Commonwealth's Competitive Neutrality Policy Statement (Commonwealth of Australia 1996):

Competitive neutrality requires that government business activities should not enjoy net competitive advantages over their private sector competitors simply by virtue of public sector ownership.

However, it is also important that competition between private sector competitors themselves is not distorted — that is, government regulation and activity should not selectively affect relative costs or relative prices to the advantage of some competitors over others.

This chapter deals with three separate competition issues of concern to participants in this inquiry:

- whether Employment National, the publicly owned provider, is advantaged relative to other Job Network providers;
- whether Job Network providers as a group are advantaged relative to other providers of employment services; and
- whether not-for-profit Job Network providers are advantaged or disadvantaged against for-profit providers.

At the time of preparation of this draft report, the Commonwealth Competitive Neutrality Complaints Office was examining a complaint relating to the OzJobs division of Employment National and fee-for-service employment service providers. Issues relating to Centrelink, labour hire companies and Australian Job Search are covered in other chapters of the report.

13.1 Employment National

DEWR noted that in establishing the Job Network, Employment National, as the public provider, was required to satisfy competitive neutrality by:

- corporatisation (operating within a commercial structure);
- taxation neutrality (no tax exemptions not available to other competitors);
- debt neutrality (subjecting the business to similar borrowing costs as that of other competitors);
- rate of return requirements (requiring the business to earn commercial rates of return and pay commercial dividends);
- regulatory neutrality (the same regulatory environment as the private sector); and
- full cost pricing principles (prices charged should reflect full cost attribution) (sub. 43, pp. 15–16).

Employment National itself stated that it ‘operates in accordance with the Government’s competitive neutrality principles’ (sub. 28, p. 2).

On the other hand, one participant, the Innisfail JOB Centre, in commenting on the first round of Job Network tendering referred to ‘our competitor (Employment National) [which] received government financial backing’ and ‘the financial resources that were provided to the Government’s own provider (ie Employment National) should also have been extended to all successful tenderers’ (sub. 5, p. 2).

Employment National operated profitably during the first Job Network contract period. However, in its submission, Employment National indicated that during the second Job Network contract period it was providing services for low fees and that it was receiving equity support from its shareholder (ie the Government):

Under direction from its shareholder, Employment National undertakes Job Matching activities at locations and at prices it would not elect to do on a commercial basis or which it would only do commercially at higher prices. The shareholder is providing equity support for the company for the duration of the second Job Network to underwrite this service delivery (sub. 28, p. 8).

Although Employment National, as the public provider, is the subject of contingent Community Service Obligation (CSO) arrangements, DEWR stated that ‘So far it has not been necessary to invoke this Community Service Obligation’ (sub. 43, p. 17). The Commission, therefore, does not interpret Employment National’s reference to government underwriting as being a reference to an explicit CSO.

Employment National’s operations and results

Employment National was incorporated on 4 August 1997. It was responsible for managing the Commonwealth Employment Service over the last five months of its operation, from 1 December 1997 to 30 April 1998 and was also required to assist DEETYA with the transition to the new market framework. It commenced business in the Job Network on 1 May 1998 with 1200 employees and 209 business centres located across Australia. The company won more than a third of the business on offer in the first Job Network tender round. In its first period of operation, ie to 30 June 1998, it made a consolidated operating profit of \$5.2 million (Employment National 1998).

For 1998-99, a consolidated profit (before abnormal expenditure and tax) of some \$82 million was recorded. The company bought back shares from the Government to the value of \$40 million and also provided for a dividend of \$8 million to be paid. Staff increased to 1722 at 215 locations. Employment National noted that it ‘has submitted what the Directors believe is a commercially priced tender’ for the second contract round (Employment National 1999, p. 12). This would have been prepared on the basis of Employment National’s belief that ‘it is standard practice to

subsidise the costs of Job Matching from higher payments for Intensive Assistance activities’ (sub. 28, p. 3).

In the second tender round, however, Employment National was awarded only a very limited amount of IA services. Nevertheless, it decided to continue in business by accepting ‘loss making job match contracts’ (Employment National 2000, p. 1). More than 1000 employees left the company during 1999-2000, and 50 offices were closed. Restructuring expenses of almost \$80 million were incurred. The estimated future losses on the JM contract was treated as an abnormal expense in the 1999-2000 financial year — these totalled about \$77 million. As a result, an operating profit before abnormal items and tax of some \$46 million became a loss of \$92 million after adjusting for the abnormal items. The Government indicated that it would ‘provide sufficient funds [to Employment National] to enable it to meet its debts as they fall due should the entity be otherwise unable to do so’ (Employment National 2000, p. 6). As well, provision was made by the Government to provide additional equity funding, although none was drawn down that year. The company was continuing to operate under formal Ministerial Direction.

In the next financial year, 2000-01, about \$25 million of the loss provision was written back. After adjusting for this abnormal item, Employment National just broke even. During the year, Employment National increased its focus on fee for service recruitment services, designed to ‘sustain long term viability’ (Employment National 2001, p. 3). No additional equity was drawn down during this financial year. However, on 22 August 2001, \$11 million was received consequent to a share issue to the Government.

Pricing in the Job Network

In the first Job Network tender round, both JM and JST were subject to price competition. In contrast, the prices for IA were fixed by DEWR. Tender conditions specified that providers successfully tendering for JST and/or IA must also provide JM services — however, JM could be provided as a stand alone service. These provisions were continued in the second tender round, with the change that IA services were made price competitive, but subject to minimum specified prices.

Together, these provisions provided an incentive for tenderers to bid relatively low for JM services, with the expectation that they could be cross subsidised from IA services, for which the set and minimum prices were seen as more than adequate to make a satisfactory return. Indeed, some tenderers may have seen relatively low JM tender prices as being the ‘edge’ they required to obtain IA services (at the set or minimum price). The comments of Employment National, quoted above, and of other participants support these conclusions:

... cross-subsidisation is problematic when Intensive Assistance funds are used to support job matching services for less disadvantaged job-seekers, reportedly a widespread practice in the first tender round (ACOSS, sub. 32, p. 15).

The lack of a floor price in services, in particular job matching and job search training, means that providers may operate these services, at best, as marginal operations. Indeed, in the case of job matching many providers would attest to running the contract as a loss leader (NESA, sub 39, p. 11).

In effect, a ‘flaw’ in the conditions for IA — coupling set or minimum prices with the requirement to also provide JM — has distorted the JM market.

Tendering low for JM could create difficulty for tenderers which missed out on IA. In fact, several such tenderers subsequently declined JM contracts. As noted above, however, Employment National has continued on during the second contract period, with very little allocated IA capacity.

Analysis

Employment National is making large losses over the period of the second Job Network contract in providing JM services — some \$80 million (together with some \$80 million of associated restructuring expenses). The Government has had to guarantee its debts, should Employment National itself be unable to meet them. After Employment National bought back shares to the value of some \$40 million during 1998-99, the Government has recently returned an equity injection of some \$11 million.

The capital market would reasonably question whether, given its current limited role in providing IA, Employment National would be likely to be successful in obtaining significant IA capacity in the third contract round to become viable again. Any capital injection on the basis that Employment National continued into that round as a Job Network provider, delivering mainly JM, would command a high risk premium.

Even if Employment National’s loss making prices have not suppressed JM prices more generally, its continued existence has reduced the share of that business which would otherwise have been available to others. It can be concluded therefore that the Government’s financial support for Employment National has affected competition in the Job Network market over the second contract period.

In terms of the competitive neutrality principles, however, the situation is less clear. Further, whether government support for Employment National has led to a loss of community welfare overall is not easy to judge. The following points are relevant to these issues:

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- The current contingent CSO arrangements made with Employment National have not had to be invoked during the first two contract periods.
 - Many businesses make short term losses and are supported by their shareholders or by borrowing, for example. Similarly, in the not-for-profit sector, short term losses could be supported by the resources of the parent organisation. The failure to earn a commercial rate of return (or, indeed, any return) in a particular year or even over several years, in the establishment phase of a government business, does not of itself constitute a breach of the competitive neutrality principles.
 - Cross subsidisation within a government business (say, within Employment National from its fee-for-service business to JM in the Job Network) does not breach the competitive neutrality principles (although broader resource allocation issues apply). Many private businesses cross subsidise.
 - Many providers run their JM services at a loss. Even so, some providers would be more efficient than others. If Employment National were to be one of the more efficient JM providers — the Commission has no evidence on this one way or the other — and its loss making prices had not significantly suppressed those for other providers, its continued operation during the second contract period might be supportable on second best efficiency grounds.
 - Employment National may be disadvantaged by terms and conditions of operation stemming from its public sector ownership and origins.

The recommendations made by the Commission to uncouple the provision of JM from the provision of IA in the third contract round, and to restrict the role of JM for non-disadvantaged job seekers to simple self help without an outcome payment should eliminate the incentive of providers to actively seek to cross subsidise the two services. Even if those recommendations were not adopted, the Commission considers that Employment National should not provide loss making Job Network services past the conclusion of the second contract period.

DRAFT RECOMMENDATION 13.1

The Commission recommends that the Government require that any Job Network business accepted by Employment National after the second Job Network contract period expires be on the basis that it expects to achieve commercial rates of return for that business as a whole averaged over several years.

If Employment National cannot meet that condition, alternative arrangements may need to be developed by which other providers can deliver any community service obligations that may be required by the Government.

13.2 Job Network versus non-Job Network providers

Employers can fill their vacancies through Job Network providers free of charge. Another group of employment service providers (collectively described as ‘recruitment agencies’) also provide JM services for employers, but for a fee. As well, Job Network providers and recruitment agencies may also offer ‘value-added’ services for an additional fee.

Recruitment agencies typically screen job applicants against vacancies, often using formal screening tools. They may prepare job seekers for employment by providing training or case management services. Some recruitment agencies specialise in particular occupations or professions. Sometimes agencies recruit on behalf of labour hire firms, for ongoing as well as temporary placement.

The Recruitment and Consulting Services Association saw the present Job Network arrangements as causing ‘confusion’ to employers:

as there is an expectation of a level of service that is not always possible. Therefore an employer may believe that a current Job Network agency can provide the full service including skills assessment, psychological evaluations and reference checking when they are only funded to provide a job matching service (sub. 46, p. 4).

It called for amended Job Network arrangements which would open services, particularly JM and JST, to a broader range of eligible providers, including its members, ‘at an agreed price negotiated with the Federal Government’ (sub. 46, p. 4). It considered that:

To have a separate stream established with funding, marketing and training support is, in a commercial and political sense, an inequitable use of public monies (sub. 46, p. 5).

Another participant, Company Solutions, also commented on the relationship between Job Network providers and other firms providing employment services. Some of its concerns should have been dealt with by the changes made by DEWR during 2001 to deal with what it called ‘unsuitable practices’ (sub. 43, p. 40 — chapter 12) The gist of its remaining concerns appears to be that ‘the use of Government funds and subsidies’ gives Job Network providers a competitive advantage against the traditional (non-Job Network member) labour hire and recruitment companies (sub. 17, p. 1).

Analysis

In analysing whether Job Network members are competitively advantaged compared with other firms providing employment services, two markets may be distinguished:

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- The market for ‘basic’ JM services. In the Job Network, these services are free to employers, being paid for by government. Further, employers benefit, at no cost, from the training of prospective employees under JST and IA. When provided outside the Job Network, recruitment agencies recover their costs from employers.
 - The ‘value added’ market. Employers pay for these services, irrespective of whether they are provided by Job Network members or by recruitment agencies.

In the basic market, Job Network providers would have a competitive advantage over recruitment agencies, at least during the currency of each contract round. However, the provision of Job Network services is contestable. That is, all these firms and organisations have the opportunity for tendering for Job Network services as each contract round commences should they so desire. The Government has announced that about 40 per cent of those services will be open to new entrants in the third tender round.

In regard to the value added market, a relevant issue is whether Job Network providers, after covering their costs in the basic market, have funding left over to cross subsidise the prices of their value added services. This possibility cannot be ruled out entirely — however, it is more likely that any such ‘surplus’ would be spent by the provider within the Job Network. For example, the provider could increase subsidies to employers, in an endeavour to improve its star rating and ensure survival in the next contract round.

Thus, any distortion in competition is likely to be experienced within the market for basic services. Its extent is ameliorated by the contestability of the Job Network market. Further, the Commission is proposing that JM services for non-disadvantaged job seekers be limited to the provision of basic vacancy information, thus largely removing competitive distortion. In addition, its recommendation that there be no barriers to entry into the JST and IA markets, other than minimum appropriate capacity and maintenance of standards, will allow all firms to decide whether they wish to participate.

13.3 For-profit versus not-for-profit providers

Quest Solutions considered that not-for-profit providers had an advantage over for-profit providers, such as itself, because of differences in taxation:

Not-for-profit organisations have benefited from favourable fringe benefit tax rulings, which mean they can attract staff with packages unavailable to for-profit organisations with whom they are competing (sub. 38, p. 3).

Competition issues relating to differences in taxation treatment between not-for-profit and for-profit firms have been extensively discussed in reports of the Industry Commission, the Productivity Commission's predecessor (see IC 1995 and IC 1997).

These reports have concluded that differences in income taxation are not likely to have any significant effect on competition, whereas differences in the application of input taxes may do so:

- In terms of its core business a not-for-profit provider may choose not to earn a surplus, instead ploughing back any potential surpluses to meet the needs of clients. With non-core business, its objective would be to maximise any surplus to make it available for core activities. Imposition of income tax would not change either of these behaviours.
- Differences in the application of input taxes can lower the costs of not-for-profit providers and potentially give them an advantage over for-profit competitors. For example, some not-for-profit providers may be exempt from Fringe Benefits Tax (FBT) or be eligible for FBT rebates. With that advantage, not-for-profit organisations can take market share from for-profit providers, even if the latter are more efficient. (There is also another efficiency effect: not-for-profit providers would be inclined to favour the use of the tax advantaged inputs — labour in the case of the FBT — over other inputs.)

Issues relating to taxation and competition between not-for-profit and for-profit providers extend far beyond the scope of the Job Network. The Commission draws attention to analysis already undertaken at a broader level in previous work. It notes that in releasing the report of the Charities Definition Inquiry (CDI 2001) the Treasurer commented that 'adoption of the definitional framework recommended by the Inquiry could have implications for the taxation treatment of charities and related entities' (Treasurer 2001).

Other issues relating to the participation of not-for-profit and for-profit providers in the Job Network are covered in chapter 11.

14 The roles of the Job Network players

Box 14.1 Key messages

It would be appropriate for DEWR to continue progressively to market test more of the Job Network tendering and contracting process, as well as auditing, monitoring and evaluation services.

Currently, the administration of the JSCI to job seekers is undertaken by Centrelink. It has no financial incentives to distort the assessment of job seeker disadvantage, as might occur were Job Network providers to implement the JSCI. On the other hand, Job Network providers have an ongoing case-managed relationship with the job seeker that is more likely to reveal the real level of disadvantage. With appropriate safeguards, there may be scope of Job Network providers to have a role in classifying job seekers after an initial classification by Centrelink. Ultimately, however, the question of where and how many times the JSCI should be implemented should be left to DEWR.

The Commission does not consider that the advantages of establishing an 'independent' regulator would outweigh the disadvantages.

DEWR, in consultation with Centrelink, NESAs and the Privacy Commissioner, should develop a protocol for the storage and sharing of relevant personal information between relevant agencies and Job Network providers. This would end the requirement that job seekers provide the same personal information to many different organisations and enable relevant case history material to be shared.

If the full potential of Indigenous Employment Centres is to be realised, coordination problems between CDEPs, IECs and the Job Network will need to be addressed and overcome.

Other issues discussed in this chapter include: aspects of breaching; follow up of job seeker referral to providers; IT systems and communication; disseminating best practice; interaction between Job Network programs and programs of DEST, FaCS and State/Territories; and linkages with education and training.

Earlier chapters discuss the interface between Job Network providers and job seekers, between providers and government and contain a number of recommendations for improvement. This chapter examines the Job Network from another perspective — the allocation of responsibility for the various activities associated with Job Network: that is, who should do what. As well, the chapter considers issues of coordination, both within the Job Network and between it and other programs, and linkages with the education sector.

First, however, the chapter briefly reviews criteria relevant to evaluating alternatives.

14.1 Criteria for evaluation of alternatives

Evaluating possible reallocations of responsibility necessarily involves tradeoffs between different objectives. For example, extending the range of services contracted out could bring cost savings, but possibly only with risks to quality and certainty of service delivery. Because of this, the possible advantages and disadvantages of change to present arrangements should be assessed against explicit criteria. The desirability of changes can then be determined after assessing the net benefit — which may be negative. In some cases, of course, the answer could be readily apparent without detailed analysis against all criteria.

The following evaluation criteria have been used in this analysis:

- **Certainty of outcome.** What are the risks that alternative service provision will undermine intended outcomes? Will quality be adversely affected?
- **Accountability.** Is there a clear, unambiguous, allocation of responsibilities which can be monitored? If not, cost shifting and argument are likely.
- **Incentive compatibility.** Agreed arrangements should provide positive incentives for the service provider to achieve the desired outcomes.
- **Flexibility and choice.** The agreed arrangements should provide flexibility and choice where this is likely to improve outcomes, rather than being process oriented and prescriptive.
- **Cost effectiveness.** That is, administrative and compliance costs should be minimised consistent with the achievement of the objective.
- **Transparency.** It is an important policy principle, where the provision of public funds is involved, that programs be as transparent as possible, with the exception of clearly commercial-in-confidence material.

This chapter focuses on possible alternative allocations of responsibilities, within the overall Job Network model.

14.2 Allocating responsibility

The purchaser-provider model separates service funding/purchasing from service provision. As discussed in chapter 3, the Commission considers that this model is appropriate for labour market services of the type delivered by the Job Network.

However, questions arise as to whether more of the many activities associated with Job Network should be reallocated among the various Job Network players or devolved from government provision — Job Network involves not only services to job seekers through Job Matching (JM), Job Search Training (JST), Intensive Assistance (IA) and NEIS but also a myriad of associated activities. The main categories are listed below and developed in more detail in box 14.2:

- policy advice;
- tendering and contracting;
- referring job seekers to Job Network providers;
- providing Job Network services;
- auditing, monitoring and evaluation; and
- information technology standards, services and databases.

Of the activities listed, two are not discussed further in this chapter, they being policy advice and providing Job Network services. Policy advice is a core role for a central government department such as DEWR and was not challenged by participants. The models for providing Job Network services to job seekers are discussed in other chapters of this report.

Tendering and contracting

Some of the activities relating to tendering and contracting have a broad framework or policy orientation, such as:

- the length of contracts;
- rollover versus new contracts;
- geographical dispersion of service;
- overall funding; and
- translating policy parameters into evaluation criteria.

Decisions of this nature are appropriately made by government after advice from a central policy agency such as DEWR.

Box 14.2 Activities associated with the Job Network

The range of activities associated with the Job Network can be categorised as follows:

Policy advice

- Advising government of alternative approaches to achieving policy objectives
- Devising the broad parameters of system design
- Responding to government policy decisions

Tendering and contracting

- Tender specification
- Conducting the tendering process
- Tender evaluation
- Contract negotiation

Referring job seekers to Job Network providers

- Arranging for the provision of referral services
- Developing and fine tuning classification instrument(s)
- Administering classification instrument(s)
- Referring job seekers to service providers
- Ensuring referred job seekers attend nominated providers

Providing Job Network services

- Providing job seekers with appropriate labour market assistance
- Sub-contracting the provision of services, as appropriate

Contract management, monitoring and evaluation

- Contract management, including auditing, to ensure contract integrity
- Ensuring service 'quality'
- Monitoring performance outcomes
- Resolving complaints
- Paying providers for services
- Program evaluation

Information technology

- Developing appropriate IT standards, services and systems
- Designing and operating relevant databases
- Providing communication linkages within and among Job Network players

However, DEWR's role in tendering and contracting has extended beyond those functions to those of a more operational nature. The second Job Network tendering and contracting round was undertaken largely in-house, with the exception of financial viability assessments, credit and adverse information checks on tenderers,

probity monitoring and advice and legal advice. DEWR staff undertook consultation with prospective tenderers, consultation on an exposure draft request for tender (RFT), finalisation and issue of the RFT, dealing with bidder inquiries, receipt of tenders, checking submitted tenders for conformity with the RFT specifications, fraud and debt checks, assessment against selection criteria, allocation of contract levels, notifying successful and unsuccessful bidders of outcomes, contract preparation and finalisation, and providing bidder feedback.

During this second tender (conducted in 1999), more than 400 organisations submitted approximately 2500 bids — ‘with allocated government funding of approximately \$3 billion, this tender is generally thought to be Australia’s largest services tender’ (Blake Dawson Waldron 2000, p. A).

Probity advisers, Blake Dawson Waldron, were appointed to advise DEWR on, and independently monitor, procedural aspects of the tender to ensure compliance with the published tender documentation. It concluded that ‘this tender has been conducted in accordance with [the established] probity principles’ (Blake Dawson Waldron 2000, p. D).

