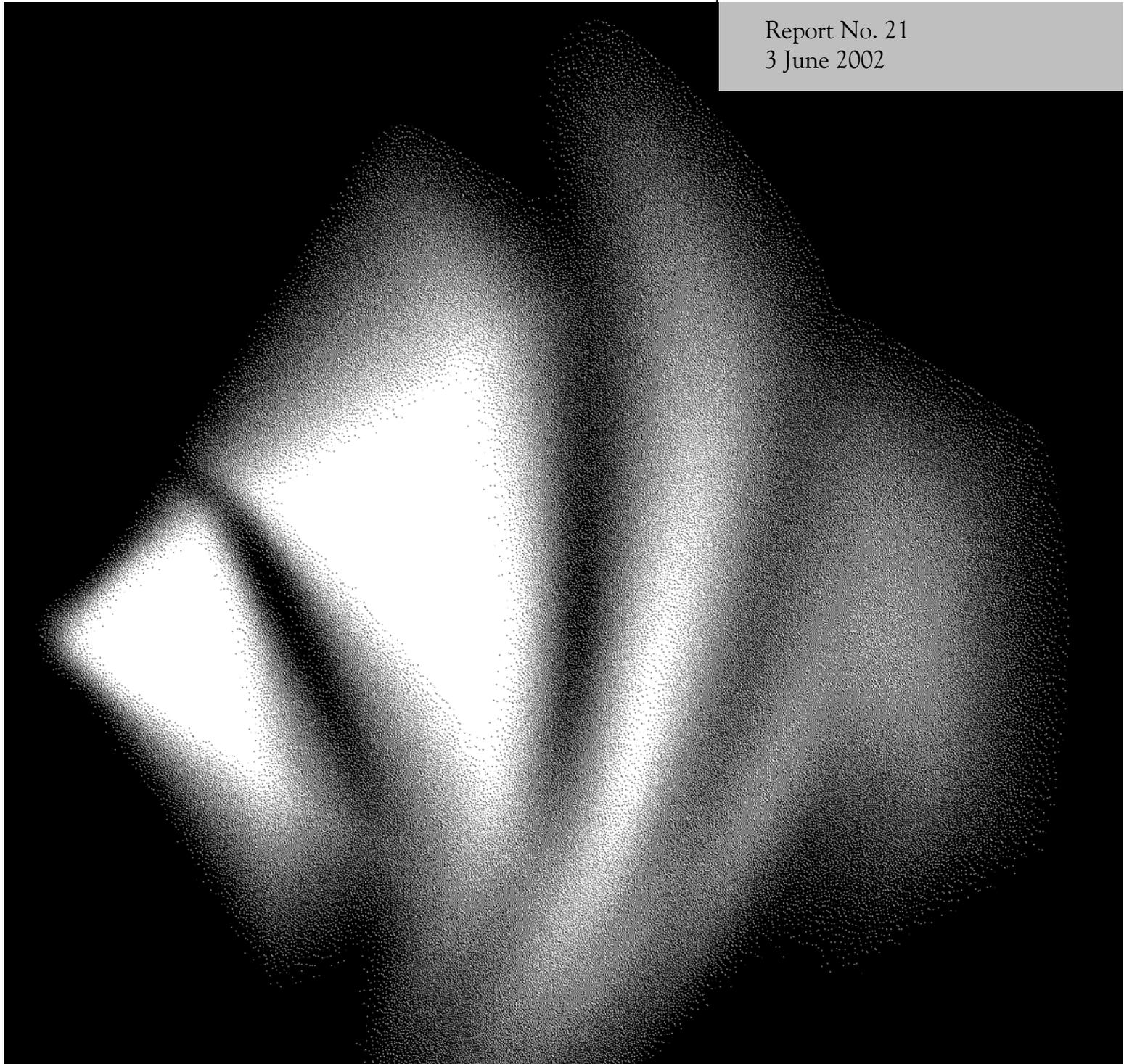




Independent Review of the Job Network

Inquiry Report

Report No. 21
3 June 2002



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ISBN 1 74037 087 2

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An appropriate citation for this paper is:

Productivity Commission 2002, *Independent Review of the Job Network*, Report No. 21, AusInfo, Canberra.

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3 June 2002

The Honourable Peter Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission's *Independent Review of the Job Network*.

Yours sincerely

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:

-
- 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

CA	Customised Assistance
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
ESA	Employment Service Area
ESC	Employment Services Contract
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 three key features are an outcomes orientation, competition and choice.

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

However, not all aspects of the Job Network are working well and incremental reform is warranted:

- Many disadvantaged job seekers receive little assistance while on 'Intensive' Assistance — so-called 'parking'. There needs to be better targeting of the needs of job seekers, changes to payment systems to providers and greater options for re-referring job seekers to other programs. The Active Participation Model proposed for the third contract reduces parking problems, though other steps may help further.
- Many job seekers do not choose their Job Network provider, have few choices over the services given to them and, in the proposed changes envisaged for the next contract, will be locked into a single provider, potentially until retirement. There needs to be better information provided to job seekers about the Job Network and more options for job seekers to choose providers and pathways.
- Competitive tendering is complex and expensive for providers and disruptive to services. Accordingly, licensing of providers should be adopted, ultimately with free entry to the Job Network by accredited agencies, subject to ongoing assessment of quality. Prices should be set administratively as quality of service cannot be assessed adequately *ex ante*.
- Fixed caseloads frustrate growth of the best agencies and remove incentives to develop and promote their superior performance. Quotas on caseloads should be liberalised and eventually abandoned.
- 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. They should adopt a risk management approach to contract monitoring and compliance.
- Some minor programs are either poorly targeted or ineffective. Subsidies should be removed from Project Contracting and the Self Employment Development program should be terminated.

The Commission's recommendations are unlikely to decrease funding for unemployed job seekers, and should improve the effectiveness of services for them, providing them with more options, improved choice and greater empowerment.

The recently proposed Active Participation Model for the Job Network resolves some, but not all of the problems of the existing Job Network. Overall, it is a positive step.