The tender for Job Network 3 — due to be finalised by February 2003 — is likely to be simpler than its predecessors, as it has been announced that 60 per cent of current contracts will be rolled over. Nevertheless, despite this and the success and expertise of DEWR in undertaking Job Network 2, it is relevant to ask whether more of the tendering and contracting process for future tendering rounds should itself be contracted out. This would be consistent with the process of market testing currently being undertaken by government agencies (see box 14.3). It is notable that the Office of Asset Sales and Commercial Support (since absorbed into the Department of Finance and Administration) included ‘contract administration and management’ in its list of activities to be market tested.

DEWR’s past experience and expertise could be expected to give a continuing in-house solution some advantage over an outsourcing solution, in terms of accountability, certainty and possibly also risk. As well, there might be some economies of scope with the auditing and monitoring function, if that were to be continued as an in-house function. Further, careful consideration would have to be given to issues of probity relating to the expenditure of public moneys but the successful outsourcing of probity monitoring in the previous tender gives a sound basis on which probity monitoring of an expanded outsourced tendering and contracting process could be based. It would be appropriate for DEWR progressively to market test more of the tendering and contracting process, if such a process were to remain in place for the Job Network.

Box 14.3 **Market testing in Commonwealth Government agencies**

In November 1999, Government reaffirmed its commitment to Competitive Tendering & Contracting as a key component of public sector reform.

Market testing (inviting private enterprises to tender for business) of relevant activities and services, beginning with corporate services, has been mandated for agencies under the *Financial Management and Accountability Act 1997*. Information technology outsourcing activities have been dealt with separately.

Tenders are evaluated against an agency's predetermined evaluation criteria and the cost and standards of current service delivery. The activity may then be 'outsourced' if the preferred tender compares favourably, on the basis of value for money and assessment of risk.

Corporate services fall into five broad categories. These are listed below together with some examples:

- Human resource services, such as compensation services, HR development and training, and recruitment services.
- Property services functions, such as accommodation management, building security services and lease administration.
- Office service functions, including fleet management, mail room, printing and copying, records management, and travel.
- Financial service functions, such as accounts processing, asset management, procurement services and debt management.
- Other corporate services, including audit, communications and public relations, contract administration and management, legal, and library.

Source: OASACS web site, various pages from <http://www.oasacs.gov.au>.

If the Commission's recommendation for an alternative to tendering for ongoing contracts between Job Network providers and DEWR (chapter 11) were to be adopted, the magnitude of the contract rollover process could be significantly reduced. However, there will remain elements which could be amendable to market testing and contracting out if that would offer better value for money at acceptable risk.

Referral of job seekers to providers

To become eligible for government-funded Job Network services, job seekers must first attend Centrelink. Once eligibility has been determined, drawing on the JSCI score, a job seeker may directly contact a Job Network member or members of choice, can be enrolled by Centrelink with a member or members of choice or, if

choice is not exercised, can be enrolled with a member using the auto-referral system or other processes.

Administration of the JSCI at Centrelink generally comes as part of a more extended initial interview about the job seeker's eligibility for income support and explanations of mutual obligation. As discussed elsewhere in the report, the JSCI depends on accurate answers being given to a number of questions, some of which are highly personal. Both DEWR and Centrelink recognised that there is scope to improve the accuracy and consistency of the JSCI interview process and, as a result, the correct classification of job seeker needs.

It should be noted that AWT has foreshadowed a measure which should help to deal with some classification problems (see box 14.4).

Box 14.4 Enhancing Intensive Assistance

Under new arrangements to start from July 2002 as part of the Australians Working Together initiative, there will be:

- over 40 000 assessments undertaken by IA providers resulting in referral to complementary programs at a cost of over \$23 million over four years;
- an extra 3600 Literacy and Numeracy Training places at a cost of \$9 million over four years; and
- 69 000 Training Credits offered to mature age and Indigenous job seekers by JST and IA providers at a cost of nearly \$59 million over four years.

From July 2001, the capacity of providers was increased so that around 300 000 job seekers will be able to start in IA each year.

The new procedures for assessment recognise the fact that a number of job seekers referred to IA are not ready to take advantage of that assistance. Job seekers will be assessed by their IA providers within four weeks of their referral. Providers will work with job seekers to determine whether the best option is referral to a complementary program before they start IA. As example, job seekers could be referred to:

- a program that addresses literacy and numeracy needs;
- Work for the Dole to address motivational or work experience needs; or
- the new Personal Support Program, through Centrelink, to address severe personal obstacles such as drug or alcohol addiction.

Source: Vanstone & Abbott 2001b.

A central issue is whether initial implementation of the JSCI could be improved by involving parties other than Centrelink. DEWR considered that in the long term, services such as job seeker registration and assessment could be delivered through

‘the use of Job Network or Community Work Coordinator networks or other service delivery networks (eg, Australia Post)’ (sub. 43, p. 87).

Centrelink’s major advantage as the initial assessor is that there are economies of scope in implementing the JSCI at the same time as appraising benefit eligibility. Centrelink also has no financial incentives to distort the initial assessment, as might occur were Job Network providers to administer the initial JSCI:

The risk of a conflict of interest would be increased if the agency responsible for assessing need were also providing the services to meet the identified needs ... This question of independent referral becomes more critical with the advent of the Australians Working Together initiative that will broaden the Government’s objective from purely economic participation to the acknowledgment of the value of social participation ... (Centrelink, sub. 45, pp. 14-15).

Job Network providers, by contrast, have incentives to increase outcome payments (and star ratings) by:

- shifting job seekers from JST/JM to IA and IA level As to IA level Bs — with obvious budgetary implications; and
- especially where case loads remain fixed and for providers with emerging capacity constraints, to categorise the most disadvantaged job seekers as not suitable for IA. This would create a space for another more easily employed job seeker. Thus job seekers who otherwise should rate equally on the JSCI would be treated differently depending on the degree of capacity utilisation of the provider assigned to them.

On the other hand, Job Network providers have an ongoing case-managed relationship with the job seeker that is more likely to reveal the job seeker’s real level of disadvantage. A periodic reassessment of disadvantage could take place, and could be undertaken by the job seeker’s case manager.

The feasibility of such a sequential approach to assessment depends on managing the mixed incentives of Job Network providers. The problem of job seekers being referred to inappropriate programs could be ameliorated by removing fixed caseloads (chapter 11) and by allowing Job Network providers to refer job seekers they would otherwise park to more appropriate programs (chapter 9). Computer-based monitoring — along the lines used by the Health Commission to appraise inappropriate GP clinical practices — could also be used by DEWR to detect gross re-categorisation of job seekers. In addition, monitoring by an agency independent both of Centrelink and Job Network providers, or indeed random audits by DEWR itself, could be utilised to monitor the accuracy of JSCI assessments.

In this context, there may be some scope for Job Network providers to have some role in classifying job seekers at any time after an initial classification by Centrelink. This would build on the AWT initiative (box 14.4).

Ultimately, DEWR should decide on who has responsibility for this function, given that it must manage the financial and operational consequences.

Referral follow up

For a number of reasons discussed in chapter 5, a significant proportion of job seekers assessed as eligible for a program fail to attend a Job Network provider as required.

At present, Centrelink is responsible for following up failure to attend. An alternative would be for the Job Network provider to undertake this role. But for reasons discussed below in relation to breaching, it appears best to minimise the role of the Job Network provider in compliance.

A streamlined referral process has been piloted in several Centrelink offices in November and December 2001 — this is aimed at substantially increasing the number of job seekers who themselves choose an IA provider, greatly improving the percentage of commencements in IA and, potentially, impacting on IA outcomes.

Auditing, monitoring and evaluation

This range of activities is currently carried out by DEWR. They include contract management, auditing, payment of providers, ensuring ‘quality’, resolving complaints (in association with Centrelink), monitoring outcomes and program evaluation.

There are two broad issues:

- could better value for money be achieved with more contracting out; and
- are there advantages in allocating responsibility to an agency independent of DEWR — that is, to an ‘independent’ regulator?

As is apparent from box 14.3, some of these auditing, monitoring and evaluation activities are those of a type which are already being contracted out, market tested, or considered for market testing, by government agencies. Indeed, from time to time, DEWR enters into contracts with private sector providers for some services relevant to the Job Network: for example, the conduct of evaluation surveys. The

Commission considers that DEWR should continue to progressively extend its market testing of Job Network auditing, monitoring and evaluation services.

An 'independent' regulator?

The second issue relates to whether ultimate responsibility for some functions should be taken by a body which is independent of DEWR, given that the latter is responsible for the broad parameters of the job network.

Functions for which responsibility could be allocated to an independent regulator include ensuring 'quality' in Job Network service provision, dealing with complaints from job seekers, the measurement of outcomes and evaluation of program successes and failures. The OECD report (2001, p. 25) into the Job Network suggested that a separate regulator could also:

... provide an external check that the government is keeping the playing field as level as possible across providers and safeguard their interests when the government modifies parameters of the system.

The Un(der)employed People's Movement against Poverty (UPMP) and UnitingCare Australia considered that a independent regulator was needed to deal with complaints. UPMP indicated that such a committee should 'include unemployed people or representatives of unemployed advocacy groups, as well as providers and government representatives and business people' (sub. 3, p. 12). According to UnitingCare, an independent complaints mechanism and monitoring authority could 'address ... quality of service issues and act on job seekers' behalf' (sub. 12, p. 9).

A larger role was envisaged for an independent regulator by ACOSS. As well as handling complaints from job seekers and employers, ACOSS considered that it should 'both regulate competition within the employment assistance market and ... manage the outcomes and quality assurance system':

The manager of competition in this model should not be the funding body, as this could distort the operation of the market in unproductive ways (sub. 32, p. 19).

While it is a sound principle that a regulator should be independent of a funding agency, in practice additional costs of establishing and operating an independent regulator may outweigh any perceived advantages. In regard to many of the criteria outlined in section 14.1, problems of accountability, flexibility and transparency could be as well addressed by changing current procedures within DEWR as by establishing a separate body. However, more detailed consideration of the alternatives is warranted in respect of incentive compatibility and cost effectiveness.

An agency (and its Minister) with responsibility for a major government program such as the Job Network has a vested interest in its success and works diligently to this end. However, its monitoring might be inclined to ignore, rather than highlight, problem areas; the best interpretation could be placed on results, and public statements could concentrate on achievements. There is the danger of ‘capture’ by vested interest groups. Such adverse incentives also work against the objective of maximum transparency.

Job seekers may be reluctant to complain to their Job Network provider, to Centrelink or to DEWR about aspects of the Job Network which are unsatisfactory from their point of view for fear of retribution. Similarly, Job Network providers may be reluctant to complain to DEWR about aspects of its behaviour. Such fears can also bias results from surveys of job seeker opinion and Job Network experience. The UMPM considered that:

To really assess benefits clients get, the clients have to be free of fear of retribution and have a trusting relationship with the body asking questions about effectiveness. Unemployed people cannot risk an honest answer. They risk their career, because if their case manager, their [Job Network provider] or other service providers do not like that person, they will not get him/her the best job they may come across. They will also not make good referees (sub. 3, p. 12).

There are advantages in being perceived as independent, even if such incentive problems are minimal in reality.

However, establishing a separate regulatory body does not guarantee independence. It is worth noting that the Employment Services Regulatory Authority that operated under Working Nation was not independent in the sense discussed here. As that body was responsible for tendering and contracting as well as contract management, monitoring and evaluation, potentially it faced much the same incentive problems as DEWR faces under the current arrangement. ACCI noted that ESRA ‘did not necessarily lead to improved outcomes for employers’ (sub. 40, p. 9).

An independent regulator could outsource much of its activity just as DEWR could do, if that were found to offer best value for money. Nevertheless, establishing a separate independent regulator could be expected to increase overall administrative cost because there would be inescapable additions to overheads. This could be minimised if the Job Network function was added to an established regulator.

There could be some increase in compliance costs as Job Network providers would have an additional government body to deal with.

At this stage, the Commission does not consider that the problems identified by participants justify establishing an ‘independent’ regulator. Many of the potential

problems with present arrangements might be overcome if independent program evaluations were contracted out periodically with clear, suitable and public terms of reference, and with a guarantee the results would be published (also see chapter 5). Further, some already established bodies, such as the ANAO or the Ombudsman, could increase their regulatory oversight of the Job Network.

The Commission invites participants to provide their views on whether the advantages of an 'independent' regulator would outweigh the costs, the areas which could be overlooked by such a regulator and on other options, such as increasing the role of the ANAO or the Ombudsman.

Mission Australia considered that a Job Network management group should be established consisting of representatives from DEWR, Centrelink and Job Network providers. This group would oversee the function, management and performance of the Job Network (sub. 44, pp. 4–5). One of its tasks would be to 'complete an independent annual assessment' of the quality of services provided (sub. 44, p. 5). Such a body could enhance consultation, but it would not be independent of the main stakeholders in the industry.

Information technology

Information technology — hardware, software and communication charges — are a major cost centre for Job Network providers. Providers depend on access to DEWR's central databases such as the IES and AJS. As well, many providers have developed their own systems to manage their own affairs — these systems can be quite extensive, particularly for providers which operate in many locations. In the past, these have been able to link in to those of DEWR.

DEWR developed and implemented through 2001 a new Internet-based system EA2000 to replace the existing IES mainframe screens. Early in 2001, DEWR offered Job Network members a contract variation to implement these internet system changes. Under the variation, members are eligible for:

- a one-off infrastructure payments towards the upgrade and installation of additional IT hardware and software;
- a one-off reimbursement of costs, for the installation of high bandwidth internet connection; and
- an ongoing reimbursement package for data communication charges until 2 March 2003.

WISE Employment – Certain Employees noted that where changes to bandwidth have been required ‘they have generally been funded — a welcome administrative approach’ (sub. 24, p. 17).

Despite these payments, some concerns about IT issues were expressed by participants in submissions or at informal visits:

- objection to changes made which were ‘neither envisaged, foreshadowed nor spelled out at the time of signing the contract’ (ARA Jobs, sub. 25, p. 3);
- annoyance at the mandating of Microsoft systems and Internet Explorer;
- uncertainty about whether proprietary systems would be allowed to continue once EA2000 was fully implemented; and
- apparent slowness of EA2000 in operation.

NESA noted the importance of IT systems to Job Network members:

IT is one of the most important threshold issues for providers. Whilst DEWR has demonstrated a strong commitment towards consultation with the industry around IT issues there is still a residual view amongst Job Network members that they are too frequently on the receiving end of DEWR decisions that are very costly for them as providers (sub. 39, p. 20).

The Salvation Army Employment Plus commented on a ‘shift in thinking and direction in relation to Information Technology and ... a lack of clarity as to what will be required of providers’ (sub. 35, p. 18). It considered that providers ‘need to be given a complete understanding of the strategic direction the Department has for IT as well as sufficient information to make informed decisions about IT investment and future development’ (sub. 35, pp. 18–9).

Mission Australia (sub. 44, p. 8) made the following recommendations:

- DEWR move its IT planning stance from one of pursuing cutting edge technology to one which ensures a more stable technology base;
- current technology remain the standard for the next three years, to enable providers to fine tune and stabilise their current networks; and
- the future role and function of third party software for providers and the design specifications of EA2000 be finalised.

Some coordination in IT systems is warranted because of the use of the centralised databases and the security and privacy issues involved. Indeed, if well managed, a centrally coordinated approach in this area is likely to be more cost effective than one where 200 providers independently develop systems to communicate with the IES and AJS. In this regard, DEWR considered that:

The Department's comprehensive mainframe system, the IES, supports the provision of better services to job seekers and employers, facilitates the radical re-design of processes and enables the establishment of low cost infrastructure that minimises barriers to entry to the employment services market (sub. 43, p. 46).

Nevertheless, coordination and the need for effective and secure communication between providers and DEWR does not necessarily require uniformity of approach at the provider end.

Further, the fact that these concerns from participants have arisen suggests the need for better planning and consultation. The Employment Systems Consultative Group between DEWR and Job Network provides one forum through which such planning consultation on IT matters can continue to develop.

IT planning and development strategies need to recognise the significant investment in IT systems by the Job Network members themselves, and the time required to write off that investment. One strategy would be to allow significant changes in IT only in conjunction with Job Network contract renewal rounds, should such contracting, as opposed to the Commission's recommended 'licensing', continue to exist.

14.3 Coordination

This section of the report covers the following aspects of linkages within the Job Network and between the Job Network and other programs:

- privacy and information sharing;
- breaching;
- disseminating best practice;
- role of ACCs;
- Job Network and CDEP;
- State Government programs;
- other programs and the Job Network; and
- linkages with education and training.

Privacy and information sharing

Changes to privacy legislation which came into effect on 21 December 2001 implement National Privacy Principles for all medium and large businesses and

some small business. However, this has not changed the standards or requirements for the personal information collected by Job Network providers.

Under the current contract, Job Network providers, large and small, will continue to be required to comply with the Information Privacy Principles which have been in force since 1988.

A problem faced by job seekers is the need to fill in forms and provide personal details not only at Centrelink but at each Job Network member they attend. (Chapter 7 notes that job seekers often need to attend several providers because many listed vacancies are ‘closed’.) The Un(der)employed People’s Movement against Poverty stated that ‘the greatest problem is the transfer of information from one provider to the next. Unemployed people have to fill in meaningless forms everywhere’ (sub 3, p. 12).

The Multicultural Development Association commented that:

It is often not clear ... whether there is communication between [Centrelink and Job Network Providers] with regards to sharing of information. Many clients find they not only give relevant information to Centrelink but often to a number of Job Network Providers (sub. 34, p. 4).

Many job seekers participate in the Job Network on several different occasions and move between Job Network and other employment or social programs. However, assistance strategies are developed in the absence of systematic and/or detailed information on strategies that have been employed (either successfully or unsuccessfully) in the past for each of these job seekers.

The Salvation Army Employment Plus considered that ‘information relevant to supporting individual job seekers’ should be shared between local Centrelink offices and local Job Network providers (sub. 35, p. 16). Mission Australia commented that:

... each time a client commences a program or changes provider, the provider has to ‘begin again’ in diagnosing the client’s situation in any great detail ... Lack of information on client history works against the team approach to client rehabilitation and is very different from models employed in other areas, eg the health industry (sub. 44, p. 9).

One obvious way to limit the extent of such a problem would be to require each individual job seeker always to deal with a single ‘mentoring’ Job Network provider — who could directly provide JM, JST or IA, or subcontract to other providers — irrespective of the number of occasions in the Job Network. Even if privacy regulations were to prevent the ‘mentoring’ provider from retaining recorded information about the job seeker between each episode, some information would be

retained through the knowledge of the provider's staff. However, this approach would limit job seeker choice. It would also lock a job seeker in to a particular provider, even where that provider was not meeting the job seeker's actual or perceived needs.

Further, under this approach, relevant information revealed during the job seeker's contact with the Job Network would not be available to other programs.

The Commission considers that a better solution is to allow relevant personal information to be shared between Centrelink and Job Network providers, and between Job Network providers themselves. The aim would be twofold:

- to minimise the requirement for job seekers to provide the same personal information to many different organisations; and
- to enable relevant organisations to have access to relevant information collected about job seekers by other organisations — for example, the Job Network provider would have access to any relevant information about a job seeker's previous participation in the Job Network or other relevant government programs.

A 'personal case history' of each job seeker's participation in the Job Network could be centrally maintained and made available as appropriate. Some of the information could be derived directly from the IES and from Centrelink's IT systems, with additional information contributed by providers as each job seeker progresses through the Job Network. A protocol would be needed to specify what information should be contributed to the database, to establish conditions of access to that information and to guard against inappropriate disclosure. The protocol could be developed by DEWR, in consultation with Centrelink, with the industry through NESAs and with the Privacy Commissioner.

DRAFT RECOMMENDATION 14.1

The Commission recommends that DEWR, in consultation with Centrelink, NESAs and the Privacy Commissioner, develop a protocol for the storage and sharing of relevant personal information between DEWR, Centrelink, Job Network providers, and between Job Network providers themselves.

To satisfy privacy concerns, each job seeker would need to give permission for the personal case history to be compiled. This could be sought by Centrelink at the initial interview. As well, job seekers would be given access to those case histories so as to be aware of their content and to ensure accuracy.

Breaching

It is noted that under the Job Network the number of breaches has increased significantly. Further, the penalties for breaching are quite severe (box 14.5). In response to community pressure, including representations from ACOSS, the Government has established a separate review of breaches and penalties in the social security system. Breaching is not directly under reference in this inquiry.

There are two aspects of breaching that are relevant:

- incentives for Job Network providers to report job seeker non-compliance as a means of clearing ‘difficult’ job seekers off their books — this is discussed in chapter 9; and
- the issue of whether Job Network providers should be involved in the breaching process at all.

It can be argued that the involvement of providers in reporting non-compliance can undermine the relationship of cooperation and trust that should exist between providers and clients. NESAs said that:

Job Network members are expected to be both the police and lodge participation reports for non-compliance and, on the other hand, the ‘coach’ through delivery of effective services that motivate the job seeker (sub. 39, p. 4).

Centrelink noted that under the current regime Job Network members do not have to provide sufficient information for Centrelink to make a determination on a breach:

... this is wrong, as no breach recommendation should be made unless there is, prima facie, sufficient evidence to support the breach. This behaviour represents a shift in costs as it leaves it to Centrelink to make contact with the customer and check their reasons for non-compliance (sub. 45, p. 19).

Centrelink noted a number of possible solutions, including training of Job Network members or billing them for recommended breaches that are not imposed or are revoked. It noted that Minister Vanstone, the Minister for Family and Community Services (of which Centrelink is a portfolio responsibility), will shortly make an announcement that will address many of the current problems.

While noting the point about client relationships, the Commission considers that Job Network providers are a legitimate and valuable source of information about the compliance of job seekers with the activity test. Given the variability in the ratios of reported non-compliance to the customer base (chapter 6), however, and the fact that 54 per cent of recommendations from Job Network members and Community Work Coordinators are not imposed by Centrelink, there would be value in

improving and standardising reporting arrangements, and in taking this variability into account when redesigning provider incentives.

Box 14.5 Penalties for breaches of Mutual Obligation

Administrative breach

This includes failure to:

- attend interviews with Centrelink when requested;
- reply to letters;
- contact Centrelink when requested to do so;
- return the Jobseeker Diary when asked; and
- advise Centrelink on any changes in circumstances.

Penalty:

- 16 per cent rate reduction for 13 weeks; OR
- job seeker may choose to serve a two week non-payment period before claiming.

Activity test breach

Job seekers must meet all the requirements of the activity test, including:

- entering into and complying with a Preparing for Work Agreement if asked to do so;
- demonstrating that they are actively looking for suitable work;
- accepting offers of suitable work;
- attending all job interviews;
- agreeing to attend approved training courses or programs;
- not leaving a job, training course or program without sufficient reason; and
- correctly advising Centrelink of income earned.

Penalty:

- first occasion — 18 per cent rate reduction for 26 weeks;
- second occasion within a two year period — 24 per cent rate reduction for 26 weeks;
- three or more occasions within a two year period — eight weeks non-payment period.

Moving to an area of lower employment prospects

Penalty:

- 26 weeks non-payment period.

Source: Centrelink 2000.

Disseminating best practice

The competitive model for the provision of Job Network services might reduce opportunity for the dissemination of best practice. Although the previous CES, or current large providers, can readily identify sites or branches of high performance, analyse the reasons why, and then encourage its other branches to adopt similar practices, those that compete against each other will be reluctant to weaken their market position.

DEWR noted that ACCs (see below) had established Job Network Provider Clubs to allow Job Network providers, DEWR and Centrelink representatives an opportunity to meet to discuss issues of interest to Job Network in a region (sub. 43, p. 34):

Experience has shown, however, that while case workers are willing to discuss common operational problems and practices, higher level Job Network member staff do not share information on their business strategies with other Job Network member staff (sub. 43, p. 36).

Ms Soraya Kassim considered that that the tendering process had reduced the sharing of information for the benefits of clients:

The process has ... been extremely destructive of the environment of collaboration and trust which has traditionally existed ... as services which previously shared information and collaborated for the benefit of clients, are now pitted against each other as competitors for their very survival (sub. 23, p. 2).

While The Salvation Army Employment Plus noted a problem in the establishment phase of Job Network it considered that 'as the new employment service sector matures there appears to be a greater degree of contact and sharing between employment services providers' (sub. 35, p. 15).

Of course, the competitive environment, if established with adequate incentives (see earlier chapters), should induce providers to strive continually to improve service and performance and to attract greater market share. Such incentives are muted in single provider models or where there is little opportunity to increase market share.

A comment from Mr Ray Blessing illustrates these two aspects: 'I see competition as a key to improving services ... [but] ... a more effective method needs to be found to share best practice' (sub 7, p. 2).

Studies, such as that reported in box 14.6, can help to improve the performance Job Network members.

Box 14.6 Key findings of best practice review

Job Network performance data show that some Job Network sites consistently achieve much higher rates of outcomes for job seekers than others, even when compared to other sites operating in the same or similar labour markets and providing services to a caseload of job seekers with similar characteristics. This box summarises the key findings of a recent study to identify the factors that contribute to high performance in IA.

- The skills of staff impact significantly on performance
 - High performing employment consultants have skills and qualities in common
 - High performing sites adopt a strategic approach to staff selection
 - Innovation is dependent on skills and expertise of staff
 - Site manager is pivotal to success
 - Training and development lead to innovation but there is room for improvement
- The value of organisational performance monitoring
 - High performers monitor performance at a number of levels
 - A team versus individual focus for performance appraisal
 - Use of incentives
- A strong focus on outcomes
 - High performers have effective linkages between services
 - ‘Reverse marketing’ is an effective strategy that leads to better outcomes
 - High performers equip job seekers with skills to find their own job
 - Job Matching and Intensive Assistance are specialist roles
- Provision of a wide range of interventions and tailored assistance supported by employment consultant autonomy
 - Staff at high performing sites have greater flexibility and autonomy
 - Tailored, individualised assistance is a key factor in performance
 - High performers make more of an effort with their job seekers
 - Post-placement support matters
 - Smaller caseloads lead to better results
 - Frequency of contact with job seekers
 - High performing sites encourage job seekers to use ‘drop-in’ facilities
 - Feedback can be a source of ideas for improvement
- A clear business orientation and a commitment to job seekers
 - Organisation culture and business orientation
 - Strong personal relationship with job seekers
- Effective information sharing
 - A variety of media for internal communication
 - Meetings are an effective way to share information
 - Information technology helps maintain a competitive edge
- Strong external linkages and networks
 - Establishing relationships with a range of external organisations
 - Relationships with employers are critical to performance
 - External relationships are a source of new ideas
 - Relationship with Centrelink
 - Networking with other Job Network members
 - External relationships in rural and regional areas

Source: DEWRSB 2001e.

NESA itself holds conferences, industry seminars and special interest group meetings. The Partnership Program introduced as a joint initiative of DEWR,

Centrelink and NESAs also help. And DEWR is implementing (January 2002) a new National Contract Management Framework across all contracted employment services, which includes a 'greater emphasis on quality of services provided to job seekers and the promotion of better practice to improve performance' (sub. 43, pp. 73–4). It includes:

- working with NESAs on the fundamentals of better business practice;
- making the Code of Conduct a symbol of industry standards;
- engaging all in striving for high performance;
- putting practice improvement into action;
- drawing out more widespread lessons from Quality Audit outcomes;
- developing a customer satisfaction index;
- developing and disseminating self-assessment packages;
- benchmarking of Job Network services; and
- information dissemination.

Moreover, the Commission understands that staff turnover and exchange between Job Network providers is high. Whereas this can raise some concerns about the quality of service to job seekers, it can also help diffuse best practice. Access to data by researchers can also contribute to the understanding of best practice.

Role of Area Consultative Committees

The 56 Area Consultative Committees, now under the aegis of the Department of Transport and Regional Development, serve as a means of bringing governments, businesses and local communities together. As explained in box 14.7, the role of the ACCs extends beyond Job Network. DEWR considered that ACCs 'enhance the operation of Job Network through promotion of local provider services within the local community and foster links between Job Network members, local businesses and their community' (sub. 43, p. 36).

TEAC, Tasmania's only ACC, gave some examples of its activities in relation to the Job Network:

- the development of brochures, flyers, promoting Job Network sites, and encouraging business to use the Job Network;
- promoting Job Network through the Tasmanian Chamber of Commerce and Industry with business breakfasts throughout the State;
- highlighting a Job Network member in each edition of its newsletter;

- gaining funding for an Indigenous Employment Facilitator to work with Job Network members and the Indigenous community; and
- its intention to provide a training program for Job Network members in the area of disabilities (sub. 31, pp. 1–4).

Box 14.7 About the Area Consultative Committees (ACCs)

The national network of 56 ACCs exists to provide a social coalition between the Commonwealth Government, business and local communities to build stronger communities and generate opportunities for jobs, business success and regional economic growth. ACC members are drawn from a mix of employers/business, community and regional organisations, and government and education representatives.

The ACC charter comprises the following five priority areas:

- working together in partnership;
- local solutions to local problems;
- economic growth through jobs creation and small business success;
- informing the community, business and Government; and
- professional behaviour.

Core functions of ACCs include:

- regional consultation and identification of appropriate project activity;
- promotion of Government-wide initiatives; and
- provision of advice and feedback to Government.

In scope, the activities of the ACCs extend well beyond the Job Network. In regard to the Job Network, particular functions include:

- bringing together Job Network members on identified issues;
- promoting Job Network to employers (particularly small to medium sized businesses); and
- providing advice and feedback to Ministers and Departments on its impact on regional labour markets, and the extent to which providers collectively are meeting the needs of local employers and job seekers.

Source: Various ACC internet pages starting from <http://www.acc.gov.au>.

The Wheatbelt Area Consultative Committee, based at Merredin in Western Australia, also made a submission (sub. 6), as did the Kimberley Area Consultative Committee (sub. 15) and the Northern Territory Area Consultative Committee (sub. 36). They highlighted difficulties faced by job seekers and Job Network providers in regional areas of low population density and difficulties with a ‘one

size fits all' approach (sub. 15, p. 2). Indeed, the Northern Territory ACC contended that:

In remote and outlying areas of the Northern Territory, where unemployment is highest and need, therefore, is greatest, Job Network services are often tokenistic or non-existent (sub. 36, p. 4).

Indigenous employment

Whereas the application of the Job Network to Indigenous participants is dealt with in chapter 9, this section concerns the interrelating roles of the Job Network, the Community Development Employment Projects (CDEP) program (box 14.8) and the proposed Indigenous Employment Centres (IECs).

Box 14.8 The Community Development Employment Projects (CDEP) program

CDEP provides employment for Indigenous people in a wide range of community projects and enterprises, and allows Aboriginal and Torres Strait Islander communities and organisations to take control of their own communities' economic and social development. The program's objective is 'to provide work for unemployed Indigenous persons in community-managed activities which assist the individual in acquiring skills which benefit the community, develop business enterprises and/or lead to unsubsidised employment'.

CDEP is administered by ATSIC through its Regional Councils. Funding for 1999-2000 amounted to some \$400 million. Two thirds of this is effectively funded by the income support payments which CDEP workers would otherwise have received. The CDEP program is managed by the communities and participants. Any activity that benefits the community can be a CDEP activity; these range from community maintenance, to land management, to the development of businesses, to cultural or sporting activities.

CDEP operates in very diverse geographic, cultural and economic environments. Some remote communities choose to live very traditional lives while utilising the infrastructure that CDEP provides. Urban CDEPs on the other hand tend to interact with the wider community, often through the creation of businesses.

At June 2001, there were approximately 270 CDEP organisations funded and supported by ATSIC, with more than 32 600 participants, two thirds of which are located in remote areas of Australia. It is estimated that CDEP provides work for approximately 25 per cent of the Indigenous workforce.

Provided positions are available — places are not unlimited — CDEP is open to any member of an Aboriginal or Torres Strait Islander community over 16 years old who is eligible for certain types of Centrelink income support benefits (namely Newstart Allowance, Youth Allowance or Sole Pensioners) or 15 year olds in receipt of the Youth Training Allowance.

Source: ATSIC website, <http://www.atsic.gov.au/programs/noticeboard/CDEP/Default.asp>.

The CDEP program enables unemployment benefits that would otherwise be paid to Indigenous people in a particular region to be pooled. Participants work on projects of community benefit for which they receive 'wages'. Participation is voluntary.

CDEP has operated since 1977, well before the commencement of the Job Network. A 1997 review of CDEP noted that 'the majority of CDEPs have provided significant skills enhancement and an improved quality of life for participants' (Spicer 1997, p. 1). Further, 'in recent years ... [CDEP has] been responsible for two-thirds of the jobs created for indigenous Australians' (Spicer 1997, p. 2). Of course, many of these jobs rely on income support payments.

There have been concerns that, in urban and regional centres which have a labour market, Indigenous unemployed people should receive greater help to find employment rather than remain in a CDEP. The establishment of IECs, announced as part of AWT, is aimed at this objective (box 14.9).

Box 14.9 Indigenous Employment Centres

Under the changes announced in Australian Working Together, CDEP organisations in areas with good job opportunities (eg in cities and regional centres) will be funded to take on the role of Indigenous Employment Centres. Assistance will be provided for up to 10 000 people to make the transition from CDEP work experience into paid employment.

These Centres will offer work experience, job search support and access to training. They will also provide support and mentoring assistance to Indigenous job seekers outside CDEP. Indigenous Employment Centres will work in partnership with local employers and Job Network members to find people work and help them keep it. They will be paid a management fee and receive a bonus for achieving lasting job outcomes for participants.

In areas where there are jobs, CDEP participants will register with Centrelink as looking for work and participation in CDEP in those areas will be limited to an average of 12 months.

In areas where there are more limited job opportunities, no changes will be made.

This initiative started in February 2002.

Source: Vanstone & Abbott 2001d

The information in box 14.9 suggests that the IECs will directly seek to find work for job seekers. However, DEWR's perception appears to be somewhat different: 'through IECs Indigenous people will be encouraged into mainstream Job Network services and in particular Intensive Assistance' (sub. 43, p. 64).

Although ATSIC noted the potential of the IEC proposal to assist people to move through CDEP to mainstream employment, it also commented on possible coordination problems:

The challenge is how to facilitate effective partnerships between IECs and Job Network Members and to more effectively link Indigenous Employment Policy programs to CDEP participants. The eight CDEP organisations currently involved in early trials of the IEC concept have all reported difficulties in developing effective partnerships with Job Network members (sub. 18, p. 4).

The ACCI also commented on the ‘considerable potential CDEPs offer to fill vacancies identified in the private sector’ (sub. 40, p. 7).

The Kimberley Area Consultative Committee stated that the structure of CDEP participation does not link into the structure of Job Network so as to enable providers to be effective and achieve outcomes with Indigenous people (sub. 15, p. 3).

If the full potential of the Government’s initiative in establishing IECs is to be realised, coordination problems between CDEP, IECs and the Job Network will need to be addressed and overcome. Mission Australia called for these organisations, together with employers and the communities themselves, to work in partnership at the local level (sub. 44, p. 13).

Other Commonwealth programs and the Job Network

There are a number of ways to enter DEST programs, such as the Job Pathways program, including referral from Centrelink and referral from Job Network members. However, restrictions may apply to simultaneous participation in Job Network and DEST programs ‘where simultaneous participation is not considered appropriate or cost effective’ (sub. 22, p. 3) (box 14.10).

Job seekers and their families may participate in programs funded through FaCS, such as the Job Placement and Employment program. These also include the current Jobs Education and Training Program (JET), to be integrated into a new measure ‘Helping Parents Return to Work’ under AWT from July 2002. The pre-vocational elements of JET will be incorporated into a Transition to Work program under DEWR.

In general, the introduction of AWT will result in a rationalisation of Job Network and other employment and related services. There will be four pathways, between which people will be able to move as their circumstances change, with Centrelink providing the ‘gateway’ to these pathways:

- Job Search Support Pathway. This will be the standard pathway for all job-ready job seekers.

*

Box 14.10 Other programs and participation in the Job Network	
<i>Program</i>	<i>Restrictions</i>
Job Placement and Employment Programme (JPET)	Participation in both JPET and IA only permitted for the first 13 weeks of IA participation
Job Pathways Programme (JPP)	JPP participants cannot participate in IA or JST. If a JPP participant is referred to and commences IA the provider must exit the participant from JPP
New Apprenticeship Access Programme	NAAP participants cannot participate in any other Commonwealth funded program at the same time as the NAAP course
Career Counselling Programme (CCP)	Job seekers in IA are not eligible for CCP
Career Information Centres (CICs)	No restrictions
Green Corps	Green Corps participants are not eligible to receive the Youth Allowance
Literacy and Numeracy Training	Job seekers participating in JST or IA under Job Network are not eligible to participate in the Literacy and Numeracy program. From 1 July 2002, IA providers who identify a literacy/numeracy training need will be able to exit their client from IA and refer him or her to a Literacy/Numeracy provider
Rural Youth Information Service (RYIS)	No restriction

Source: DETYA submission (sub. 22, Attachment A).

- Intensive Support Pathway. This is for people assessed as being most at risk of becoming long-term unemployed without assistance.
- Community Participation Pathway. This includes the new Personal Support Program (chapter 15) to provide intensive help to people with severe or multiple non-vocational barriers to employment such as homelessness or drug or alcohol addiction.

-
- **Transition Pathway.** This is for people who have been out of the workforce for a long time or who may never have had a job. It includes the Transition to Work program.

The Commission seeks views on whether restrictions on simultaneous participation in DEST, FaCS and Job Network programs are appropriate. It also seeks views on any problems of overlap between Job Network and these other programs.

State and Territory programs

Some State and Territory Governments operate labour market assistance programs which potentially interact with or overlap those offered in the Job Network. Most of these appear to be relatively small scale, highly targeted to specific groups. However, DEWR commented that:

Over recent years in particular, the Queensland and Victorian State Governments, perceiving a gap in Commonwealth employment services for particularly disadvantaged people, have begun to focus their efforts on larger-scale labour market programs designed to place participants in jobs which provide them with skills development and work experience (sub. 43, p. 37).

DEWR noted that State/Territory Governments have generally sought to maximise job seeker opportunities by targeting assistance to groups of job seekers who are not eligible for Job Network services (sub. 43, p. 37). Further, to avoid a situation where an organisation is paid twice to provide the same type of service to a job seeker, Job Network contracts preclude payment of fees where there is ‘double funding’ (sub. 43, p. 37).

At this stage, the Commission has little information about how these programs interact with those provided under the Job Network or with Commonwealth policies more generally, such as Mutual Obligation and activity testing. (Information has been requested from State/Territory Governments and any relevant information will be included in the final report.) The Commission understands, however, that in some cases the placement of a person in a State Government scheme renders him or her ineligible for IA (presumably to prevent double funding as mentioned above), although the activity test continues as part of mutual obligation associated with income support — this could be considered anomalous from some perspectives.

The Commission invites participants to identify relevant State/Territory labour market programs, and comment on their interaction with the Job Network, including information about overlaps, omissions and adverse interactions.

Linkages with education and training

There is considerable evidence that people with low educational achievement have more difficulty in finding and keeping employment than those with better educational qualifications. A recent study by the Lamb & McKenzie (2001, p. viii), for example, noted that:

The young people whose transition from school to work is more problematic (in the sense of spending less than three years in full-time work in the first seven years after leaving school) are disproportionately drawn from particular educational and social backgrounds. Many are low school achievers ... The likelihood of experiencing long term unemployment and of not being able to secure full-time work is much greater among those who leave school before Year 10.

ACER also noted that its longitudinal surveys of Australian youth had shown that students who achieve high literacy and numeracy skills are more likely to be successful in making the transition to full-time employment or training than those who do not.

Studies such as these suggest that many people, young people in particular, might be better served in the longer term if they were to be encouraged to stay at, or to return to, school, or to undertake other forms of education and training, rather than to attempt to enter the workforce. Further, to build their capacity and confidence to be employed, there needs to be sufficient resourcing and skilling of teachers.

In its submission, WorkPlacement criticised the approach currently taken in the Job Network to education and training linkages:

By its focus on provider outcomes and its lack of interest in quality, Job Network may be doing young people a life long disservice in placing them in casual work rather than facilitating full time return to education or training (sub. 19, p. 16).

However, to some extent, the arrangements for the Job Network already recognise the value of education and training. Educational outcomes may be recognised as primary or secondary outcomes under IA. For example:

- A primary outcome is achieved where a job seeker is aged 15 to 20 years and has not completed Year 12 or equivalent and completes one semester of an Abstudy/YA approved eligible education or training course at the equivalent of a full-time study load. The eligible course must be at least two semesters in duration of related training and eligible courses.
- A secondary outcome is achieved where a job seeker is aged 21 years or more and completes one semester of an Abstudy, YA or Austudy eligible education or training course at the equivalent of a full-time study load. The eligible course

must be at least two semesters in duration of related training and eligible courses.

As recommended in chapter 10, the Commission considers that the value of education and training outcomes would be enhanced if the current interim outcome payments for educational and training outcomes were abandoned and replaced by a higher final payment when the course has been successfully completed.

Nevertheless, according to ACOSS, ‘official evaluations and independent studies indicate that only a minority of IA clients receive substantial training (apart from training in job search)’ (sub. 32, p. 6). It noted that in 2000, only 5 per cent of IA participants received work experience and only 14 per cent received vocational training:

There are structural flaws in how the Government funds Intensive Assistance which act as a disincentive for providers to invest in more costly, but potentially more effective forms of assistance ... (ACOSS 2002, p. 6).