Overview

The goal of the Job Network

In common with many other countries, unemployment has been a persistent and severe social and economic problem in Australia since the 1970s. In April 2002, there were 630 000 unemployed Australians, comprising 6.4 per cent of Australia's labour force. Of these, around 149 000 were long-term unemployed (unemployed for more than a year).

Unemployment increases poverty and inequality, erodes people's skills and reduces social capital, economic output and national income. Many unemployed people feel demoralised and socially alienated. 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 is adversely affected and there are bigger burdens on the charitable sector and social welfare budgets.

Many of the unemployed feel deeply frustrated by their predicament and the system that intends to help them. As one job seeker commented to the Commission:

You lose respect, you lose dignity, you're humiliated, you're in despair, you're embarrassed, you're angry, you're frustrated and finally you just don't care. You just don't care. All this stuff leads to loneliness, alienation, feeling of inadequacy. You get very suicidal. I tend to. I am very angry (trans., p. 98).

For these reasons, reducing unemployment and developing a high quality system for helping job seekers are among 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 and evolving way of attempting to reduce unemployment — it brings flexibility, choice and competition to the provision of employment services. *In the Commission's view, the new framework has many advantages and should be retained. However, it also has some flaws. The*

recently proposed Active Participation Model, to be introduced in the third contract round, resolves some of the problems of the existing model — but further changes are required.

The Job Network

Job Network is a ‘managed’ market for the provision of subsidised employment services to Australia’s unemployed, especially targeted at the more disadvantaged (box 1). 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, some degree of choice for job seekers, flexibility in the way services are delivered, and rewards for good providers.

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 in 1994. For example, under Working Nation, some employment services were contracted out to case managers.

The Job Network has evolved over time. Considerable changes were announced in the Budget in May 2002, and a detailed discussion paper on proposed arrangements for the third employment services contract (ESC3) was released on 27 May 2002 — one week prior to completion of this report. ESC3 is due to commence in July 2003.

In reviewing the Job Network, the Commission has analysed the arrangements under the first two contracts, and has also assessed the advantages and disadvantages of the proposed new arrangements. The Commission’s recommendations for change are given against the backdrop of the proposals in the recent discussion paper.

The Job Network fulfils three major functions:

- *Job placement* (or ‘Job Matching’ in the first and second contracts). Providers match and refer eligible jobseekers to suitable vacancies, notified by employers. The job placement function will no longer be badged as part of the Job Network in ESC3, as the general recruitment agencies and others outside the existing Job

Network are invited also to fulfil this role. All Job Network providers will be obliged to offer job placement services.

- *Job Search Training and Support (JST)*. Job Network providers offer a job search training program to job seekers unemployed for at least three months.
- *Customised Assistance* ('Intensive Assistance' in the first and second contract). Under the proposed arrangements for ESC3, job seekers unemployed for 12 months (or those at very high risk of enduring unemployment) will receive more extensive assistance for a period of 6 months (12 months under the old arrangements). This can include job matching, training, job search assistance, work experience and post-placement support. Job seekers will apparently be required to undertake approved activities 3 days a week for the first 3 months of this assistance phase. Job Network providers will also get access to a funding pool to subsidise particular forms of assistance to job seekers.

The major change in the proposed new arrangements is that job seekers will be allocated to a single Job Network provider for the life of their unemployment episode. They will automatically go through cycles of assistance of varying intensity as their unemployment spell increases. Where job seekers are referred to complementary programs, such as Work for the Dole, Job Network providers will retain contact with them and ensure continuing job search activities.

In the first two contracts, the Job Network offered several other minor program functions, most of which will continue to be offered in the proposed new arrangements.

- *The New Enterprise Incentive Scheme (NEIS)* provides assistance for unemployed people wishing to start their own business. The Government has proposed retaining this program in ESC3 as part of the Employment Services function (but as a complementary program to the usual Job Network services).
- *Self Employment Development (SED)*, which allows job seekers to develop a business idea). This has an unknown future in ESC3.
- *Project Contracting (Harvest Labour Services)* (which organises vacancies for seasonal farm work).

Of the various functions, the intensive phase of assistance (Intensive Assistance in the current Job Network) is by far the most important as it is targeted at the most disadvantaged job seekers.

Box 1 How the Job Network works

Job Network providers tender to provide Job Network services (on the basis of price and quality in ESC1 and 2, and on the basis of quality alone in the forthcoming ESC3). There is usually a number of providers in any one area. Job seekers may choose their provider from these. If they do not, they are randomly assigned a provider that has spare capacity using an auto-referral system run by Centrelink.

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

- Typically, job seekers using job placement services will approach different placement agencies to access the vacancies for which the agencies hold the details.
- All job seekers who have been on unemployment benefit for 3 months (or more) become eligible for Job Search Training (and other Intensive Support services in ESC3).
- All unemployment benefit recipients are assessed by Centrelink using a profiling instrument — the Job Seeker Classification Instrument (JSCI) — to assess their risk of prolonged unemployment. If their risk is assessed as high, they are referred to an intensive level of assistance immediately. In ESC3, an alternative basis for eligibility to the intensive phase of assistance is prolonged unemployment. 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 (soon to be the Personal Support Program) — outside the Network.

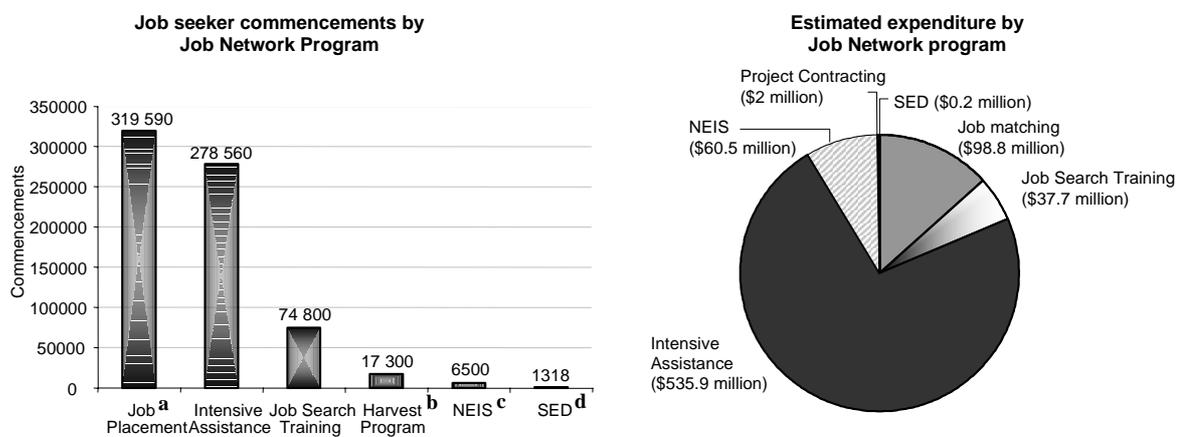
Job Network providers are given considerable flexibility in the services they provide, particularly in the intensive phase of assistance. Providers may also specialise in services for certain disadvantaged job seekers — such as people with disabilities and Indigenous Australians.