DEWR data (DEWRSB 2001b, table 1.2) show that for the year ended June 2001, about eight per cent of job seekers entering IA achieved positive education and training outcomes (including job seekers who are studying at a secondary school or college, TAFE, business college or university three months after ceasing labour market assistance). Younger job seekers had a higher percentage of education and training outcomes than older job seekers — for instance, about 13 per cent for those aged 15 to 20 and 5.5 per cent for those aged 45 or more (table 1.3).

WorkPlacement suggested that either:

Job Network needs to be reconstructed to allow for a more concentrated, coherent and continuous approach to the complex issue of unemployed young people; or ... it may be considered inappropriate for young people to be in Job Network. Rather their preparation for work is part of a preparation for life which is better undertaken by transition authorities (sub. 19, p. 26).

The recent report *footprints to the future* recommended the approach of more effectively integrating Job Network services and youth support strategies. In response, the Government announced around 18 ‘innovative pilots which will test ways to achieve successful integrated community support, including through government agencies, for young people in transition’ (DETYA, sub. 22, p. 2). These pilots could involve Job Network members.

Education and training can often be valuable for older job seekers, as well as for youth. Indeed, AWT will make training credits of up to \$800 available to assist those mature age and Indigenous job seekers in JST or IA who need accredited training (on or off the job) in work related skills.

Further, particular groups might have particular needs. For example, the Multicultural Development Association suggested that the education and training needs of migrants and refugees need to be ‘viewed in the context of their migration and settlement experiences (including torture and trauma), prior education and employment in their homelands and the constraints experienced in participating within the labour market’ (sub. 34, p. 2). In expressing concern about the possible removal of secondary education outcomes from the star rating system, AMES noted the need for English language training for many job seekers (sub. 41, p. 1). ACCI also stated its concern about the ‘lack of promotion of New Apprenticeships to job seekers from Job Network providers’ (sub. 40, p. 4).

These comments raise issues about the role of the Job Network providers in linking job seekers into education and training and about a role in youth transition more generally. These issues need to be assessed in relation to the role for other players, in particular that of Centrelink.

- Although the Job Network is focused primarily on employment outcomes, payments are made for some education and training outcomes. Is the current balance right? Should the range of allowable education and training outcomes be expanded or reduced? Should Job Network providers receive payment for referral to New Apprenticeships, for example?
- Alternatively, should those job seekers most likely to benefit from greater education and training, where they agree, be directly referred by Centrelink to appropriate training institutions? One way of providing relevant help would be to extend the role of the new Personal Advisers, operating in Centrelink from September 2002, to school leavers and other young people. In this case, the focus of Job Network providers on gaining employment outcomes could be strengthened as those who would benefit more from education and training would be screened out.
- A further alternative would be to integrate Job Network more into youth support strategies more generally, as proposed by the recent *footprints* report. A possible extension of this approach would be to refocus Job Network providers as case managers for all individuals in need, providing services as appropriate or referring them to a wide range of assistance programs (including education and training), federal and state. This would, however, tend to reduce the focus on employment outcomes. It would also possibly cut across the current role of Centrelink in making referrals to such programs, and the foreshadowed role of Centrelink Personal Advisers.

The Commission invites participants to comment on issues relating to the role of Job Network providers in linking job seekers to education and training.



15 Extending application of the model

Box 15.1 Key messages

In considering the possible extension of the Job Network model to other areas of government service delivery, the key features of the Job Network to consider are: payments based on outcomes; competition which rewards good performers with more business; and choice for 'consumers'.

Of the six illustrative programs discussed in this chapter, only two base any part of the payment to the provider on defined outcomes and only one involves price competition between providers. The largest program (nursing homes) neither bases payment on outcomes nor involves more than minimal competition between providers. Some have some form of contestability and all involve choice for consumers. The features of the Job Network model have not been applied widely elsewhere in practice.

The Job Network model is likely to be most appropriate where: program outcomes can be clearly identified; those outcomes can be specified in quantitative terms; outcomes can be related to the efforts of the provider; process specification can be avoided; and contracts can be written to avoid unintended consequences. Even where these features cannot be fully adopted, however, purchaser-provider models which meet some of these could prove worthwhile.

This chapter also looks at the services provided by Centrelink. It notes that Centrelink already contracts out services as a business solution for many of its activities and that good incentives exist for this to continue.

In regard to the Job Network, the key performance indicators (KPIs) in the Business Partnership Arrangement between DEWR and Centrelink have been unsatisfactory. Payment to Centrelink from DEWR is not currently based on the achievement of agreed KPIs. There is scope for outcomes-based payments. DEWR and Centrelink should negotiate an appropriate set of KPIs on which a substantial proportion of the payment from DEWR to Centrelink should be based.

DEWR and other government agencies should be given the freedom to source services from providers other than Centrelink, if they judge that offers better value for money at acceptable risk. Centrelink's economies of scale and scope and its continuing successful endeavours to reduce its costs should enable it to retain a significant market share.

The terms of reference request the Commission to consider 'the possible scope for the model to apply, in full or in part, to other types of Commonwealth Government service delivery'.

This chapter considers the scope for applying the following distinguishing features of the Job Network model to other delivered services:

- Payment to providers is wholly or largely based on the achievement of defined outcomes. An outcomes focus also implies a degree of freedom for service providers to vary the provided service to meet the individual needs of each 'customer' in striving for an outcome.
- Competition implies that the continuing availability of work for each provider depends on its performance. Good performers can grow their market share, whereas poorer performers are forced to exit. Some competition might be based on price where the quality of outcome can be assessed.
- Customers have freedom to choose (perhaps within limits) which service provider to use.

As noted in other chapters, there are significant constraints in the application of these characteristics in the Job Network in practice.

Many government services are already contracted out. Often, the contracts are written for the provision of services *to government agencies themselves*. This report, however, mainly considers contracts written by government agencies for the provision of services *to individuals or community groups*. In other words, 'service delivery' is interpreted to mean service delivery to the community, not to the purchasing agency. The report concentrates on the labour market and social welfare areas.

15.1 Some current program examples

This section briefly describes a number of Australian social welfare programs to assess whether some or all of the features of the Job Network model have already been applied in other program areas.

Community Support Programme/Personal Support Programme

The Community Support Programme (CSP) is intended to assist job seekers who are not ready to participate in IA due to having serious and/or numerous barriers to employment. It helps participants access counselling, stable accommodation, drug or alcohol rehabilitation programs and other activities addressing significant or debilitating personal development needs.

Job seekers are referred to the CSP by Centrelink after JSCI assessment and a special needs assessment (SNA) by Centrelink staff. In 2001-02, 15 000 CSP places were available.

The program is delivered by private, community and public sector organisations selected and contracted to DWER through a competitive tender process. The methods of assistance provided may vary between participants as the nature and severity of employment barriers will differ. Participants are entitled to up to two cumulative years on the CSP.

Although a competitive tendering process was used to select providers, fees are set administratively on the basis of their contracted site capacities. Payment per participant per annum is set at \$2144, with a payment of just over \$100 for an exit interview. As well, there are significant additional payments where participants are placed into employment.

Where more than one provider has a vacancy, the job seeker can specify a preference for a particular provider. This choice could be made on the basis of brochures supplied to Centrelink by providers, and given to job seekers.

A Personal Support Programme (PSP), announced as part of the Australians Working Together (AWT) initiative, will replace the CSP from 1 July 2002. It will be under the auspices of FaCS rather than DEWR, but share many of the features of the CSP, including contracting of providers. It will, however, provide up to 45 000 places per year and base funding of up to \$3250 per participant per annum. Significant additional payments (40 per cent of total program funding) will be made where 'economic' or 'social' outcomes are obtained. Economic outcomes include gaining work or taking up education and training options. Social outcomes could include accessing counselling and rehabilitation services, improving health and mental health, managing money better or a reduction in offending (sub. 42, p. 8).

In addition, the new arrangements will allow people to continue to receive help from the PSP while in IA.

FaCS considered that the PSP program 'design is similar in many ways to the Job Network model' (sub. 42, p. 8). The main difference would appear to be the smaller proportion of funding in PSP which will be linked to defined outcomes. There is also no scope for price competition in provider selection.

Hearing Services Program

Although a competitive process is not used to choose providers of hearing services, this program is of interest for at least two of its features: it makes explicit use of a

‘voucher’ system and it provides a mechanism for the delivery of ‘community service obligations’ (CSOs).

Under the Commonwealth Hearing Services Program, service providers (private and public) are contracted to provide relevant services to clients who have obtained a voucher from the Office of Hearing Services within the Department of Health and Aged Care. Eligibility is restricted to those in receipt of other benefits, such as the holder of a Pensioner Concession Card. Once in receipt of a voucher, clients can select from eligible service providers. In 2000-01, almost 125 000 eligible adult clients were issued with a voucher. Voucher funding totalled about \$128 million.

Potential service providers must first obtain accreditation. This requires them to be or to employ qualified practitioners, maintain suitable premises and meet site requirements, and have the capacity to deliver hearing services to specified standards. Once accredited, service providers are offered a contract. Payment is based on a schedule of fees that is set administratively. The services provided vary according to the needs of the client. Where hearing aids are prescribed, they can be supplied to the client without charge, if selected from an approved list of devices.

CSO arrangements apply for those under 21 years of age, adults with complex hearing rehabilitation needs, Aboriginal and Torres Strait Islander people, and those who live in remote areas. Delivery for them is through Australian Hearing Services, the public provider, rather than through private providers

This program does not use a competitive process to choose providers nor is payment based on outcomes. However, through its explicit voucher system it may encourage consumer choice more effectively than does the Job Network — in effect, choice of provider is mandatory (only, of course, in regions where there is more than one provider to choose from). There are implicit vouchers in the Job Network, but choice is limited by capacity considerations, by the freedom of the job seeker not to choose a particular Job Network provider (in which case, under present arrangements, an auto-referral system applies), and by the lack of support to assist job seekers to make an informed choice.

Disability Employment Assistance Program — Case-based funding

Many people with disabilities receive employment assistance through the Job Network and other DEWR programs. Employment assistance for clients with greater levels of disability and higher support needs is provided through FaCS. Most FaCS funding for this purpose is provided in the form of block grants. About 415 organisations, with 835 employment assistance service outlets, have negotiated agreements with FaCS.

In the 1996-97 Budget, the Government announced a broad reform agenda for disability employment assistance. This has resulted in consideration of two alternative funding models:

- One model was based on the Job Network funding model for IA with an up front initial payment and subsequent payment on achievement of outcomes. However, after ‘widespread industry and consumer consultation’ this model was rejected (FaCS 1999) in favour of a model which offered a much higher proportion of total payment not linked with the achievement of outcomes. FaCS explained that ‘making commencement payments at regular intervals, addresses service provider concerns about cash flow and certainty, especially in attracting and retaining quality staff. The risk borne by service providers, in terms of cash flow [will be] significantly reduced ...’ (FaCS 1999). The original model based on the Job Network was not trialed by FaCS.
- The other (known as the Case Based Funding model) makes 75 per cent of funding payable on a monthly basis and incorporates a capacity for an employment outcome timeframe to be extended by six months or suspended while a job seeker takes a break from employment assistance. The remaining 25 per cent of funding is based on achieved outcomes. Two variants of this model have been trialed. The trial found that this model better accommodated some characteristics of job seekers with disabilities (sub. 42, p. 7).

An independent evaluation is currently under way. The intention is to adopt the model finally developed nationally in 2004-05. FaCS commented that ‘a major priority in the evaluation of the Case Base Funding model will be to ensure that [it] contains the right mix of incentives for skills development and training as well as sustainable employment outcomes for job seekers with disabilities’ (sub. 42, p. 7).

Clearly, FaCS is moving to introduce some element of outcomes payments into more of its programs, including Disability Employment Assistance. It commented that ‘determining what might be “appropriate” circumstances for the application of competitive or outcome funded models, however, bears further reflection’ (sub. 42, p. 9).

Nursing homes

The supply of subsidised nursing home services can be placed in a purchaser–provider context. The Commonwealth Government contributes over \$3 billion per year towards funding nursing homes, accounting for about 75 per cent of expenditure in that area. There are controls of the numbers of people assessed as eligible and on their level of need, on the numbers of subsidised places available and on the standards of the facilities and services provided (PC 1999).

This large program, however, shares few of the features of the Job Network. Payment is based on the number of residents occupying licensed beds. Providers have the freedom to spend these payments in whatever manner they desire although government endeavours to ensure quality through an accreditation scheme. ‘Prices’ are set at a number of levels depending on the assessed needs of each resident — these prices are determined by government, administratively, rather than through a tendering process by providers competing in the marketplace to meet the needs of residents. Providers are chosen on a non-price basis. There is only minimal competition between providers once they have been licensed, and licence scarcity is reflected in the prices they are sold for in the market. Although potential residents do have choice, capacity constraints mean that, in practice, effective choice is often not available.

Job Placement, Employment and Training Programme

The objective of JPET is to assist young people, in the 15–21 age range, who are homeless or at risk of homelessness, or facing similar severe problems, in ways which not only help them with their income and personal support needs, but which also ensure they secure career paths and sustainable futures. About 90 per cent of clients may be given intensive support for up to six months, with the remainder being supported for up to nine months. Responsibility for the program has recently moved from DETYA (now DEST) to FaCS.

DETYA contracted with organisations to provide a range of holistic services that address the barriers facing the target group. Each contract specifies the number of clients the agency is contracted to assist during the contract period. Clients have a choice of provider, within the capacity constraints. Services provided will typically include brokerage; counselling; mediation support; links into education, training and work opportunities; and post placement support. There is freedom to vary the services provided according to the needs of the individual client. However, total funding for each provider is determined after consideration of a proposed budget, including the total to be spent on clients. Payment is made in an annual cycle of milestones — many of the requirements are process, rather than outcomes, focused. There is an upfront payment of 40 per cent, with the rest spread over three additional payments, including a final payment of 10 per cent. Funding needs to be acquitted.

DETYA noted that ‘most DETYA programs now apply the purchaser-provider model’ (sub. 22, p. 4). However, payment under JPET is not based on outcomes, nor is there any price competition between providers.

Adult Migrant English Program

During 1997, the Government introduced new arrangements for the delivery of the AMEP through competitive tendering on the open training market. There are currently contracts with 21 service providers across Australia. Total annual funding is about \$100 million.

These providers were selected partly on the basis of the hourly rate they offered during the tendering process. Thus, there is price competition between providers. However, payment is made, not according to an assessment about the quality of the outcomes from the educational experience, but according to the quantifiable number of tuition hours provided per annum, with a minimum guarantee of hours. Clients have choice of provider, who are accredited by an independent accreditation service.

Summary

Of the six programs briefly outlined above, only two base any part of payment to the provider on defined outcomes and only one involves price competition between providers. In the AMEP, the program with price competition, however, payment is not based on defined quality outcomes, but rather on tuition hours. The largest program, nursing homes, neither bases payment on outcomes nor involves more than minimal competition between providers once they have been licensed. Some have some form of contestability and all involve choice for consumers. Thus, so far, the features of the Job Network model have not been applied widely elsewhere in practice.

15.2 Participants' views

Only a few participants expressed views about the extension of the model to other areas of Commonwealth Government service delivery. Their general comments are included in this section, while specific comments about particular possibilities, including devolving some Centrelink functions, are included in section 15.4.

BAKAS Employment Services considered that all areas of service delivery were potentially applicable to the model:

... all areas ... should be reviewed and evaluated for their suitability for the purchaser-provider model. ... government expertise lies in the development of the policy framework, setting of performance requirements and monitoring of contractual arrangements. Actual service provision should be delivered by organisations that can demonstrably show expertise in the relative area of service (sub. 8, p. 4).

One participant considered the model could have application in rural and regional areas. The Northern Territory Area Consultative Council said that:

The purchaser-provider model provides the opportunity for cost effective delivery of government services by local organisations which demonstrate a greater understanding of local needs, have a long term commitment to the region and a demonstrated knowledge and understanding of local client groups and the issues which affect them (sub. 36, p. 12).

However, the Salvation Army Employment Plus considered that it is ‘essential to ensure that deprived geographical areas and the more disadvantaged people are not overlooked through the process imposed by market forces’ (sub. 35, p. 20).

Other participants also sounded a note of caution. The Office of the Public Advocate (Victoria) considered that the ‘fundamental questions’ about the impacts of the ‘policy framework underpinning the Job Network for people with disabilities’ were as yet unanswered and that:

Until such answers are forthcoming, it would seem to be precipitous to, for example, apply the purchaser-provider model to other areas of Commonwealth Government service delivery (sub. 26, p. 4).

ACOSS considered that a purchaser-provider model based on outcomes was problematic in the delivery of most social services:

A system of funding purely to outcomes is unlikely to work in most fields of human service delivery. ... Employment assistance services are a rare example of a service that can realistically be funded predominantly on the basis of measurable outcomes (sub. 32, p. 24).

It offered a list of criteria which should apply before an outcomes-based funding system along the line of the Job Network model is considered (sub. 32, p. 24):

- The desired program outcomes are clear, and easily measured.
- It is possible to predict with reasonable accuracy the probability that different clients will achieve them in the absence of the service.
- The net impact of an effective service on these outcomes is substantial and can be measured with reasonable accuracy.
- There is scope for different service delivery strategies to substantially affect outcomes.

It listed a number of ‘key lessons’ from the experience in the Job Network employment assistance market (sub. 32, pp. 25–6):

-
- A pure or ‘black box’ outcomes-based funding model is unlikely to effectively allocate public funds to meet the needs of service consumers, because the above conditions rarely apply.
 - Governments should also care about the level and quality of services (inputs) actually provided and build service guarantees into program arrangements.
 - Service guarantees are best implemented through the adoption of mixed funding models (in which inputs are funded as well as outcomes) rather than detailed regulation of service delivery through funding contracts.
 - Price competition can have severe adverse consequences in human services, where the scope for genuine productivity improvements is relatively limited and other factors such as service quality are more difficult to measure and evaluate in tender processes.
 - The quality of human services depends on a number of factors ... that cannot be effectively promoted (and may indeed be undermined) by market competition. ... Market-based funding models have the potential to erode social capital if attention is not paid to these factors in their design and implementation.
 - Consumers from disadvantaged groups in the community usually cannot exercise their ‘market power’ within such markets without Government and community support.

In its comments, FaCS emphasised the need to see providers of particular services as part of a broader service network within an integrated social support system. It saw ‘outcomes being driven by the network as a whole and ... people are cross-referred to the service most appropriate to their circumstances’ (sub. 42, p. 10). According to FaCS (sub. 42, p. 10), this has the following implications for the choice of delivery/funding model:

- ‘Services required to achieve the desired outcomes may not be available from a single provider or there may be a need to engage a provider over a lengthy period of time. Desired outcomes for disadvantaged and vulnerable people are likely to be complex. The outputs to be produced may change over time and may not be known in advance. Specification of outputs in a single contract may be very difficult.
- In these circumstances a more complex relationship with some service providers may be necessary than applies with competitive or strict outcome funded models. A balance between input, output and outcome funding may therefore be the best option.’

FaCS also considered that there can be limits on the ‘usefulness of strict commercial models in areas where building community capacity is an objective’ (sub. 42, p. 10). Centrelink expressed somewhat similar views (section 15.4).

In considering applying the Job Network model elsewhere, DEWR (sub. 43, pp. 83–6) listed the ‘lessons learned’ from the Job Network experience:

- a new market needs to be based on strong foundations — the prerequisite conditions for developing a contestable market for employment services already existed through the established market for the services involved;
- it takes time to move away from more traditional program management approaches;
- probity and defensible contracting processes are important;
- it is essential to establish and maintain a professional contract management capacity;
- continual communication with stakeholders and clients is essential;
- coherence and integration of services are desirable. In this regard, DEWR commented that:
 - ‘An issue that may need to be considered in a contestable environment is that, where services are interrelated, situations may emerge where a common provider can cover a range of services. This could result in increasing vertical integration of services and could also provide opportunities for the emergence of different kinds of services. Any such integration or consolidation of services would need to be determined on the basis of performance and the quality of outcomes. Issues such as conflict of interest and the integrity of service delivery would need to be considered. There should also be no pre-conceived notion of an optimum number of providers in the market’; and
- there are benefits from working in partnership with providers.

Apart from canvassing some alternatives to Centrelink delivery (section 15.4), DEWR nominated disability employment services and rehabilitation services as areas which may justify consideration of the introduction of contestability in provision. There are current trials in both these areas.

15.3 Scope for extending the Job Network model

The rationale for adopting a purchaser-provider framework for the delivery of active labour market services is examined in chapter 3. As much of the analysis and

conclusions of that chapter also apply when considering the extension of the Job Network model to other areas of service delivery it is not repeated in this chapter. There are a number of potential advantages and disadvantages associated with the characteristics of the Job Network model:

- *Payment based on outcomes.* This forces clarification of program objectives and allows a better focus on their achievement. However, in some cases it may lead to some inequity between clients, either perceived or real — for example, the withdrawal of service from clients with a low likelihood of an outcome. As well, it may not be possible to specify all program objectives in terms of quantitative outcomes, let alone their quality.
- *Competition between providers.* This can encourage good performance, if competition is based on achieving outcomes while providing good quality service. Greater cost effectiveness can be encouraged through price competition, with either lower overall costs or the ability to service more clients for the same total — however, where competition is mainly based on price, a reduction in the quality of service could be experienced.
- *Choice.* Importantly, this allows clients to choose the provider that is likely to best match their individual needs. Potentially, it can also drive improved performance from providers, with better outcomes. However, the informed exercise of choice may involve costs to clients and providers and assumes that all clients have the capacity to fully exercise consumer sovereignty.

As noted in chapter 3, a purchaser-provider model with the features of the Job Network is likely to be most appropriate where:

- relevant program outcomes can be clearly identified;
- quality outcomes can be specified in quantitative terms;
- outcomes can be related to the efforts of the provider;
- process specification can be avoided; and
- contracts can be written to minimise unintended consequences.

The comments from participants and the wariness of agencies in adopting the Job Network model in other areas of service delivery suggests a difficulty in defining performance outcomes which reflect program goals comprehensively and avoid unintended consequences. Indeed, even the Job Network contracts one and two included constraints on the prices which could be bid and accepted. As discussed in chapter 10, it also appears that the element of price contestability will be reduced in the forthcoming Job Network contract three. The Commission itself suggests a move towards the provision of service under Job Network at prices which will be largely administratively set.

Nevertheless, as the examples in section 15.1 and the above discussion and that of chapter 3 suggests, elements of the model can be useful even if it cannot be applied comprehensively. For example:

- some payment might be based on outcomes, even if it all cannot;
- even if price competition is considered counterproductive, contestability of service provision is likely to bring benefits. There may be scope for using price as a selection criteria, with a relatively low weight; and
- providing for customer choice brings many advantages, both to the customer and ultimately to the funding agency.

Tools analogous to the JSCI and star ratings of the Job Network could usefully be applied in other areas of service delivery to facilitate outcomes based payments and contestability.

The Commission considers there is considerable scope for adopting features of the Job Network model more widely. However, case-by-case examination will be needed to weigh the advantages and disadvantages in particular applications. Obviously, one important issue is the extent to which services can be regarded as stand alone or need to be seen as part of a broader network of service provision.

DRAFT RECOMMENDATION 15.1

The Commission recommends that in applying the purchaser-provider model to the delivery of social services to the community, government agencies actively consider the advantages of adopting features of the Job Network model: that is, basing a substantial proportion of payment to providers on defined outcomes (or outputs), contestability among providers and choice for consumers.

15.4 Applying the model to Centrelink

DEWR, FaCS, DEST, Centrelink and other government agencies actively consider the merits of competitive tendering and contracting for a wide range of services that they provide. These include services required to serve in-house needs and those which meet the needs of their customers/clients in the community. Where a contracting model is adopted, however, it often does not fully encompass the three central features of the Job Network model.

This section of the report gives some more detailed consideration to Centrelink. This organisation already contracts out many of its requirements. In the 2000-01 financial year, the total value of contracts held exceeded \$1 billion (sub. 45, p. 12).

Centrelink's current roles

Centrelink is a statutory authority within the Family and Community Services portfolio. It delivers services on behalf of 20 client agencies to 6.3 million 'customers' (box 15.2).

Box 15.2 Centrelink's business operations

Service delivery points	Over 1000 Australia wide
Number of employees	24 356
Number of client agencies	20
Payments on behalf of client agencies	Approx. \$51.7 billion a year
Mainframe online transactions	Approx. 3.4 billion a year
Number of customers	6.3 million
Number of individual entitlements	9.3 million
Letters to customers	Approx. 97.3 million a year
Home visit reviews	65 267 a year
New claims lodged	5.2 million a year
Successful telephone calls	Approx. 22.5 million a year
Internet web page views	9 million a year

Source: Centrelink 2001a, pp. 15.

According to its 2000-01 annual report (Centrelink 2001a, p. 14) it operates under a purchaser-provider framework where policy departments and agencies enter into Business Partnership Agreements (BPAs) or similar arrangements in order to purchase its services. The majority of Centrelink's revenue is provided through these BPAs with purchaser agencies, whereby funds are appropriated to the purchaser agencies and paid to Centrelink in return for specified services. About seven per cent of Centrelink's revenue is obtained from services provided for DEWR (sub. 45, p. 2).

The arrangement with DEWR specifies a number of key performance indicators (KPIs) which Centrelink aims to meet (those for 2000-01 are set out in box 15.3). As noted below, both Centrelink and DEWR expressed concerns regarding the current KPIs and Centrelink's performance against them. The Commission is aware that revised KPIs are currently being developed.

Box 15.3 DEWR client KPIs and outcomes

	<i>Target</i>	<i>Result</i>
KPI 1 — Job Seeker Satisfaction		
Overall employment related services	80%	80%
KPI 2 — Job Seeker Registration		
within 7 days of first personal contact	95%	83%
within 14 days of first personal contact	95%	83%
KPI 3 — Enrolment for Job Matching		
Job seekers registered are enrolled within 28 days	95%	87%
KPI 4 — Classification of Job Seekers		
within 7 days of first personal contact	80%	59%
within 14 days of first personal contact	95%	79%
Job seekers with full registration status will have a Job Seeker Classification Instrument (JSCI) interview within agreed timeframes	95%	41%
KPI 5 — Accurate Operation of the JSCI		
Job seekers classified correctly on the basis of information provided by job seeker	97%	90%
KPI 6 — Centrelink Actioning of Job Network Participation Reports		
maintained	75%	76%
finalised within 10 days	80%	80%
KPI 7 — Intensive Assistance (IA) Point in Time Capacity (PITC)		
% of Job Network Members maintained between 85% and 100% of PITC	98%	91%
Job Network National — % of Generalist maintained at 90% of IA PITC	90%	95%
Job Network National — % of General & Specialist IA maintained at 85% PITC	85%	95%
KPI 8 — Job Search Training (Job Search Training) Referral Capacity		
All Job Network Members JST sites maintained above 80% of referral capacity	100%	73%
Job Network National maintained at 90% of JST referral capacity	100%	85%
KPI 9 — Service Provider and Departmental Satisfaction		
Overall employment related services	80%	87%
KPI 10 — Indigenous Share of Intensive Assistance Commencements		
Indigenous job seekers share of IA commencements	6.2%	7.0%
KPI 11 — Centrelink Actioning of Work for the Dole Participation Reports		
maintained	75%	74%
finalised within 10 days	80%	82%
KPI 12 — Timeliness of Signing Preparing for Work Agreements (PFWA)		
Proportion of activity tested job seekers who sign PFWA within 7 days of registration	90%	80%

Source: Centrelink 2001a, pp. 87–8.

The Government set up Centrelink as a one-stop shop for people seeking access to income support and a range of other services. According to the Second Reading Speech for the Commonwealth Services Delivery Agency Bill 1997:

The Government's objectives in creating the agency are to provide a much better standard of service delivery to the community and to individuals; and to increase service delivery efficiency and effectiveness. The Government wishes to shift the focus and direction of customer service from the mechanics of transaction and process to one which is centred on individuals and their needs (sub. 45, p. 6).

Essentially, Centrelink offers an integrated approach to addressing the economic and social needs of individuals and families. In doing so, Centrelink currently provides a number of functions, some of which will be extended or enhanced under AWT:

- assessment of the eligibility of customers for the available range of government support and assistance programs — ie it screens and refers;
- provision of some services itself, eg arranges income support and provides support to appropriate customers from in-house occupational therapists and psychologists; and
- to some extent, acting as a case manager. With the introduction of Centrelink personal advisers under AWT, this role could be enhanced.

These different roles may be more or less amenable to contracting out, especially with the distinguishing features of the Job Network model.

Participants' views

Although the Kimberley Area Consultative Committee (sub. 15, p. 6) considered the Job Network model could be extended to Centrelink, concern about its possible 'privatising' was expressed by the Un(der)employed People's Movement against Poverty (sub. 3, p. 4). ACOSS considered that two of the principles on which the Job Network was based — outcomes-based funding and contestability — 'would be completely inappropriate in a service such as Centrelink whose core function is to interpret and deliver legislative entitlements to social security payments' (sub. 32, p. 24).

DEWR (sub. 43, p. 86) commented that in recent time two factors have influenced decisions about service delivery options for employment related services:

- One has been the maturing of the employment services market that offered opportunities for alternate service delivery.
- The second has been concerns about the capacity of Centrelink to deliver consistent and quality services.

It noted that it has already made use of alternative service delivery arrangements for some aspects of service. Examples include the use of Telstra and other non-

Centrelink call centres, using community work coordinators to make Work for the Dole referrals, as well as the use of DEWR's own staff and IT facilities. DEWR considered there is 'scope in the short to medium term for further elements of service delivery to be put out to tender or undertaken through greater use of information technology' (sub. 43, p. 86). Further:

In the longer term, alternatives to Centrelink service delivery could include the use of Job Network or Community Work Coordinator networks or other service delivery networks (eg, Australia Post) to provide some services delivered by Centrelink, such as job seeker registration and assessment; use of virtual service delivery networks via the Internet and touch screen kiosks for job seeker self-registration and self-assessment; and greater use of non-Centrelink call centres for service delivery (sub. 43, p. 87).

According to DEWR, in one instance at least, it had been forced to seek an alternative provider to Centrelink because Centrelink had advised that it will no longer provide the service required:

[Centrelink] has recently advised the Department that it will no longer provide record management services for job seeker records returned to Centrelink by service providers. Consequently, the Department must now seek an alternative service provider (sub. 43, p. 84).

DEWR (sub. 43, p. 78) contrasted the payment arrangements for Centrelink with those for the provision of service by Job Network providers:

- 'Within Job Network, performance payment arrangements are underpinned by transparent and explicit incentives and sanctions, including star ratings and milestone payments on the incentives side and the risk that contacts will not be renewed if performance is poor'.
- 'It seems inconsistent that an arrangement that is the norm in other Commonwealth contracted environments does not apply to Centrelink, despite its monopoly provider status.'

It called for consideration to be given to the 'introduction of at least some element of payment based on performance for Centrelink, against the agreed KPIs' (sub. 43, p. 78).

Centrelink expressed 'disappointment' about its performance against some of the KPIs during 2000-01 (Centrelink 2001a, p. 65). Centrelink noted that its existing BPAs have focused on the specification of inputs and processes rather than outcomes (sub. 45, p. 10). 'The new agreements being negotiated have been more focused on outputs and outcomes but still have a long way to go' (sub. 45, p. 11). In addition, Centrelink stated that:

The difficulty in measuring performance on some outcomes (eg appropriate referrals) means that although funding on outcomes is the desired endgame, it is unlikely to ever

be completely achievable. This means that some services will continue to be funded on outputs or inputs with quality assurance standards, risk management processes etc. used to encourage achievement of policy objectives (sub. 45, p. 11).

As well, Centrelink considered that AWT will broaden the Government's objective 'from purely economic participation to the acknowledgment of the value of social participation' (sub. 45, p. 15). This would make an outcome based funding model more problematic:

We do know that social participation is a worthwhile objective but we do not have a method for setting price or determining achievement, we do not know enough to support an outcome based funding model (sub. 45, p. 15).

Box 15.4 sets out Centrelink's views on the limits to non-government provision of services currently provided by it.

Discussion

There are three separate issues relating to the extension of features of the Job Network model to Centrelink: the scope for and extent of the contracting out of services by Centrelink; whether services provided by Centrelink to its business partners can and should be compensated through performance based outcomes payments; and whether Centrelink's government business partners should be allowed the choice of sourcing services from organisations other than Centrelink.

Contracting out by Centrelink

As noted above, Centrelink already contracts out services as a business solution for many of its activities. It indicated that it systematically assesses services for contracting out (sub. 45, p. 12). It may well be that there will be significant future opportunities for greater contracting out, especially for those services which Centrelink currently provides in house to support its own staff and operations. For example, Centrelink anticipates that the percentage of its information and technology expenses obtained from external providers is expected to increase from the current 50 per cent to 70 per cent over time.

Continuing pressure on Centrelink to improve its cost effectiveness provides incentives for it to market test and, where a net benefit would be obtained, to contract out.

Box 15.4 Centrelink's comments on the limitations of contracting out Centrelink services

Delegation. The Government would be unlikely to accept any diminution of accountability. To maintain [the level of accountability currently provided by Centrelink] would most probably be more, rather than, less expensive.

Reliability of service. Penalty clauses against contractors do not provide sufficient insurance against unreliability.

Privacy. The sensitivity of the information held in Centrelink databases is such that it would be unlikely that the community would accept its management by a private organisation.

National service network. Only a network such as that provided by Centrelink can provide equity of access to all citizens even where it is not commercially viable.

Integration. A national integrated agency is necessary to maintain both efficiency and effectiveness. It is critical that like people in like circumstances receive similar support and are neither disadvantaged nor allowed to 'service shop'. The history of customers must be available in an integrated manner on a national basis. Only a national, integrated provider can make all the connections to both meet need and mitigate risk. People with multiple barriers and needs are less likely to have those met if service delivery is disaggregated between several providers. The cost of losing both economies of scope and scale would be substantial.

Flexibility. Centrelink can meet new government initiatives, often absorbing the cost. In a contracted model the cost of variations to contracts can be substantial.

Responsiveness to emergencies. When such event occur, there is no time for negotiating contracts but only for immediate response.

Independence of assessments and referrals. The risk of a conflict of interest would be increased if the agency responsible for assessing need were also providing the services to meet those needs.

Source: Centrelink, sub. 45, pp. 12–14.

Performance based payment to Centrelink

It does not appear possible to express the full range of outcomes desired of Centrelink in purely objective quantitative terms. Obviously, quality of service is important in the role fulfilled by Centrelink, as is adaptability to individual need. For example, in areas such as income support and breaching, individual circumstances are crucial to decision making. Many desired social outcomes are inherently qualitative. Devising a payment structure based on social outcomes while minimising opportunities for gaming poses significant challenges. In addition, the achievement of those social outcomes could have more to do with program structure

and objectives and the activities of other agencies and organisations than it does with Centrelink.

It might be necessary to specify a number of desired program objectives in terms of Centrelink's processes or outputs, rather than outcomes. This approach could make the development of sound KPIs more feasible and improve the attractiveness of a KPI-based payments system.

In regard to the Job Network, the current KPIs are unsatisfactory for both DEWR and Centrelink and revised KPIs are being developed. Given the nature of the services provided in this case, it should be possible to develop an appropriate set of required outcomes and outputs and express them as quantitative KPIs. The Commission considers that some, if not all, payment to Centrelink for these Job Network services should then be based on the achievement of those KPIs. This would prevent them being 'something of a toothless tiger' (sub. 43, p. 78).

For this to apply successfully, a number of necessary conditions would apply:

- outcomes would need to be measurable quantitatively;
- where a program objective could not be captured by a quantitative outcome, a process or output would need to be substituted. This would also need to be measurable;
- the range of outcomes and outputs would need to encompass all the program's objectives and the work required to be performed in meeting those objectives (thus, for example, if DEWR required Centrelink to provide record management services, this should be reflected in a payable outcome or output);
- because payment is based on outcomes and outputs, payment arrangements would need to provide for shortfalls against KPIs; and
- to provide incentives for improved performance, those arrangements should also provide additional payment for exceeding KPI targets.

DRAFT RECOMMENDATION 15.2

The Commission recommends that DEWR and Centrelink negotiate an appropriate set of key performance indicators on which a substantial proportion of payment from the Department to Centrelink should be based.

How would payments be set? As with current arrangements, DEWR and Centrelink would need to negotiate the structure and extent of payment. DEWR noted that government agencies are currently working together to develop a 'generic' funding model for Centrelink services:

It is anticipated that when fully implemented the funding model will deliver benefits such as a reasonable level of transparency about costs and cost drivers and certainty of funding for Centrelink (sub. 43, p. 78).

As discussed below, allowing competition to Centrelink for the provision of services could enhance overall cost efficiency in the provision of Job Network services.

Choice and competition

The extent to which services provided by Centrelink to customers can be efficiently and effectively contracted to other agencies or organisations is less clear. For the reasons set out in box 15.4, the costs and risks of contracting out particular services could well outweigh the benefits. Putting this another way: for many services Centrelink could have a significant advantage over potential rivals, including advantages of scale and scope. For some services, that advantage is likely to be unassailable.

Centrelink claimed that there was a “common good” dimension that is necessary from a whole-of-government perspective but not sought by any individual client Department’ (sub. 45, p. 11). It stated:

The common good relates to Centrelink’s capability, that is, the reach and scope of its operations and its ability to integrate and package services for individual clients. Client Departments value this capability, but are reluctant to pay for them. For example, everyone agrees that there is benefit in Centrelink being able to bundle FaCS, DEWR and DETYA services, however, this integration falls outside the responsibility of any one of those Departments (sub. 45, p. 11).

However, that ‘common good dimension’ is the very thing that would contribute significantly to Centrelink’s economies of scale and scope. Further, if indeed Centrelink provides services to the community as a whole without reimbursement from client agencies, then either the process of negotiating prices with those client agencies is artificially constrained or Centrelink has an argument for some direct Budget funding. Neither of these possibilities, however, provides an argument against allowing elements of Centrelink’s activities to be subject to competition.

It could be argued that continued chipping away at Centrelink through client departments sourcing services from other providers could ultimately increase the costs of Centrelink’s remaining services significantly — including those services that for various reasons, including non-cost reasons, might need to remain with a government agency. However, Centrelink’s economies of scale and scope and its continuing successful endeavours to reduce its costs should be to its competitive

advantage. It could be the exception, rather than the rule, that agencies would move business from Centrelink.

In regard to those particular services that do not need to remain with a government agency for non-cost reasons, whether Centrelink has a significant cost and risk advantage over other providers can only be established through a process of competition. If that process is closed off, the community will never be certain that obtaining services through Centrelink provides the best option. In a competitive process, of course, it would be necessary for the client department to carefully balance any price advantages against the program's objectives as a whole, expressed in terms of the relevant outcomes and outputs (as discussed above).

As noted above, DEWR nominated some activities for which it wished to consider alternative suppliers to Centrelink. The Commission considers that DEWR, the funding agency for the Job Network, should be enabled to source services from suppliers other than Centrelink, if it judges that to be appropriate on the ground of better value for money at acceptable risk. Other agencies should be similarly free to source from other suppliers.

DRAFT RECOMMENDATION 15.3

The Commission recommends that DEWR and other government agencies be given the freedom to obtain services from providers other than Centrelink, if they judge that offers better value for money at acceptable risk.

A Participation in the inquiry

The Commission received its terms of reference on 3 September 2001. The inquiry was advertised and an Issues Paper was distributed widely. During the inquiry the Commission has held informal discussions with a range of organisations (section A.1). In addition, 50 submissions were received before finalisation of the Draft Report (section A.2). A series of ‘Value Creation Workshops’ were also held. The Commission is grateful to all those who have participated in the inquiry.

All public documents, including submissions, have been made widely available and the inquiry website has been heavily visited.