In addition to paying commencement fees when job seekers start in the intensive phase of assistance (to be changed to fee-for-service payments in ESC3), the Government also rewards providers for outcomes. For example, under ESC3, a provider will receive outcome payments of over \$6600 if it successfully gets a job that lasts at least 26 weeks for a job seeker who has been unemployed for 3 years or more. This will be supplemented by fee-for-service and Job Seeker Account payments for that job seeker of around \$4500 over the three years. 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 future contracts.

This phase also commands the most resources. Intensive Assistance accounted for around 70 per cent of total Job Network expenditure in Employment Services Contract 2 (ESC2) (figure 1), while DEWR estimates that Intensive Support (comprising JST and Customised Assistance) will comprise around 80 per cent of Job Network providers' revenue in ESC3. Accordingly, the Commission's analysis of the policy framework pays particular attention to the intensive phase of assistance in the Job Network.

Figure 1 Participation and expenditure in the Job Network
2000-01



^a Placements are recorded for Job Matching. ^b Commencements for Project Contracting (Harvest Labour Services) are for 1999-00 harvest season. ^c New Enterprise Incentive Scheme. ^d Self-Employment Development.

Data source: Chapters 4 and 5.

Two rounds of tendering have been held to date — in 1997 and 1999. In the second round, competitive price tendering determined the prices and capacities of Job Network providers. For the third round contract, DEWR proposes to rollover around 60 per cent of the capacity to higher performing agencies. Tendering (on the basis of quality) will be employed for the remaining 40 per cent of capacity, but DEWR proposes that prices will be fixed administratively for all services.

The Commission's view of the purchaser-provider model

There are sound 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, provides

stronger incentives for finding better ways of achieving job outcomes and encourages cost efficiency.

However, the application of a ‘pure’ 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;
- price competition can undermine the quality of employment services if competing providers are unable to specify accurately in their tender bids the outcomes they are likely to achieve; and
- 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.

Nonetheless, the Commission considers that the advantages of the policy framework outweigh its limitations, especially since there is scope to vary its features to address these challenges.

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 them could prove worthwhile.

Effectiveness of the Job Network

Measuring the effectiveness 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 get jobs, it may be at the expense of other job seekers who would otherwise have been successful. Consequently, the composition of the unemployment queue may change but, overall, unemployment may be relatively unchanged. Nevertheless, such ‘churning’, by building up the skills and employability of more disadvantaged job seekers, can increase overall employment.

Using a variety of assessment methods, the Commission finds that Job Network programs have, so far, probably had only modest effects on job seekers’ chances of gaining employment. This finding is consistent with evaluations of previous Australian and overseas labour market programs, and is in line with realistic expectations about their capacity to reduce aggregate unemployment. Nevertheless, it needs to be recognised that small impacts can still produce valuable social and economic outcomes.

Outcomes are also likely to improve over time as poorer performing Job Network providers exit and as providers learn what works best. Outcome rates improved in the shift from the first contract to the second, as lower quality providers did not win contracts. The best performers in the Job Network obtain outcome rates that exceed the average (given their labour market and job seeker characteristics) by around 12 percentage points, while lower performers do markedly worse than the average (figure 2). Therefore, future contract rounds offer the potential for further gains in outcomes.

Even so, measures such as the Job Network need to be accompanied by other approaches to reduce unemployment, such as continued pursuit of economic policies conducive to strong growth and welfare and regulatory reform.

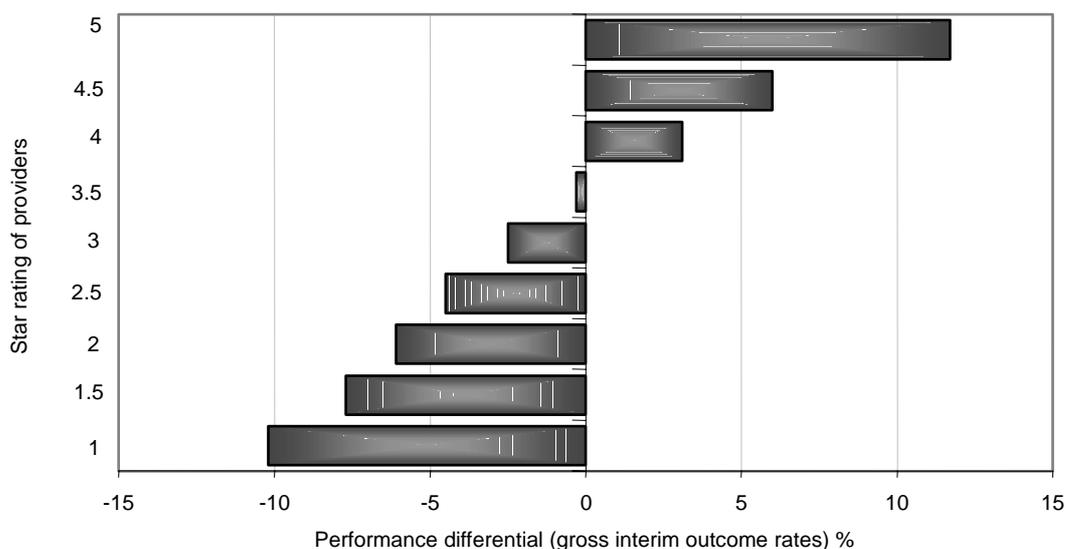
Total funding of active labour market programs under the Job Network is significantly lower than previous programs, such as those forming part of Working Nation. Claims and counter-claims are made about the comparable effectiveness of the programs over time and the impact of funding reductions. Such claims, however, often lack a rigorous basis since they fail to take account of differences in program recipients, the business cycle and assessment methods.