A.1 Informal discussions

ACL Bearings

ACS Blue Ribbon Meat

AMES Employment

ASK Employment and Training

Australian Council of Social Service (Sydney)

Bungala CDEP

Centacare

Centrelink (Canberra, Darwin, Footscray, Palmerston, Port Augusta, Redfern)

Chapman, Bruce

Communicare

Company Solutions

Complete Personnel

Darwin Regional CDEP

Darwin Skills Development Scheme

Department of Education, Training and Youth Affairs

Department of Employment and Training Queensland

Department of Employment and Workplace Relations

Department of Family and Community Services

Dockery, Mike

Employ South Australia

Employment Directions Australia

Employment National

Finn, Dan

Forstaff

Gregory, Robert
 Indo-Chinese Employment Service
 IPC Employment
 Job Futures (Northam, Sydney)
 Job Net Tasmania
 Jobs Australia (Canberra, Midland)
 Maxima Group
 Migrant Employment Taskforce
 Mission Australia
 Mission Employment (Brisbane, Launceston)
 National Employment Services Association (Canberra, Melbourne)
 National Job Link
 Northern Region Development Board
 Northern Territory Area Consultative Committee
 Recruitment and Consulting Services Association
 Royal Society for the Blind
 Salvation Army Employment Plus
 Sarina Russo Job Access
 Social Policy Research Centre (Sydney)
 South Australian Government Departments
 Street Ryan and Associates
 Stromback, Thorsten
 SYC Job Prospects
 Tasmanian Employment Advisory Council
 Victorian Chamber of Commerce and Industry
 Work Directions Australia
 Work Integration and Supported Employment

A.2 Submissions

Participant	Submission no.
Aboriginal and Torres Strait Islander Commission	18
AMES Employment	41
ARA Jobs	25
Australian Business Limited	37
Australian Chamber of Commerce and Industry	40
Australian Council of Social Service	32
BAKAS Employment Solutions	8
Ballina Employment and Training Centre	27
Blessing, Ray	7

Participant	Submission no.
Blind Citizens Australia	14
Bristol, Professor Meredith	50
Centrelink	45
Collins, Tom	48
Commisso, Rosa	1
Company Solutions (Aust)	17
Department of Education, Training and Youth Affairs	22
Department of Employment and Workplace Relations	43
Department of Family and Community Services	42
Employment National	28
Goddard, Dr Richard	2
Indo-Chinese Employment Services	29
Innisfail JOB Centre	5
JOB <i>utures</i>	30
Job Net Tasmania	16
Johnson, Dr Howard	49
Kassim, Soraya	23
Kimberley Area Consultative Committee	15
Mission Australia	44
Mt Gravatt Training Centre	4
Multicultural Development Association Inc and the Multicultural Employment Advocacy Network (Qld)	34
National Employment Services Association	39
National Seniors Association	10
Northern Territory Area Consultative Committee	36
Office of the Public Advocate	26
Quest Solutions	38
Recruitment & Consulting Services Association	46
Salvation Army Employment Plus	35
Sarina Russo Job Access	21, 33
Tangentyere Job Shop	13
Tasmanian Employment Advisory Council	31
Tully, Allan	47
Un(der)employed People's Movement Against Poverty	3
UnitingCare Australia	12

Participant	Submission no.
Victorian Employers' Chamber of Commerce and Industry	11
Wesley Uniting Employment	9
Wheatbelt Area Consultative Committee	6
WISE Employment – certain employees	24
Workco	20
WorkPlacement	19

A.3 'Value Creation Workshops'

During November and December 2001, the Commission held six workshops with job seekers around Australia. They involved 100 job seekers in a number of jobless categories. The workshops were not intended to provide a valid statistical summary of the concerns and ideas of job seekers as a whole. But they enabled the Commission to hear first hand the views, opinions and the ideas of job seekers about their experiences in the Job Network.

The workshops were conducted for the Commission by the Value Creation Group and organised through Centrelink. The workshops were held in Adelaide, Brisbane (Mount Gravatt), Gosford, Bendigo, Melbourne (Footscray) and Sydney (Liverpool).

The Commission thanks those job seekers who attended, the Value Creation Group and Centrelink for their contribution.

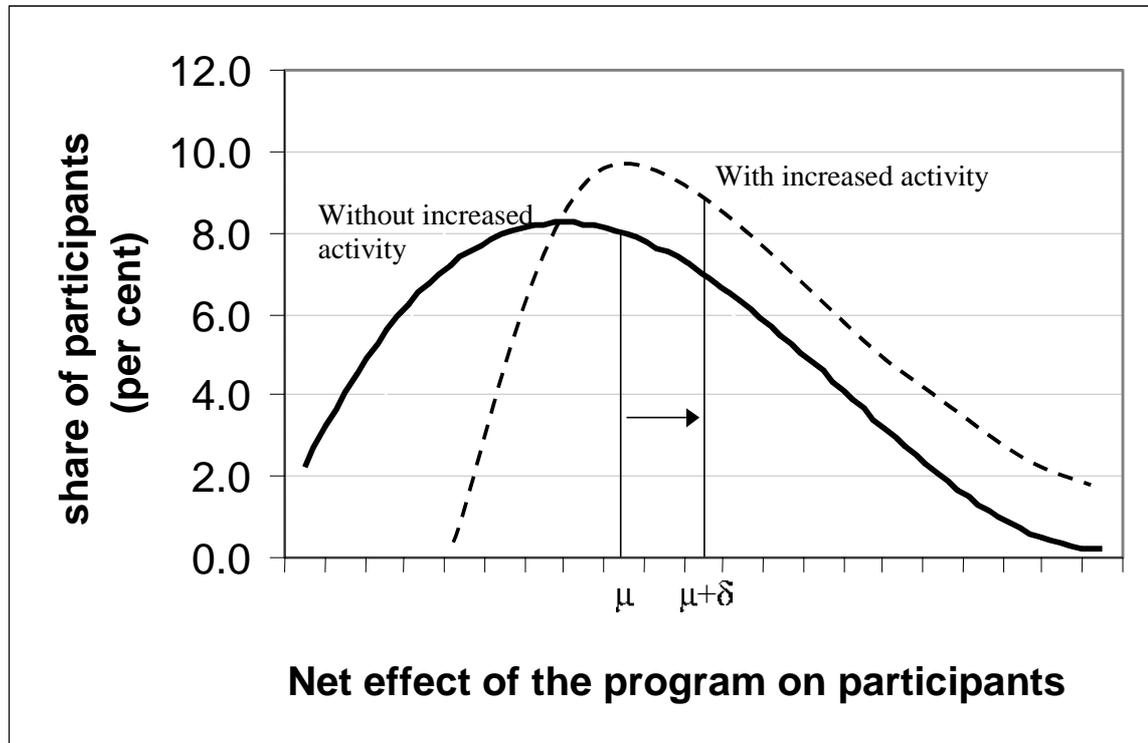
The results of the workshops are discussed in chapter 6.

B Response to increased activity testing

As argued in chapter 7, activity testing, and hence job search intensity, can be weaker in IA compared with other programs. Given that the net impact of IA is likely to be significantly lower than 10 per cent (chapter 5 and appendix E), the program is likely to have a negative net impact for some job seekers.

The solid line in figure B.1 represents a hypothetical distribution of net impacts for job seekers with the current level of activity testing, with an average net impact of μ . The dashed line represents a possible distribution of net impacts for job seekers subject to increased activity testing. Aside from increasing the average net impact to $\mu + \delta$, increased activity testing would reduce the percentage of participants for whom the net impact of IA is negative.

Figure B.1 **Hypothetical distributions of net impact for IA participants, with and without increased activity testing**



C Targeting Indigenous job seekers

Indigenous Job Seekers are among the most disadvantaged in terms of effective access to jobs. The reasons for this are complex, and require understanding if effective job search programs are to be developed. ATSIIC (sub.18, p.3) commented:

Given the poor skills base and lower levels of education, low levels of literacy and numeracy skills, language problems, poverty resulting from entrenched long-term unemployment and isolation from labour markets contributing to the disparity between Indigenous Australians and the general population, a sound understanding of these issues is essential to assisting the Indigenous unemployed.

and:

In 2000, the unemployment rate for Indigenous people was estimated to be 23%, compared to the national average of less than 8%. The Indigenous figure would approach 50% if Community Development and Employment Project participants were counted as unemployed (p. 1).

Tangentyere Job Shop, (sub. 13, p. 1) said that Indigenous job seekers face major barriers to employment:

The majority of Job Shop's IA jobseeker customers face major barriers to employment (79% of them are Level B). Historically, Aboriginal people have had limited access to the mainstream labour market of Alice Springs. This is slowly changing. Education achievement levels remain depressing. In the Central Australian region in the Year 2000, Aboriginal people formed 49% of the student population, yet only 12 Aboriginal people completed Year 12.

Because of their high level of disadvantage in the labour market, Indigenous job seekers are typically channelled into Intensive Assistance. The Stage Two Progress Report (DEWRSB 2001) reported that, of Indigenous job seekers classified for Job Network services, 90 percent were selected as eligible for Intensive Assistance (p. 30). However, DEWR (sub.43, p.50) stated that the participation rate of Indigenous job seekers in Intensive Assistance, compared to the expected level, was lower than that of any other disadvantaged group. This is largely due to a low commencement rate compared to referrals for this group (Stage Two Progress Report (DEWRSB 2001), p. 35).

Employment outcomes are low for Indigenous job seekers, but the off-benefit result is close to the average (chapter 5). DEWR noted that the relatively better reported

performance of Indigenous people following participation in Intensive Assistance may be due to some moving into subsidised employment through the Indigenous Employment Program. Indigenous job seekers participating in CDEP are counted as off-benefit outcomes. (sub. 43, p. 50).¹

DEWR (sub. 43, p. 55) commented:

Indigenous job seekers are a group for whom equity of access to employment services is a major issue. Under the BPA Centrelink delivers additional services specifically designed to improve Indigenous job seekers' access to the employment services market. The specific services for this group include:

- the provision of outreach services;
- post referral follow-up for job seekers referred to Intensive Assistance; and
- issuing of Wage Assistance Cards to enable access to wage subsidy programs.

In addition to the Job Network, which includes 11 specialist Indigenous Job Network members providing services to Indigenous job seekers in 41 locations across Australia, DEWR operates an Indigenous Employment Policy which includes:

- Wage Assistance Programme;
- Structured Training and Employment Project;
- Corporate Leaders for Indigenous Employment Project;
- Community Development and Employment Projects; and
- Indigenous Small Business Fund (DEWR Annual Report 2000-01).

DEWR, however, reported that:

Job Network in conjunction with the Indigenous Employment Programme, provides the bulk of assistance to Indigenous job seekers through Intensive Assistance, Job Search Training and Job Matching (Annual Report 2000-01).

In relation to the operation of the Job Network for Indigenous job seekers, ATSIC, (sub. 18, pp. 2-3), said:

ATSIC's own consultations with Indigenous job seekers, including CDEP participants, reveal a number of consistent concerns about the service provided by some Job Network members and Centrelink, including:

- a lack of field visits by Centrelink staff – especially in remoter areas of Australia;

¹ The Community Development Employment Projects (CDEP) absorbs a considerable number of Indigenous job seekers who receive a payment for participation in the CDEPs instead of income support. The CDEP scheme provides income in exchange for work, usually on projects of benefit to the local community, though some CDEP organisations do tender for commercial projects. Participants involved in CDEP are not recorded as unemployed (OECD 2001, Annex C).

-
- several remote area respondents felt that the Job Network cannot provide any meaningful assistance because there are simply no employment prospects within the region;
 - a lack of accessible information for Indigenous job seekers – generally the processes and procedures are not understood, particularly those with low literacy or whose first language is not English; and
 - a lack of responsiveness by some Job Network members – many respondents report a lack of interest in providing services to Indigenous job seekers .. as it is perceived to be extremely difficult to achieve outcomes for this group.

Other matters identified by ATSIC (sub. 18, p. 1) included:

- low Indigenous participation levels;
- lack of knowledge of the Job Network and associated services by Indigenous job seekers:

ATSIC's own consultations and research has revealed that there is a poor understanding among Indigenous jobseekers about the Job Network and the services it provides in assisting the unemployed. Many Indigenous job seekers live in locations where both Centrelink and Job Network members are often hundreds of kilometres away. A further finding was that some Indigenous people feel confused on how Centrelink and the Job Networks operate and what services they provide. Others feel that the services provided are not culturally appropriate. Because of this they will not approach Centrelink or Job Network to look for work or for employment assistance.

ATSIC believe more resources are required to raise awareness of the Job Network amongst the Indigenous community. Information and marketing of the scheme must take in to account potential cultural and language barriers in reaching the intended audience (sub. 18, p. 2).

- lack of performance data on Job Network performance in respect to Indigenous employment outcomes; and
- lack of Indigenous-specific service providers.

Concern over the experience of Indigenous job seekers was not confined to Indigenous organisations. Mission Australia (sub. 44, p. 12) also identified the need to modify procedures for Indigenous Australians, saying that there is a need to:

Modify the current referral and sign-up process for IA to provide ATSI ... clients with a more culturally sensitive introduction to the Job Network.

More generally, the need to be culturally sensitive, to provide help and information on the processes involved, and to use language that is understandable was identified by participants as important to the quality of contact between providers and Indigenous job seekers.

Discussions with participants in this inquiry drew attention to inappropriate practices by Job Network providers, such as putting Indigenous clients in group training with non-Indigenous Australians, or elders with young people. To avoid embarrassment, many don't turn up to such services and may be subject to breaching recommendations.

Similarly, ATSIC (sub. 18, p. 2) made the following comments on the application of the JSCI by Centrelink:

As a “self-assessment” model, ATSIC views the JSCI as problematic for many Indigenous jobseekers. If people understate, or are unwilling to discuss their barriers to employment, they may be incorrectly rated and referred to an inappropriate or inadequate service for assistance. This problem may be compounded if the Centrelink staff carrying out the JSCI are not experienced in dealing with Indigenous clients, and able to communicate effectively. This is highlighted in the lower than expected rate of Indigenous referral to Intensive Assistance.

The difficulties with the self disclosure model were echoed by participants who argued that it is not uncommon for Indigenous job seekers to answer what they think the official administering the JSCI wants to hear. This is compounded by failure to fully comprehend the significance and meaning of questions asked. For example, it is common for heavy users of alcohol to answer that they have no substance abuse problems and for people without stable living condition to answer that they do.

The problem may also be compounded by DEWR's requirement that only the set wording of the JSCI questionnaire be used by Centrelink, without elaboration or clarification.

Further, in discussion with participants in this inquiry, it became clear that referral to a 'fixed' provider can present problems of compliance because many Indigenous people can be quite mobile and be in one place for only a few months at a time. With such job seeker mobility, services 'by appointment' some weeks or more into the future, present particular problems.

Box C.1 presents similar concerns expressed by the ACCI.

Box C.1 **ACCI views on Indigenous job seekers**

ACCI and members have undertaken an Indigenous Education and Employment Project in various configurations over the last ten years. In recent times a number of key issues have emerged, including:

- the highly variable nature of the performance of Job Networks in delivering services to Indigenous job seekers;
- the lack of appropriate skills of Indigenous job seekers to fill identified vacancies;
- the considerable potential CDEPs offer to fill vacancies identified in the private sector;
- the lack of incentives to Registered Training Organisations and Group Training Organisations to place Indigenous people in employment;
- the lack of early intervention strategies for Indigenous young people, including access to vocational education and training in schools opportunities in Years 9 and 10; and
- the critical need in business, Indigenous community leaders and training and employment providers to work together to achieve substantial employment placements at a regional and company level.

The critical point to note here is that any programs which offer labour market assistance to Indigenous job seekers need to be pathways which move progressively to long term outcomes, rather than short term quick fixes.

Such opportunities exist under the CDEP program. ACCI and members strongly support strategies which would link the CDEP program to New Apprenticeships and skill shortages initiatives.

Source: sub. 40, p. 7.

The Kimberley Area Consultative Committee suggested a need to be more flexible in the range of outcomes recognised for Indigenous job seekers saying:

Indigenous people, particularly in remote communities and rural centres face unique barriers to employment. ... It was felt outcome timelines for Indigenous people maintaining continuous employment for outcomes as too long (13 or 26 weeks) due to cultural issues and seasonal impacts (sub. 15, p. 4).

and that there was a need to:

... encourage development of a work ethic by progressively rewarding small successes (eg short outcome timelines) (p. 5).

Despite these concerns, a number of participants involved in the Job Network and its involvement with Indigenous Australians, were of the view that it was an improvement on the service offered by the CES (box C.2).

Box C.2 Some participant's comments on the change to the Job Network

The Northern Territory Area Consultative Committee (sub. 36, p. 3) commented:

Overall, Job Network is an improvement on the service offered by the Commonwealth Employment Service. Employers in the NT report good satisfaction with Job Network services and appreciate the benefits of competition such as the greater range of choice and competitive services. Clients report a greater responsiveness among locally managed organisations that understand their needs.

Tangentyere Job Shop, (sub. 13, p. 1) commented:

Few people in Alice Springs would now want to revert to the old policy framework, although many want additions in infrastructure.

but:

Out bush, the success [of the new system] is more limited. The CES attempted to deliver jobs and training where people lived, and Job Network is far more restricted. Where Job Network services exist on a full time basis in this region, it is a far better alternative.

The Kimberley Area Consultative Committee commented:

For the job seeker: There is a competitive environment that means clients have a choice of service providers. This drives JNMs to be pro-active, creative and cost effective in providing their range of client services. ... For the Government: This delivery of employment and other services are much more cost effective and provides improved value for money ... For the Employer: The service is customised to individual needs of employers whereas the CES was most likely less flexible when sourcing job listings. The JNM can provide a more effective service as they can review applicant resumes and not refer inappropriate applicants.

The Kimberley Area Consultative Committee saw no disadvantage of the new system for employers.

ATSIC, sub. 18, p. 1, however, commented:

ATSIC views the Job Network as a significant means to address the Indigenous employment equity challenge. However, there is little evidence to suggest that changes to labour market assistance since the inception of the Job Network on 1 May 1998 have been of substantial benefit to Indigenous Australians.

Service Strategy trial in the Northern Territory

In 2001, Centrelink commenced a trial Service Strategy in the Northern Territory in response to the particular features of the Job Network in that location. These included:

- a low Intensive Assistance commencement rate for Indigenous job seekers, and an increase in the number of breaches;

-
- difficult access to Job Network providers for remotely located job seekers. Most Northern Territory ESAs have Intensive Assistance members located in the principal town (typically in only one town in the ESA).² In addition, automatic referral is by postcode, and in the Northern Territory these areas are considerable;
 - limited point in time capacity of Intensive Assistance providers;
 - the impact of Indigenous culture. Indigenous culture relies heavily on word of mouth dissemination of information. Electronic or written advertising of the job network has a limited impact in informing this community. In addition, experience has shown that interacting with groups of similar people at the early stages of contact is more productive than one-to-one involvement;
 - limited understanding of the Job Network within Indigenous communities; and
 - the impact of previous experiences with job search assistance programs. Many Indigenous job seekers have been through training or similar programs with little result, and if Intensive Assistance is promoted as such a program, there is a reluctance to undertake the same activity again, and scepticism that anything better will result. In addition, prior to the Job Network most Indigenous job seekers were non-activity tested, but with Intensive Assistance, one of the mandatory elements of a Preparing for Work Agreement is the client's job search activity. Unless the chance of an outcome can be demonstrated, this contributes to a reluctance to commence.

The Service Strategy operates in conjunction with local Job Network providers. Typically it involves Centrelink officers visiting remote communities and conducting the JSCI at that community. A direct referral to a Job Network provider will occur at that time, often with a prior agreement that the provider will also send someone to the community. In this way a significant number of assessments can be done at the one time, a sufficient number of referrals can be generated to warrant the attendance of a representative of the Job Network member, and the immediacy of referral and access to assistance increases the rate of commencement.

Indigenous job seekers with good prospects of employment can be identified through this process, and a successful outcome for someone from that community acts as a demonstration that the Job Network can achieve employment outcomes.

² In the Northern Territory, Darwin has 5 Job Network providers, and Alice Springs has 3. There is only one member in each remote ESA, typically located in that region's principal town, and predominantly servicing that town, with no remote coverage in the Alice Springs ESA other than outposts in the aboriginal communities at Mutujuli, Docker and Yulara.

To date, the view expressed in discussions with the Commission is that the pilot program has resulted in an increase in the commencement rate, a lower level of breach reports and a higher level of outcomes, but that this level of involvement does increase the cost of providing services to these communities.

Australians Working Together – changes to assistance for Indigenous job seekers

As well as being eligible for the more general set of changes made to job search assistance under Australians Working Together, a number of specific Indigenous elements have been introduced (DEWR sub. 44, p. 62, and AWT Fact Sheets):

- From February 2002, in areas where there are jobs available, Community Development Employment Projects (CDEPs) will take on a new role as Indigenous Employment Centres. Through IECs Indigenous people will be encouraged into mainstream Job Network services and in particular Intensive Assistance. It aims to assist participants move from work experience (typically undertaken within a CDEP) into paid (and unsubsidised) jobs;
- Training credits of up to \$800 for each eligible person will be used to gain work-related skills by Indigenous job seekers who participate in Job Search Training or Intensive Assistance; and
- From July 2002, Centrelink will be funded to set up 12 new remote area service centres to improve the level of service provided

ATSIC (sub. 18, p. 4), commented:

ATSIC sees potential in the proposal to assist CDEP organisations in viable labour market locations to establish IECs [Indigenous Employment Centres] to assist participants move through the CDEP scheme to mainstream employment. ATSIC believes that the proposal itself recognises the failure of the Job Network to secure employment outcomes for Indigenous job seekers. The challenge is how to facilitate effective partnerships between IECs and Job Network Members and to more effectively link Indigenous Employment Policy programmes to CDEP participants. The eight CDEP organisations currently involved in early trials of the IEC concept have all reported difficulties in developing effective partnerships with Job Network members.

ACCI (sub. 40, p. 7), commented on the need to link experience under the CDEP to the wider labour market, saying:

Under the current arrangements the CDEP program does not provide a qualification for participants. Linking the program to the New Apprenticeship system would ensure that participants receive a qualification in an occupation which is transportable in the labour market. This strategy [also] provides participants with private sector work experience which should they choose to, can enable them to return to their communities to provide skills and knowledge they have gained.