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

The Second Stage Evaluation results published by DEWR in 2001 estimated that Intensive Assistance had a 10 per cent net impact on unemployment of participants. The Commission considers that this is likely to significantly overstate the real effects of the core program in the Job Network. For example, the methodology

treats the time participants spend in Intensive Assistance as time out of the labour force, when in fact they are required to, and do, look for work. Thus, the employment outcomes for Intensive Assistance participants effectively looking for work for more than one year are compared to the outcomes of a control group that has only three months to find employment. Similar methods used in the past mean that the impacts of previous comparable programs have also been overstated.

Figure 2 Differences between the average and actual gross outcome rates between providers with different star ratings



Data source: Chapter 10.

Improved data and methods are required to facilitate better understanding of the effects of the Job Network (DEWR is already moving in this direction, and is expected to soon release its Third Stage Evaluation of the Job Network incorporating improved assessment methods).

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 warranted:

- redundant or poorly targeted programs;

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- 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 or poorly targeted programs

The main emphasis of the Job Network is to obtain jobs for disadvantaged job seekers, yet some programs are not well suited to this.

Project Contracting 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 number assisted (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 horticulturists 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 and 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.

In the draft report, the Commission also raised fundamental concerns about the job placement function of the Job Network. The Commission considered that this function was poorly targeted because so many non-disadvantaged job seekers (those with small risks of prolonged unemployment) were able to access these services. 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.

However, while these remain problems, participants in the inquiry pointed out that employers would not be interested in providing vacancies to the Job Network unless the pool of job seekers were sufficiently large and diverse to meet their basic needs. Moreover, there is a continuum of disadvantage in job seekers that makes it hard to determine the threshold for eligibility. Accordingly, a job placement function targeted at the most disadvantaged job seekers alone might fail to meet the needs of less acutely disadvantaged job seekers. In this context, the Commission recognises

that there is a case, at least in the short run, to continue to provide placement services for non-disadvantaged job seekers. However, the Commission supports the proposal in DEWR's discussion paper that the job placement service in ESC3 should focus more on the needs of disadvantaged job seekers (through higher payments for job outcomes).

The cumulative effect of the Commission's recommended changes to Job Network services is unlikely to decrease overall funding for the unemployed — and should improve service quality, and provide greater options and choice for them. This reflects retention of the job placement function, the new milestone program, expanded intakes to other programs through re-referrals and greater outcome payments targeted at disadvantaged job seekers.

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 test innovative methods for motivating job seekers or for increasing their employability. For example, Job Network providers have supplied 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 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, potentially also undermines the flexibility that underlies an outcomes-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 should not be imposed 'unilaterally' by DEWR. Proposed variations should be negotiated with the relevant providers after taking advice from their industry

associations. There should be compensation for significant additional burdens placed on providers by DEWR.

Several participants suggested that there should be an independent agency to oversee the Job Network and DEWR's management of it. The principal benefits of such an agency is that it could address issues of transparency and accountability, and ameliorate any problems of power imbalance and distrust between the Job Network players and DEWR. However, such an agency would increase overall administrative overheads and may impose additional compliance burdens on providers.

The overall value of establishing an independent Job Network agency is difficult to assess, especially in view of the inherent uncertainty of how it would operate in practice. Further, the justification for the agency should diminish over the medium term as the framework of the Job Network settles down and its substantial reliance on tender and contract arrangements declines.

Given these factors, the Commission considers that a better approach is for the Government to adopt the Commission's recommendations relating to transparency, accountability, monitoring and compliance. This should help to address the issues perceived by participants. However, if significant problems do continue into ESC3, the Government should give consideration to the establishment of a body independent of DEWR with the following range of functions related to the Job Network: monitoring the quality of service provision; evaluating program outcomes; examining and recommending on potential improvements; and protecting the interests of job seekers and providers in relation to DEWR and Centrelink.

Design flaws in the Job Network 'market'

The Job Network is based around what one participant called a 'lego' market — with many of its features constructed and prescribed by government. This reflects the need for government to take account of the wide costs of unemployment, 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 the intensive phase of assistance (Intensive Assistance in ESC2 and Customised Assistance in ESC3) in order to stay on benefits. They are not permitted to choose other mutual obligation options instead, such as community work or Green Corps (though under the

proposed new arrangements for ESC3, providers may refer job seekers to these activities under certain circumstances).

Job seekers are given the freedom to choose their Job Network provider, but most 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 an automated referral system. Under ESC2, once a job seeker has chosen or been assigned a Job Network provider, they are not generally allowed to move to another one, until referred by Centrelink to the next stage of assistance. Under the proposed arrangements for ESC3, there will be even less scope for choice, since the initially selected provider will provide all stages of assistance to the job seeker. As one participant quipped, the relationship of the job seeker with the selected provider is for the ‘term of their natural life.’

Job seekers are increasingly being ‘recycled’ through Intensive Assistance. Already, around half the job seekers currently commencing in Intensive Assistance have participated in this or similar programs previously, with little sustained success.

Coordination and information sharing in the existing system are 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. The changes proposed in ESC3 partly ameliorate this, but at the expense of prohibitions on the movement of job seekers to Job Network providers better suited to their needs.

Targeting issues

The level of funding for varying degrees of disadvantage is determined by the DEWR-devised Job Seeker Classification Instrument (JSCI) and by unemployment duration in ESC3. 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 the apparently intensive phase of assistance. This is popularly called ‘parking’ in the industry. It arises in the current system 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. They may park those with either

insurmountable or high barriers to work who have low likelihoods of achieving payable outcomes. Sometimes poorly motivated job seekers may ‘self-park’.

- Second, there are only limited outcome payment categories in the intensive phase of assistance and funding is limited. There are weaker financial incentives for helping those who are less responsive to assistance in an outcomes-based system.
- Third, under the present arrangements parking can occur 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 chance 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.

As noted later, changes proposed for ESC3 are likely to alleviate parking.

Supply side issues

Under the current arrangements, Job Network providers are given a fixed quota of Job Search Training and Intensive Assistance places (with the potential to negotiate a small increase during the tender period) at the commencement of each contract 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 to date been geared more to ensuring 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. These problems are set to continue as tendering (based on quality) will be used for allocating around 40 per cent of the capacity of the Job Network in ESC3.

Currently, 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, with many providers supplying their services at this floor price.

Commencement fees paid to Job Network providers for signing on job seekers are still a substantial 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 Intensive Assistance 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. Proposed outcome fees in ESC3 will be lower than in ESC2, but this will be offset by the fact that they will apply whenever a job seeker gets a job (that is, they are not restricted to the 12 month period of Intensive Assistance, as now). Consequently, outcome payments will account for a similar share of revenue in the new proposed arrangements as in the current arrangements.

The success of Job Network providers in current and subsequent tender rounds is determined by tender evaluation, supported by an econometric ‘star rating model’ (box 1). 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). There is evidence of some regional biases, though these have been reduced with recent changes recommended by Access Economics. Job Network providers do not know the specification of the model — raising transparency issues. They are also 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. This is primarily because it incorporates strong incentives — particularly through the star rating system — 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) and the Active Participation Model announced in the

May 2002 budget — have initiated some of these reforms, but the Commission proposes further, and in some cases different, steps.

Clarifying purpose

If some of the less effective components of the Job Network (such as the subsidies in Project Contracting 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. Other programs may have worthwhile complementary objectives (such as overcoming youth educational barriers) and should be coordinated with the jobs-oriented approach of the Job Network.

The task of policy is then to design the most appropriate institutional framework for achieving job outcomes. 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 contractual 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 will always be limited by the acute level of disadvantage (low literacy and motivation) that affects some job seekers. Even so, pilot testing of the 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). It is to be adopted as part of ESC3.

Currently, the intensive phase of 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 in this phase should be voluntary, with job seekers able to select among Intensive Assistance/Customised Assistance and other eligible mutual obligations — such as community work.

However, first-time participation in the Job Search Training phase of assistance should remain mandatory. Compulsory attendance encourages some job seekers to go off benefit prior to commencement in this assistance phase. Some job seekers are motivated by notice of their pending involvement in Job Search Training to search more actively for a job, while others, who are inappropriately receiving benefits when they already have a job, exit benefits to escape detection. However, the Commission has proposed that second-round use of Job Search Training should be voluntary, subject to some conditions.

There should also be scope for job seekers to move to another Job Network provider at various stages in the assistance cycle — such as just prior to Customised Assistance — if they are not satisfied with their present one. This provides a strong discipline on providers to perform well and to meet aspects of service delivery that are hard to quantify or police in other ways.

Where a job seeker is in a particular sub-program in the Job Network — such as Customised Assistance — the grounds for job seeker portability are much weaker. This is because such portability would reduce the incentives to invest in job seekers. However, the Commission has proposed some limited circumstances when portability could occur within Customised Assistance.

Better targeted and delivered services

In its draft report, the Commission recommended a reduction in the duration of the intensive phase of assistance to 6 months from its present 12 months, so as to target assistance at the start of the program when it seemed to have most effect. The advantages of doing this were contested by many participants because they were concerned that the most disadvantaged job seekers would miss out on the long-term assistance they needed. Under ESC3, it is proposed that the intensive phase of assistance will be shortened to 6 months. However, unlike present arrangements, outcome payments will be still available to a Job Network provider after completion of Customised Assistance, as are fee-for-service payments for regular interviews. In that sense, assistance for disadvantaged job seekers will not have any limit on its duration under the new arrangements. The Commission supports this feature of the proposals, but also considers that funds in Job Seeker Accounts should be available for use after the 6 months Customised Assistance phase is over.

Activity testing — the process by which job seekers’ efforts to search genuinely for jobs is monitored by government — has an important role in maintaining motivation to search for jobs. However, some job seekers in the intensive phase of assistance have had much lower activity requirements than benefit recipients in other phases. The Commission supports a greater level of engagement by job seekers with job search and preparation during the intensive stage of their assistance. However, the Commission notes that under ESC3, it is proposed that job seekers in Customised Assistance engage in the same level of job search activity applying to other unemployment beneficiaries, but will also be required to undertake other intense job preparation activities (apparently three days a week for three months). This represents a significantly greater degree of engagement than in the past and has unknown effectiveness. It may present costs for job seekers with few real prospects for a job. The Commission recommends that Job Network providers have the option of putting alternative activity strategies forward for pre-approval by DEWR, thus allowing deviations from the proposed prescriptive approach. This would generally increase job seekers’ engagement, while allowing for some flexibility in determining levels of activity for individual job seekers.

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) Job Seeker Classification Index (JSCI), to select job seekers who would benefit most from early intensive help. 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. The Commission accepts that unemployment duration may also be a reasonable basis for eligibility to intensive forms of assistance.

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).

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 a job. As noted above, some of 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 at the moment. Job Network providers could maintain a link with re-referred job seekers, where appropriate, to ensure that the ultimate goal of a job is not lost. The proposed changes to ESC3 allow scope for re-referrals along these lines.
- 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 ‘milestone’ program. This would tackle each of a set of identified obstacles to work, with payments to service providers for overcoming individual obstacles (such as poor literacy), rather than a job per se.

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 may well 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. The ability for Job Network providers to continue to access outcome payments after a re-referral is an important spur to re-referral, but it also raises the possibility of cost-shifting and other distortions. These will require monitoring by DEWR.

The Commission also considers that recurring participation in active labour market programs by participants who are assessed as unlikely to benefit a further time is

wasteful and of little genuine help to the job seekers themselves. (About half of current participants in Intensive Assistance have participated in the past.)