D Incentives to assist job seekers

This appendix analyses the incentives for IA providers to assist job seekers — and updates and extends the model used by Harding (1998).

D.1 The basic model

Under the second contract, there are two types of IA categories (A and B) and six payment types (upfront, job matching, interim primary, interim secondary, final primary and final secondary). The expected revenue of a Job Network provider (R) is a function of: (1) any non-outcome related payments, and (2) the associated probabilities of primary and secondary outcomes, and their prices:

$$R^A = U^A + \sum_{i=1}^5 \phi_i^A(z^A) \cdot p_i^A - z^A \quad \text{and} \quad R^B = U^B + \sum_{i=1}^6 \phi_i^B(z^B) \cdot p_i^B - z^B$$

where U is the upfront payment, $\phi_i(z)$ is the probability of outcome i associated with expenditure z , p_i are the prices associated with the five outcome possibilities and A and B super scripts indicate the category of job seeker. Harding made the simplifying assumption that outcome probabilities were a linear function of expenditure, which is probably a reasonable local approximation.¹ Accordingly, for category A job seekers:

$$\phi_i^A(z) = a_i^A + b_i^A z^A$$

This form implies that if a provider does nothing to assist their job seekers then expected revenue is:

$$\tilde{R}^A = U^A + \sum_{i=1}^5 a_i^A \cdot p_i^A - z^A \quad \text{and} \quad \tilde{R}^B = U^B + \sum_{i=1}^6 a_i^B \cdot p_i^B - z^B$$

Based on the data in table D.1, then $\tilde{R}^A = \$1\,569$ and $\tilde{R}^B = \$2\,774$. The average payments (from doing nothing) is $\alpha \tilde{R}^A + (1 - \alpha) \cdot \tilde{R}^B = \$1\,961$, where α is the share of

¹ However, it seems more likely that the expenditure function would exhibit decreasing returns from expenditure. The results are still considerably lower than that found by Harding, reflecting his use of a considerably higher average outcome rate.

commencements that are A type job seekers (equal to around 0.675).² In contrast, at existing expenditure levels, outcomes are a little better and the average payments received by a Job Network provider are estimated to be around \$2 145 (at floor prices) or only about 9 per cent higher.

Table D.1 Outcome probabilities and payment levels^a
Intensive Assistance

Payment type	Observed probability of outcome			Probability of outcome with z=0			Prices	
	A	B	Average	A	B	Average	A	B
Job matching place	0.206	0.154	0.189	0.154	0.116	0.142	362	362
Interim primary	0.161	0.121	0.148	0.121	0.091	0.111	2 495	4 915
Interim secondary	0.088	0.066	0.081	0.066	0.050	0.061	536	536
Final Primary	0.122	0.091	0.112	0.091	0.069	0.084	1 064	2 128
Final Secondary	0.025	0.019	0.023	0.019	0.014	0.017	536	536
Upfront	1 069	2 107

^a Using DEWR's performance indicator (PI) data it is possible to calculate the current observed average outcome rates across Job Network providers, but only for the average IA job seeker (the fourth column). Separate estimates of A and B outcome rates were obtained by assuming that outcome rates for B clients were 75 per cent of those of A clients (reflecting their greater level of disadvantage) and using the fact that 67.5 per cent of commencements were A clients. It is well established that IA has small net effects (chapter 5). It was assumed that the outcome rates that would have applied had Job Network providers done nothing for their clients were around 5 percentage points lower. This implied that probabilities at z=0 were around 0.75 times the observed probabilities (at present expenditure levels). It should be noted that the PI outcome rates are significantly lower than those recorded using the PPM methods discussed in chapter 5. This is mainly because a job seeker can be in a job at 3 months after completion of IA, but not have been in it for a period of time or intensity that necessarily qualifies for an outcome payment.

Source: Unpublished data from the 30 November PI dataset from DEWR and Commission calculations.

Whether additional expenditure is worthwhile depends on whether:

$$\frac{\partial R_A}{\partial z^A} = \sum_{i=1}^5 b_i^A \cdot p_i^A - 1 > 0 \text{ and } \frac{\partial R_B}{\partial z^B} = b_i^B \cdot p_i^B - 1 > 0$$

The information on which the b parameters can be estimated is scanty. Harding uses a wide range for b to test the power of the incentives (with b between 0.0001 and 0.00005) but he is addressing only one type of intervention — wage subsidies.

² Actual payments for doing nothing would be slightly higher because of above floor prices for some IA providers.

Broader interventions — such as coaching and training — probably have lesser impacts on outcome rates,³ especially given our knowledge of apparently scanty net impacts under IA. For example, the average program cost per commenced IA participant is around \$2 300.⁴ Some of this may be ‘excess’ profits for agencies, but presumably much is bid away in order to maintain performance ratings. Accordingly, it can be assumed that costs are close to \$2 000 per participant and yet the observed outcomes are quite close to those that would occur in the absence of any interventions, suggesting b is small for the types of intervention currently used in the Job Network.

Suppose that providers spent \$3 000 per participant. Using the data from table D.1 it is found that the outcome rates would have to increase by 6.4 times their level at $z=0$ in order to make such an investment worthwhile. This seems beyond any reasonable responsiveness of average employment probabilities to expenditure. Even if wage subsidies, with their greater apparent effectiveness, were to be used it would seem unlikely, *in the context of this simple model*, that $\partial R/\partial z^A > 0$ or that $\partial R/\partial z^B > 0$. This implies that from a purely pecuniary perspective, doing nothing with job seekers is optimal for Job Network providers.

Chapter 10 explains why this basic model has flaws, and that incentives to assist disadvantaged job seekers still exist. Nevertheless, the simple model does indicate reliably that providers can achieve significant income levels without actually undertaking significant interventions.

D.2 Changing the outcome mix

Suppose that the non-outcome (commencement) fee is eliminated, but that outcome fees are increased so as to be revenue neutral, for the moment *assuming that existing outcome rates are maintained*. If a common factor were to be used to increase all outcome-based prices, prices would rise by nearly threefold. For example, a category B interim outcome fee would be \$14 265 and a category B final outcome fee would be \$6 176. The revenue from doing nothing is now \$1 609 compared with the revenue of \$2 145 of achieving the observed outcome rates — so increasing the incentives for intervention.

However, at such prices, huge wage subsidies could easily be purchased for the relevant outcome periods. For example, it would be feasible to offer a weekly wage

³ Note, however, that they might actually be more effective in decreasing unemployment at the macro level (chapter 8).

⁴ The difference between this figure and the \$2 145 cited above is mainly due to variations from the floor price.

subsidy of \$500 for 13 weeks for a B category job seeker and still make a substantial profit on the outcome payment. This would probably yield many more employment outcomes than presently and therefore would not be revenue neutral (at these outcome rates it would also distort the unskilled labour market and produce other costs).

Accordingly, it is likely that a genuinely revenue-neutral shift towards outcome fees might require considerably smaller increases in the outcome fees than those above — because outcome rates would climb. This may be beneficial. However, if wage subsidies are the mechanism used to achieve these greater outcomes then there is a concern that, notwithstanding their positive effects⁵, the:

- the jobs created may displace others (chapter 2);
- existing measures of outcomes (relatively short duration jobs) might need to be adapted to avoid the risk of gaming by Job Network providers and employers as outcome fees rise (eg through the creation of deliberately temporary jobs);

In this case, it would appear sensible to make incremental changes in the payment structure and then evaluate outcomes before any further progression.

⁵ Despite the apparent belief that the current system cannot typically fund wage subsidies, it should be noted that Job Network providers can sometimes offer *contingent* wage subsidies (ie the wage subsidy is conditional on the employer employing the job seeker for 13 weeks). In those cases, this means that the Job Network provider does not have to waste wage subsidies on job seekers for which an outcome does not occur. In contrast, such contingent expenditure is not possible for pre-job coaching, training or other measures directly aiming to improve the employability of the job seeker. Because employment probabilities are relatively low, this provides a substantial advantage to wage subsidies in the current system.

E Biases in DEWR's post program net impact calculation

Worldwide, post program monitoring (PPM) is the most commonly used method for evaluating labour market programs (Stromback and Dockery 2000, p. 11). DEWR has undertaken a number of net impact studies based upon the PPM method to determine the effectiveness of Australian labour market programs. However, some argue that DEWR's implementation of PPM is flawed and produces biased results (for example OECD 2001, p. 220).

Biases identified in the DEWRSB IA net impact study generated by attachment and compliance effects are discussed in chapter 5. This appendix is concerned with two other sources of bias. One bias (the time bias), results from DEWR's assumption that '... time spent on the program is considered as 'time out' of the labour force' (sub. 43, p. 49) despite the fact that roughly 35 to 40 per cent of participants find employment while in IA. The other bias (the duration bias) arises because the IA group is matched to a control group using unemployment duration prior to IA while the probability of finding employment is a decreasing function of the duration of unemployment (including time spent in IA). These biases are discussed below, along with a brief description of the evaluation methods used and the results obtained.

E.1 The procedures used to calculate post program net impacts

The procedures used to calculate net impacts are as follows:

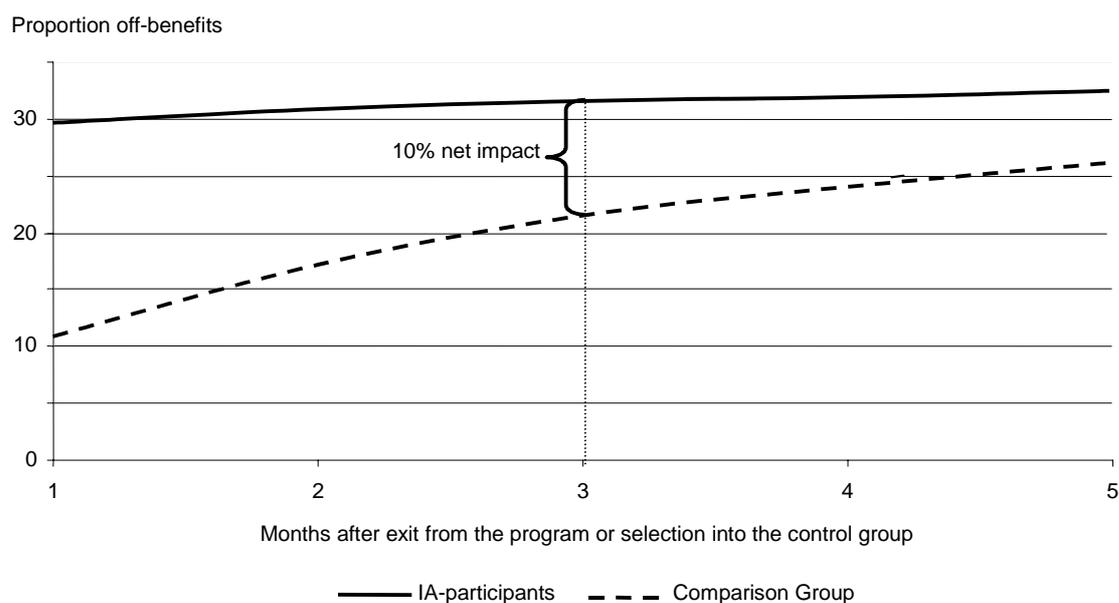
1. Exits from the IA program during one month are selected as a cross-sectional sample of IA participants;
2. A matched control group is selected on the basis of age, gender and duration of unemployment (where duration of unemployment is matched taking the period that IA participants spent in unemployment prior to their IA commencement);
3. The gross off-benefit outcomes are monitored for the IA exit group and the control group over a three month period (note that the off-benefit exits count as gross outcomes in the first month of the three month period); and

-
4. The difference in gross outcomes between the IA group and the control group is taken as the net impact figure.

E.2 The results of the study

Figure E.1 shows the results of the 1999 Net Impact study (DEWRSB 2001g). It graphs the cumulative gross outcomes for the IA group and the control group, the difference of which is interpreted as 'net impact'.¹ IA participant gross outcomes were measured to be 29.7 per cent one month after exiting the program and 31.8 per cent at three months. The control group had gross outcomes of 11.7 per cent one month after monitoring was begun and 21.8 per cent at three months. The official three month net impact ratio was therefore simply calculated as $31.8 - 21.8 = 10$ per cent.

Figure E.1 Intensive Assistance cumulative gross outcomes



Data source: DEWRSB 2001g.

¹ Cumulative gross outcomes are the sum of previous outcomes. That is, the numbers given are the total proportion of employment outcomes achieved at a given point in time.

E.3 The time bias

One distinctive feature of the results reproduced figure E.1 is that the gross outcome recorded in the first month for IA participants is very high. The Commission believes that this is largely due to the ‘time bias’ inherent in DEWR’s procedure.

The time bias can be seen easily in a stylised example. Assume that:

- the program has no effect
- the program lasts 12 months;
- all exits from IA are either due to expiry of the program after 12 months or due to participants finding employment while in IA; and
- the rate at which unemployed people find jobs is independent of unemployment duration. That is, for illustrative purposes, assume that the rate at which unemployed people find jobs is constant at 3 per cent of the initial unemployed per month (ie. if there are 1000 unemployed initially, 30 would find employment in the first month, 30 in the second, 30 in the third and so on until, after 34 months, no one would be unemployed).

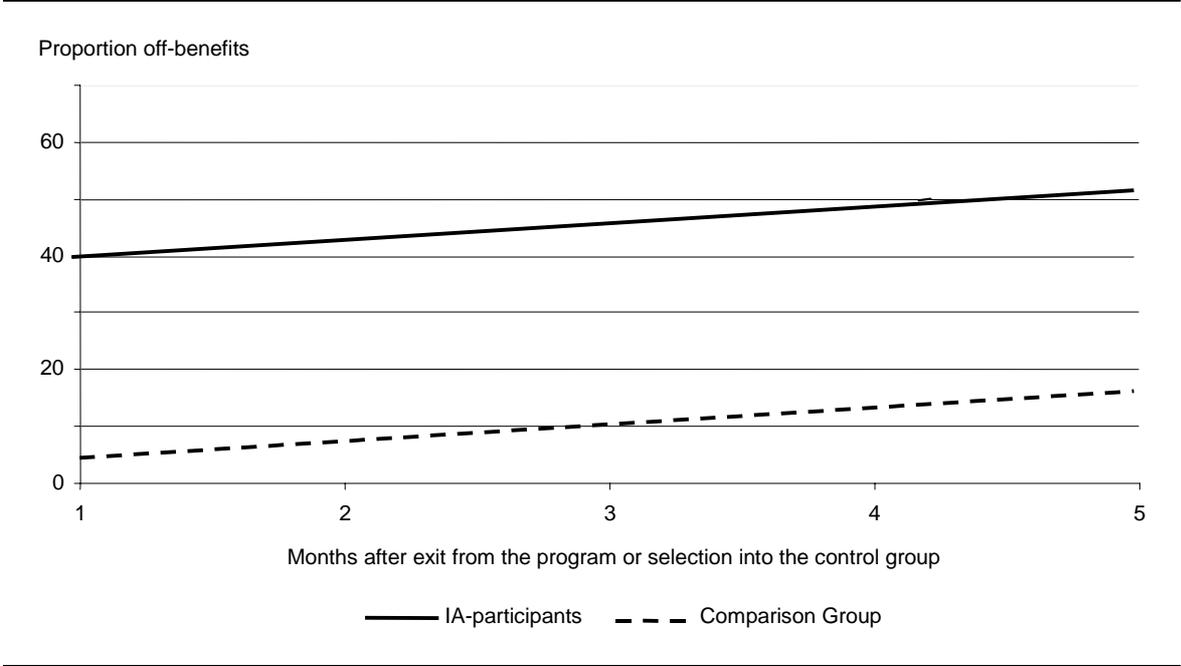
Under these assumptions, if a group of IA participants commencing in the same month were to be followed for a year — 36 per cent (12 months multiplied by 3 per cent) would be observed to have found employment. Thus, in the absence of seasonal variations and other sample biases, one would expect 36 per cent of participants who exited in a given month to have found employment and the remaining 64 per cent to have terminated the program after 12 months and remained unemployed.

Hence, by matching a control group with the characteristics of the IA group when they entered into IA but not recognising time spent in IA as a time of job seeking and counting exits that have found employment, net impact calculations are inflated. In fact, in the stylised example described here, the bias would consist of the entire proportion (36 per cent) of IA participants that found employment while on IA. This net impact bias would then persist for all subsequent periods. See figure E.2 for a depiction of this scenario.

The problem with the DEWR net impact methodology is therefore, that IA exits (a percentage of whom have already found employment) are matched to a control group that consists of unemployed people only. Ignoring other biases for the moment, DEWR would need to match the IA group to a control group that had the same amount of time to find employment to avoid the time bias.

With the current methodology, simply lengthening the duration of IA, without changing its impact on the employment prospects of job seekers, would erroneously lead to higher net impacts.

Figure E.2 Hypothetical IA cumulative off-benefit outcomes (time bias)



E.5 The duration bias

Another interesting feature evident in figure E.1 is that cumulative gross outcomes are achieved at a decreasing rate for both the IA group as well as the control group. For example, outcomes for the control group rose by 5.6 percentage points in the second month, 4.5 in the third, 2.8 in the fourth and 2.6 in the fifth. Furthermore, it is evident that the outcome growth is substantially lower for the IA group than for the control group (approximately one percentage point in the second and third months and half a percentage point after that).

The Commission is of the view that this can partly be explained by the combination of DEWR’s assumption that IA participants are out of the labour force and a declining probability of finding employment with unemployment duration.

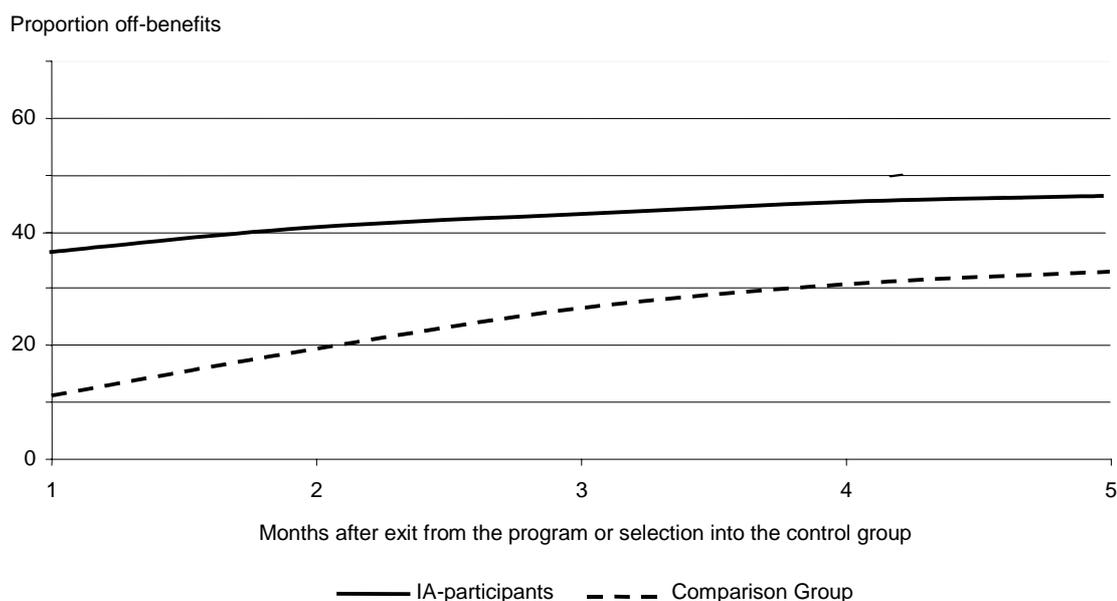
Unemployment duration affects any group’s average probability of finding employment in two ways. The first is that each individual in the group is subject to skills erosion and other factors that affect their employability. The second is that more employable job seekers will on average find employment faster than others, so that the average probability of finding employment in the group declines over time.

In recognition of this declining average probability of finding employment, DEWR's PPM methodology is careful to select control groups on the basis of unemployment duration. However, DEWR's methodology overlooks the fact that, other things equal, the probability of finding employment continues to decline while job seekers are in IA. For example, if a participant exited in the month the net impact study begins after having been on IA for six months and having been unemployed for two months prior to IA participation, then the DEWR methodology would match a control who had an unemployment duration of two months. However, excluding the 6 months time spent in IA from the participant's duration has the effect of reducing the calculated net impact.

To illustrate the duration bias it may be useful to once again assume that the program has a 12 month duration, has no impact on the probability that job seekers find employment, and that all exits from IA are either due to expiry of the program after 12 months or due to participants finding employment while in IA.

Now, if the probability of finding employment declines through time, the fact that IA participants would, on average, have been unemployed for longer than the control group (counting their time in the program) means that for groups with otherwise identical characteristics, the IA group would find employment at lower rates than the control group. This is represented in figure E.3 by the steeper slope of the cumulative outcome line for the control group.