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 it would be desirable for consent to be given by job seekers. A case history approach is particularly important where job seekers are allowed some freedom to move between providers, as the Commission is recommending.

Better institutional arrangements

While pricing flexibility is usually good, administrative pricing has advantages where it is hard to differentiate the quality of competing bids. In the Job Network, the main dimension of quality is the future net impact of a provider’s services on the employment of their clients — which is hard to assess *ex ante*. Without a floor on prices, there may well be a race to the bottom, with low-quality services provided to job seekers. Floor prices in Intensive Assistance partly ameliorate this, but the Commission found that even those providers lucky enough to win above-floor prices got much the same outcomes as those stuck at the floor (and some got worse outcomes).

Thus, on pragmatic grounds, the Commission considers that administrative pricing is likely to be superior to competitive price tendering for Job Network services. This is especially so since administrative pricing removes the need for the current costly formal tendering processes and can permit more open entry by providers (see later). DEWR has proposed administrative prices for ESC3 for all services (but has, for the moment, retained a formal tender process).

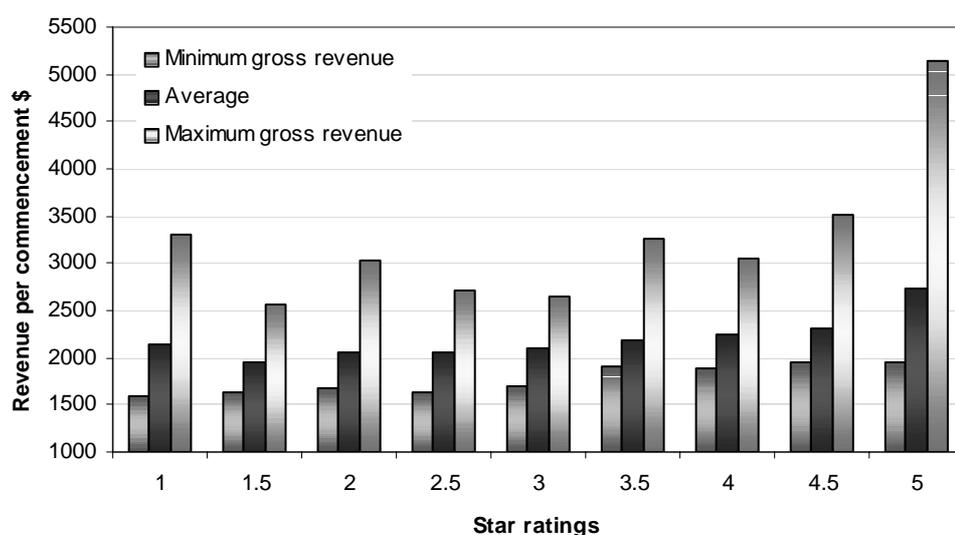
The Commission recommends supplementing administrative pricing with some new forms of optional incentive contracts that would allow some pricing flexibility, but without the problems of the present system.

The Commission also considers that a major problem in the existing (and proposed) approach to outcome payments is that less disadvantaged job seekers in good labour markets are likely to receive more assistance than job seekers with higher levels of disadvantage in poor labour markets, even if that is not warranted in terms of social benefits. As a reflection of this, a one star provider can get more revenue per commencement than a five star provider (figure 3), if it happens to be located in a

better labour market. The Commission is proposing an option to deal with this. The Commission also proposes that administrative prices should take account of regional cost variations, where these are important.

Figure 3 Maximum, minimum and average revenue per commencement in Intensive Assistance by star rating of the Job Network provider

November 2001



Data source: Estimated by the Commission from data supplied by DEWR.

The Commission is not recommending 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. The influence of the star rating and the fact that some job seekers are more responsive to assistance than others, mean that, while not always apparent, the incentives to provide truly intensive assistance to particular disadvantaged job seekers are still present in the existing system.

In future contract rounds, there may be some scope for incremental shifts towards outcome fees and away from fee-for-service payments in Customised 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). Moreover, any large shift towards outcome payments presents liquidity problems for the Job Network industry that could not readily be overcome. 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 (and this has been proposed in ESC3).

The importance of shorter-term jobs for job seekers and the community could be better recognised by allowing an outcome payment for a 7 week primary interim outcome. 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 complete the course satisfactorily.

Given that competitive tendering is a costly process and that its main potential benefit — efficient price variations — do not appear to be present, there is an advantage in seeking an alternative way of organising entry and exit in the Job Network. The Commission has proposed a licensing system.

While there might be a need for a transition phase, ultimately entry should be permitted at any time by any supplier that meets standards developed and published by DEWR. This 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.

The Commission also considers that, in the long term, 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. In the shorter term, the Commission has proposed that caseloads be partly relaxed, by allowing providers to exceed their contracted capacity by a given threshold, such as 30 per cent.

The star rating model provides an important discipline on the performance of providers. 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 (covering education and part time job

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.

Recommendations

[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. The views and recommendations of such a panel should be made public.
- 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 continuation of a generalised job matching function that provides greater incentives for placing more disadvantaged job seekers.
- 7.2** The Commission recommends that Government meet the costs of the automated matching process proposed for Employment Services Contract 3, including the cost of notifying job seekers of job matches.
- 7.3** The Commission recommends that Job Search Training be retained.

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- 7.4** The Commission recommends that the schedule for minimum contact requirements, proposed for Employment Services Contract 3, not be prescribed by Government.
- 7.5** The Commission recommends that Job Network providers be able to draw on the proposed Job Seeker Account after the period of Customised Assistance concludes.
- 7.6** The Commission recommends there be scope for adjusting activity test requirements to take account of the circumstances of individual job seekers.
- 7.7** The Commission recommends that the New Enterprise Incentive Scheme be retained.
- 7.8** The Commission recommends that the Self Employment Development program be terminated.
- 7.9** The Commission recommends that subsidies be removed for Project Contracting (Harvest Labour 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 job seekers greater scope for informed choice.
- 8.2** The Commission recommends that, in association with implementation of recommendation 8.1, entry into Customised Assistance in Employment Services Contract 3 should be voluntary, rather than mandatory, for eligible benefit recipients, provided they participate in some activity that meets mutual obligation.
- 8.3** The Commission recommends that there be some scope for job seekers to change their Job Network provider during Customised Assistance, but that portability should be limited to:
- (a) a short orientation period at the commencement of Customised Assistance, but only for those job seekers who enter this phase of assistance after 6 months or less of their current unemployment episode; or
 - (b) 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 should be able to exercise choice of their Job Network provider at selective stages in the cycle of assistance being offered under the new Active Participation Model.
- 8.5** The Commission recommends that a job seeker be able to transfer to another mutual obligation activity from Customised Assistance if DEWR determines there is an irreconcilable breakdown in the relationship between the provider and the job seeker.
- 8.6** The Commission recommends that measures be adopted to make job seekers more aware of the complaints mechanism.

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 thresholds in the Job Seeker Classification Instrument should not be lowered to meet Job Network providers' capacity objectives.
- 9.3** 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 existing services are unlikely to generate an outcome for a job seeker:
- the Job Network provider be given the capacity to re-direct job seekers to other programs;
 - reasonable activity tests generally be maintained for re-directed clients;
 - the characteristics of re-directed job seekers be assessed, recorded and analysed by DEWR to improve future initial referrals of clients and potentially to increase outcome payments in selective instances; and
 - DEWR develop criteria to detect and discourage re-referrals that shift costs or distort outcomes.

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- 9.6** The Commission recommends that DEWR develop assessment methods that better identify job seekers who can benefit from repeated use of the intensive phases of assistance.
- 9.7** The Commission recommends that Job Network providers be able to choose whether they wish to offer any combination of generalist and specialist services.
- 9.8** The Commission recommends the continued use of the Job Seeker Classification Instrument, supplemented by unemployment duration, as the basis for determining the outcome payments that should be attached to particular groups of job seekers.
- 9.9** The Commission recommends that the mandatory repeat use of Job Search Training for the periodically unemployed be restricted, with greater voluntary participation in the program by repeat users. Compliance effects for those job seekers electing not to repeat Job Search Training should be elicited in other ways.
- 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 DEWR set default prices for Job Network services, and in doing so, should also consider:
- taking account of any significant cost variations across regions;
 - testing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default; and
 - attempting to correct administrative prices for the large differences in gross outcome rates in different labour market regions.
- 10.2** The Commission recommends that there be more outcome payment categories for intensive phases of assistance to take account of the characteristics that underlie disadvantage in present specialised groups, but that further payment categories should only be created if the supporting Job Seeker Classification Instrument classifications are sufficiently reliable (see rec. 9.8).

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- 10.3** The Commission recommends that the fees payable to a Job Network provider for securing an outcome for a job seeker should increase gradually as the job seeker's unemployment duration rises.
- 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 DEWR recognise the importance of shorter term jobs by introducing an outcome payment for a job placement that lasts seven weeks.
- 10.6** The Commission recommends that an automatic system for verifying outcomes be implemented by DEWR with cooperation from Centrelink and the Australian Tax Office. If this is not feasible, the existing 28 day cut-off for verification of outcomes should be removed.

Industry dynamics

- 11.1** The Commission recommends that, after Employment Services Contract 3, competitive tendering in the Job Network be replaced by a licensing system that:
- ultimately permits free entry at any time to any supplier that meets DEWR's accreditation standards; and
 - includes automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.
- 11.2** 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.
- 11.3** The Commission recommends that in the long run there be no regulated limits on caseloads and/or the absolute number of payable outcomes for individual Job Network providers. However, in the short run:
- there should be scope for Job Network providers to exceed their contracted capacity by a given margin, which should be increased progressively.
- 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:

- consider publication of star ratings at the site level where the estimates are sufficiently reliable at that level; and
- provide some indication of the reliability of the published estimates at whatever geographic level they are supplied.

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;
- secondary outcomes receive a lower weight in the star ratings than primary outcomes, consistent with the payment system; and
- where it can be demonstrated that a particular sub-group of job seekers' long run job prospects and job quality are significantly improved by education, then such final outcomes be treated as primary ones for the purposes of the star ratings.

11.7 The Commission recommends that star ratings should adjust for any short term factors that adversely affect the performance ratings of new providers.

11.8 The Commission recommends that the full details of the star rating model be made publicly available, including periodic assessments 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 all Declarations of Intent (and similar summary documents that specify services to be provided to job seekers by individual providers) should be made public, except for particular details whose publication would have a material adverse effect on the competitive position of a provider.

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- 12.3** The Commission recommends that DEWR openly negotiate all contract variations with relevant providers, after seeking advice from their industry associations. Providers should be financially compensated for any significant additional administrative or compliance burdens placed on them by the Department.
- 12.4** 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.
- 12.5** 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).

The roles of the Job Network players

- 14.1** The Commission recommends that if significant problems of transparency, accountability and power imbalance between DEWR and providers continue into Employment Services Contract 3, the Government give consideration to the establishment of an independent Job Network agency.
- 14.2** The Commission recommends that DEWR, in consultation with FaCS, Centrelink, the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA), the National Employment Services Association and the Privacy Commissioner, develop a protocol for the storage and sharing of relevant personal information on job seekers between DEWR, FaCS, Centrelink, DIMIA and Job Network providers, and between Job Network providers themselves.
- 14.3** The Commission recommends that the scope for provider discretion about making breaching notification reports should be clearly defined and written into provider contracts for Employment Services Contract 3.
- 14.4** The Commission recommends that government funding be provided to establish in the Job Network a continuing research arrangement, similar to that currently used in relation to the Adult Migrant English Program.

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: basing a proportion of payments 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 obtain services from providers other than Centrelink, if they judge that offers better value for money at acceptable risk.

1 Introduction

Unemployment is a severe and persistent social and economic problem for Australia. There were 630 000 unemployed Australians in April 2002, comprising 6.4 per cent of Australia's labour force. The Government adopts various policies and programs 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.

The current configuration of active labour market assistance stems from major changes announced in the 1996-97 Budget. These 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 about 2000 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. Further major changes are planned for July 2003 (see below).

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 report of that review which has been undertaken by the Commission. The specific terms of reference are included at the front of the report.