Figure E.3 Hypothetical IA cumulative off-benefit outcomes (time and duration bias)



In summary, the duration bias evident in the DEWR methodology is the result of the choice of participants' start-of-program unemployment durations for matching. This bias will, other things equal, reduce net impact estimates by matching the IA group to a control group that has a higher probability of finding employment over the period of interest.

E.6 Conclusion

The net impact calculation method used by DEWR in its 1999 study has a number of flaws that render the results difficult to interpret. Given the existence of the attachment effect and the compliance effect discussed in chapter 5 as well as the time bias and the duration bias, the Commission is of the view that the net impact figures are substantially inflated and that the true net impact figure could be considerably less than the reported 10 per cent. The correct net impact results can be arrived at by matching participants and controls at the time participants commence IA and measuring cumulative employment outcomes over time. This is the approach DEWR is following in its third stage IA net impact study.

However, unless all the biases in the PPM method are properly understood, there is a danger that the difference in the commencement and post program net impact calculations will be misinterpreted. That is, unless the time bias is understood, the difference in net impacts may well predominantly be attributed to the attachment effects when in fact the time bias may account for a significant proportion of any such difference.

F The impact of the business cycle

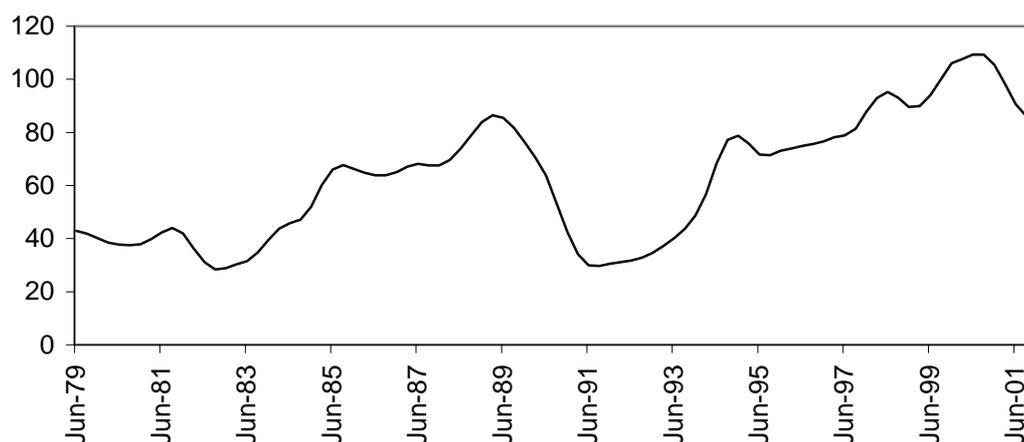
This appendix looks briefly at the likely impact that changes in the business cycle could have on the flow of business to Intensive Assistance providers.

Job Matching providers

As Job Matching providers only receive outcome payments, the crucial factor influencing their income over the business cycle is the number of vacancies available to fill. Even in times of low unemployment there are typically many more job seekers than jobs a provider will have on their books. A downturn will reduce the number of jobs available, and thus outcome payments while the number of job seekers will increase, potentially increasing administrative costs for the provider.

The fall in available jobs, and thus outcome payments could be considerable. For example, between the June quarter of 1989, and the June quarter of 1991, job vacancies recorded by the ABS fell by 66 per cent (figure F.1).

Figure F.1 **Quarterly job vacancies: June 1979 to December 2001**
'000 vacancies



Data source: ABS DX.

NESA (sub. 39, p. 6) commented:

Job Network has been performing well during a period of sustained economic growth. Real concerns exist regarding the industry's capacity to perform under current payment

and other arrangements in an economic downturn. Job matching providers who, arguably, may already be delivering an unviable or very marginally viable service would be unable to sustain performance and, if only contracted for job matching, their existence in an economic downturn.

Intensive Assistance providers

The overall impact of the business cycle is a complex interaction of a number of factors:

- the chances of finding employment for clients, and thus in achieving outcome payments;
- the number of clients and their associated commencement fees;
- different delays in the time at which changes in the business cycle have an impact on the network;
- the extent to which network members can vary their capacity and costs in response to changes in workloads; and
- the reaction of government to the pressures generated by the business cycle, either in response to budgetary constraints, or other factors.

In this analysis, the Commission has looked at the pressures that are likely to appear for Intensive Assistance providers as the result of likely changes in the flow of clients, and the chances of finding employment over the business cycle. The extent to which Job Network members can adjust to these changes is unknown, as is the response of government. These latter factors are not included. Overall, the effect of the business cycle is likely to be:

- At the beginning of a downturn, jobs will begin to dry up, making it more difficult to find employment for the current cohort of clients. In addition, the cohort who remain out of employment at the end of a growth period are likely to be the more difficult to place. Outcome revenue payments are likely to fall as the downturn develops.
- Unemployment will rise, but its effects on inflows into Intensive Assistance will be delayed because eligibility is heavily dependant on the duration of unemployment.¹
- Once the lagged increase in inflow commences, this will bring an increase in the volume of commencement fees earned. But at the depths of the recession, it will

¹ Some 35 percent of clients are referred to Intensive Assistance when first assessed by Centrelink, while almost all of the rest are directed to Intensive Assistance if unemployed for 12 months.

be difficult to get an outcome payment for these clients. The extent to which this is a problem depends on:

- the extent to which the provider is operating under capacity in the boom time as a result of the (then) low inflow; and
 - the extent to which the provider can control costs (typically by ‘parking’ a bigger proportion of clients than occurs in the good times) commensurate with the lower probability of an outcome.
- However, in times of recession, a wider range of people become unemployed, including those who, in other circumstances are much more employable. These will be included in the increased inflow cohort as the downturn progresses. This means that as the upswing commences and jobs become available, not only will it be easier to find jobs and obtain increased outcome payments, the clients will be easier to place because they contain more people who are inherently more employable (that is, they can be placed in jobs with less ‘investment’ on the part of the Job Network provider). Outcome payments will increase, and on a large base of clients.
 - At the peak of the cycle, the inflow of clients will be reduced, and while it will be easier to find jobs in general, the cohort in Intensive Assistance in that part of the cycle are likely to be the most difficult to place. Up-front payments will be low and outcome payments may be reduced total. The provider could be operating under capacity, and would reduce operating costs accordingly.

The Commission’s analysis

To obtain some idea of the extent to which the workload and revenue of an Intensive Assistance provider could fluctuate over the business cycle, the Commission has worked through an illustrative hypothetical example on the following basis.

To indicate the likely timing and level of changes in commencements, and thus in revenues from commencement fees, the Commission looked at ABS monthly trend unemployment data from January 1980 onward. This data was indexed and applied to the average number of commencements from March 2000 to April 2001 (27 387). October 2000 was chosen as the index base month for estimating trends. 65 percent of the index of unemployment trends was lagged by 12 months to reflect the delay in entry to Intensive Assistance.

To indicate the likely change in the chances of finding employment for job seekers (and thus in the level of outcome revenues), the Commission looked at ABS quarterly trend job vacancy data (also from January 1980 onward). This data was

indexed to provide a means of estimating the level of change over time. The existing level of outcomes and payments applied to October 2000 (the base month for calculation purposes) are presented in table F.1.

Table F.1 Rate at which outcome payments are achieved and the level of payments

	<i>Job seekers achieving an outcome</i>			<i>Payment for outcome</i>		
	<i>A</i>	<i>B</i>	<i>Average^a</i>	<i>A</i>	<i>B</i>	<i>Average^a</i>
	%	%	%	\$	\$	\$
Commencement	100.0	100.0	100.0	1069	2107	1406
Early job matching	20.6	15.4	18.9	362	362	362
Interim primary	16.1	12.1	14.8	2495	4915	3282
Interim secondary	8.8	6.6	8.1	536	536	536
Final primary	12.2	9.1	11.2	1064	2128	1410
Final secondary	2.5	1.9	2.3	536	536	536

^a For weighting purposes, 67.5 percent of commencements are level A and 32.5 percent of commencements are level B.

Source: Appendix E..

The rate at which these outcome payments were estimated to be received was delayed on the following basis, reflecting estimates of the average time taken before a payable outcome is achieved (table F.2).

Table F.2 Assumed delay in receipt of commencement and outcome payments

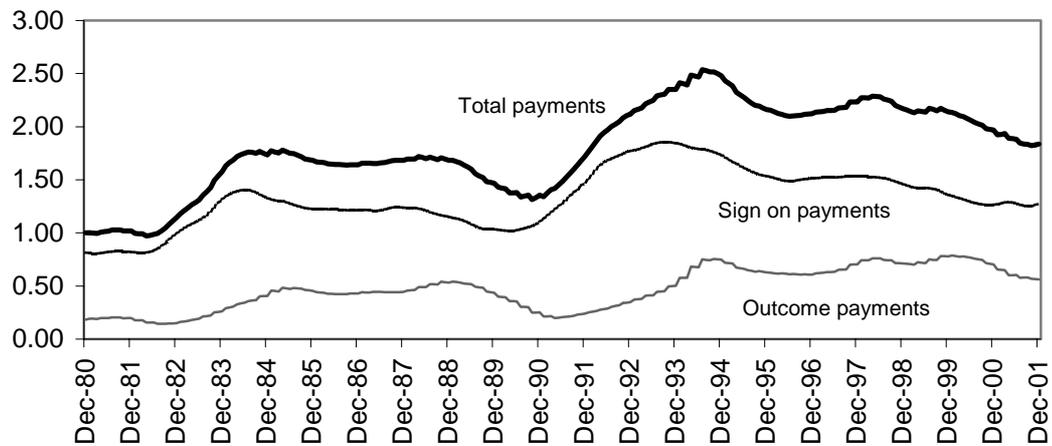
	<i>Delay in months</i>
Commencement	0
Early job matching	3
Interim primary	6
Interim secondary	6
Final primary	9
Final secondary	9

Source: Commission estimates.

The most significant economic downturn covered by the data series is that for the early 1990s. These data indicate that the revenue stream for an Intensive Assistance provider is susceptible to the business cycle (figure F.2). Both commencement fees and outcome payments decline in the early stages of the downturn. While unemployment may be rising, there is a delay before this is reflected in an increase in commencements, and thus in an increase in commencement fees, as length of unemployment is a significant factor determining eligibility for Intensive Assistance. Revenue from commencement fees increases rapidly once begun, while

outcome returns take much longer to respond. This is largely to be expected, as experience has shown that in economic downturns the level of unemployment rises rapidly (and so would commencements), but that in the subsequent recovery, the return to lower levels of unemployment is much slower (and thus an increase in outcomes would be expected to be similarly slow).

Figure F.2 Estimate of the variability in returns to Intensive Assistance providers: sign on fees, outcome payments and total
Index



Data source: Commission estimates.

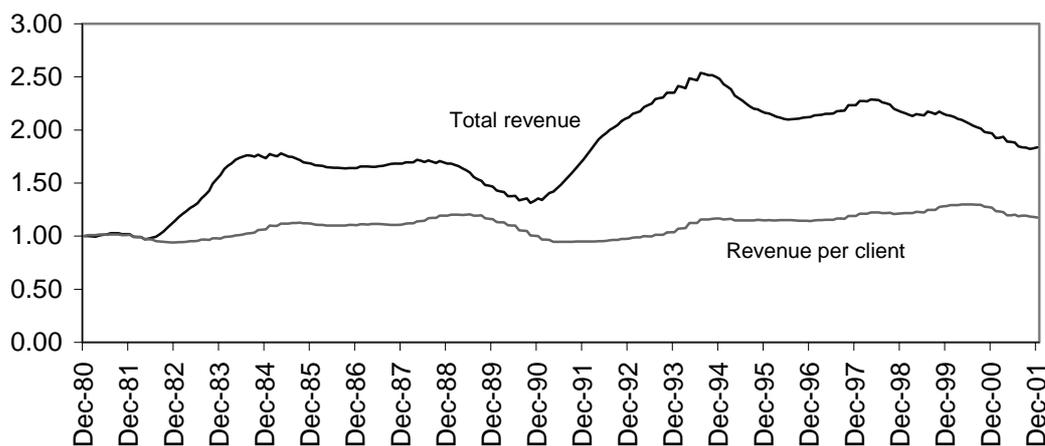
The above figures reflect changes in the level of gross revenues to Intensive Assistance providers. The impact of this, in terms of the viability of those providers will be influenced by the extent to which they can adapt to those changes. As with other businesses, changes in the number of clients, so long as it is not rapid and extreme, can be adjusted to by changes to capacity and cost structures by, for example, changes in the number of staff in the organisation.

One factor that will influence the degree to which such adjustment can occur is the level of payments per client. For example, if the number of clients is unchanged, but the payments per client fall significantly, it is more difficult to change cost structures in response to lower revenues as these clients must be managed whatever the level of payment achieved. If payments per client are more stable, with changes occurring largely in the number of clients, then cost structures can be more readily adapted to such changes.

On a per client basis, the variability in revenue is significantly less than that for gross revenue (figure F.3). This is because commencement fees are the most significant component of revenue received by Intensive Assistance providers. The

impact of changes in outcome rates which would influence revenue per client are thus considerably muted.

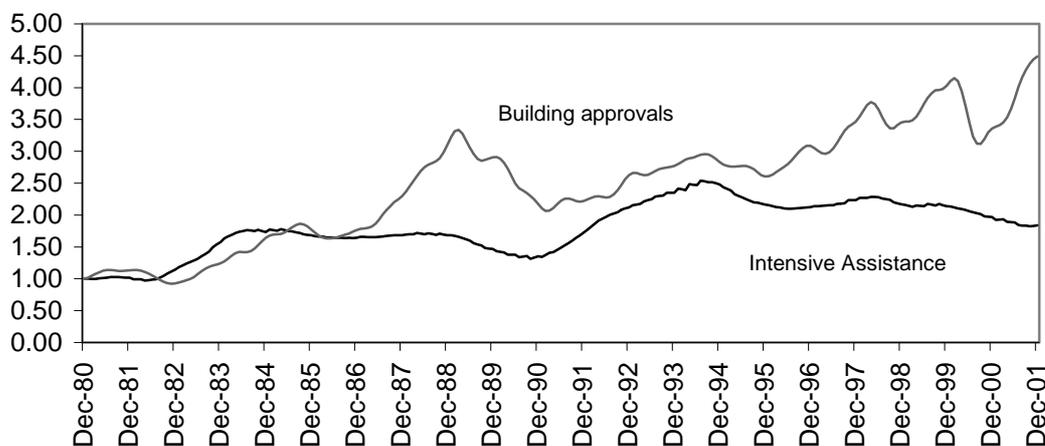
Figure F.3 Estimated variability in gross revenues and revenues per client
Index



Data source: Commission estimates.

In terms of comparisons with the variability in other industries over the business cycle, the Job Network is more variable than many, but not as variable as some. Figure F.4 provides a comparison with a traditionally cyclical industry (ABS trends in the value of building commencements).

Figure F.4 Variability in Intensive Assistance gross revenues and the value of building commencements.
Index



Data source: Commission estimates.

The impact of making the up front payment conditional on outcomes

In chapter 10, the Commission has discussed the option of making the commencement payment conditional on the achievement of outcomes. The Commission has estimated the likely impact of this change over the business cycle in a revenue neutral fashion, by taking the current commencement (up-front) fee, making it refundable on the basis of outcomes achieved, and increasing the existing outcome fees to achieve revenue neutrality in the base period (October 2000) (table F.3). For this estimation, the Commission has assumed that the up-front fee can be retained if interim primary and interim secondary outcomes are achieved. This is essentially an arbitrary decision, as a different basis on which retention of the commencement fee is allowed could as easily be chosen.

Table F.3 Rate at which outcome payments are achieved and the level of payments with conditional commencement payment

	<i>Job seekers achieving an outcome</i>			<i>Payment for outcome</i>		
	<i>A</i>	<i>B</i>	<i>Average^a</i>	<i>A</i>	<i>B</i>	<i>Average^a</i>
	%	%	%	\$	\$	\$
Commencement	100.0	100.0	100.0	1069	2107	1406
Estimated repayment ^b	75.1	81.3	77.1	803	1713	1085
Early job matching	20.6	15.4	18.9	798	1059	874
Interim primary	16.1	12.1	14.8	5500	14378	7918
Interim secondary	8.8	6.6	8.1	1182	1568	1293
Final primary	12.2	9.1	11.2	2345	6225	3402
Final secondary	2.5	1.9	2.3	1182	1568	1293

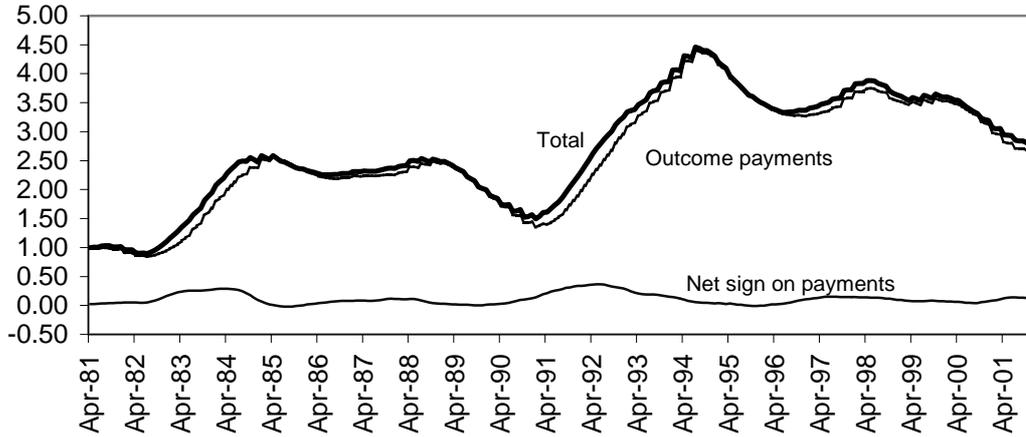
^a For weighting purposes, 67.5 percent of commencements are level A and 32.5 percent of commencements are level B. ^b The rate of repayment was determined by the level of interim primary and interim secondary outcomes.

Source: Commission estimates.

The Commission has assumed that repayments are on a rolling monthly basis determined by outcomes achieved in relation to commencements 12 months ago. The consequence of making the commencement fee refundable on the basis of outcomes significantly increases the variability of revenues for Intensive Assistance Providers. Because of the high rate of repayment (in effect the low level of payable outcomes) in any month the provider is repaying most of the commencement fees obtained in that month. Figure F.5 indicates that net monthly commencement income is quite low. Outcome fees now dominate income and reflect the full estimated variability in the chance of achieving an outcome indicated by changes in job vacancies.

Figure F.5 Estimate of the variability in returns to Intensive Assistance providers: sign-on fees, outcome payments and total: contingent sign-on fees

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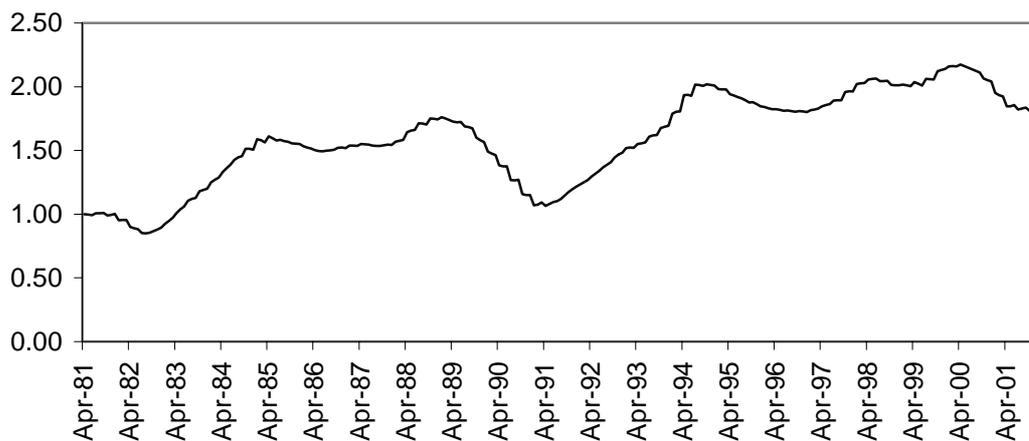


Data source: Commission estimates

On a per client basis, contingent commencement (sign-on) fees increase the level of variability over the business cycle (figure F.6).

Figure F.6 Estimated variability in returns per client in Intensive Assistance: contingent sign on fees

Index



Data source: Commission estimates.

Job Search Training providers

For Job Search Training the pattern is likely to be similar to that of Intensive Assistance, but with a key difference being that the commencement payment is a significantly higher share (65 percent) of the available payments for that group, and 80 percent of the actual payments received. In addition, the lags associated with changes in commencements are less. Job Search Training is thus very close to a fee for service arrangement. It benefits from an increased number of clients that would result from a downturn in the economy.

Additional analysis planned

The Commission intends to refine the model developed for the draft report, incorporating any additional information and comments provided by participants. In addition, the Commission intends to quantify the likely effects for Job Search Training providers using the same methodology employed for Intensive Assistance.

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