1.1 A snapshot of the Job Network, 2002

As one of a number of its functions, 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 job seekers 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 is funded at either of two levels depending on a needs 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 (Harvest Labour Services), Self Employment Development and the New Enterprise Incentive Scheme. Related programs outside the formal Job Network framework include the Community Support Program (to be replaced in July 2002 by the Personal 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 outcomes achieved. They may also vary between providers. Two rounds of tendering have been held to date — in 1997 and 1999 — with a third round expected to commence in the second half of 2002 and end in the first half of 2003. Current contracts, originally due to expire in February 2003, have been extended until the end of June 2003. The totality of Job Network business was tendered at the end of the first round. In contrast, it is expected that about 60 per cent of business will be rolled over in the third round, with tendering required for the remaining 40 per cent. There was some price competition in the first two rounds but, in the third, all prices will be administratively set.

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;
- 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 2002 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 helps to determine which job seekers are eligible for which services; 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 with an 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. Piggott and Chapman (1995) estimated that even very extensive active labour market programs, properly delivered, could not reduce aggregate unemployment by more than about 1.25 percentage points. Other commentators are more pessimistic. Even so, small aggregate effects can still equate with large absolute numbers of people helped and have other benefits through a reduction of long-term unemployment 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 and programs 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, it addresses the issues from the viewpoint that the Job Network is primarily a job-oriented program, although coordination and linkages with other programs are relevant. Third, the inquiry does not consider the nature, extent or effectiveness of non-Job Network programs.

Proposed changes from July 2003

The analysis and conclusions of the Commission's draft report were based on the particular configuration of the Job Network as it existed up until March 2002.

However, a number of fundamental changes to the operation of the Job Network from July 2003 were announced by the Government in its 2002-03 Budget, with more detail set out in a subsequent discussion paper (DEWR 2002a). The proposed changes are summarised in appendix K, and covered in relevant sections of this report. Some of them adopt or build on elements of the Commission's draft recommendations. The Commission's final recommendations take account of these

announced changes as well as the evidence received from participants in response to the draft report.

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 to job seekers while in the Job Network — and indeed whether some current 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 heterogenous, 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 53 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 March 2002, with 32 received subsequently; and
- conducted public hearings in Sydney, Newcastle and Melbourne in April 2002 to receive comments on the draft report.

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

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 to secure 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 assess the underlying rationales for government intervention and 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 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 economies (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.

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; Atkinson and Hills (1998) on the relationships between unemployment, opportunity, inequality and exclusion and Dawkins, Gregg and Scutella (2002) on the growth of jobless households and the polarisation of employment in Australia.

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 or 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.

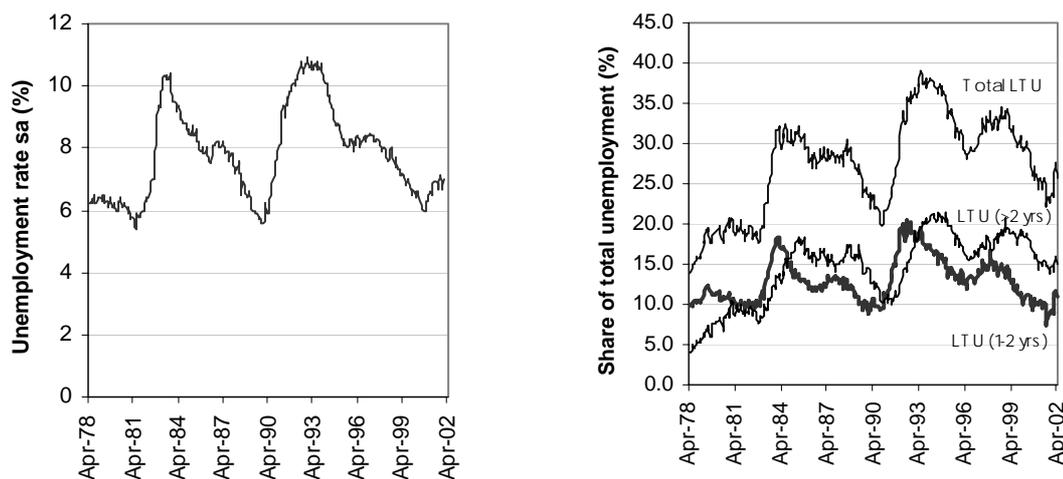
Since the early 1990s, the number of unemployment benefit recipients has exceeded the ABS definition of unemployment (OECD 2001, p. 69) — although the series follow similar patterns over time.

The ABS data

About 630 000 Australians were unemployed in April 2002 (622 000 in seasonally adjusted terms), while the unemployment rate was 6.4 per cent. This was above the 6.0 per cent level recorded at the top of the last business cycle (September 2000), but well below the 10.9 per cent level recorded in December 1992 (in seasonally adjusted terms).

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

Seasonally adjusted, quarterly data, April 1978 to April 2002



Data source: ABS (various issues), *Labour Force, Australia*, Cat. 6203.0. There was a change in methodology for the collection of labour force statistics as from April 2001 which, among other things, altered the definition of duration of unemployment. The statistics were subsequently revised from 1986 to 2001 (see ABS, *Implementing the Redesigned Labour Force Survey Questionnaire*, Cat. 6295.0 for details).

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 24.5 per cent of all unemployed people in April 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 business cycle in November 1990. A significant number of people experience very long-term unemployment, with 13.9 per cent of the unemployed being jobless for 24 months or more (seasonally adjusted) in April 2002.

Particular groups are at much greater risk than others of being unemployed. These include people aged 15 to 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 \$5.9 billion in 2001-02 and projected to be around \$6.1 billion in 2002-03.

Sources: ABS (various issues), Labour Force, Australia, Cat. 6203.0 and Commonwealth Budget Paper No. 1, Budget Strategy and Outlook, 2002-03.

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 may also 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 assist some long-term unemployed to become part of 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 labour market programs raise employability in a cost effective manner, and therefore raise the effective labour supply, then they should beneficially lower aggregate unemployment.

Churning?

Of course, if programs do not directly raise employability, 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 longer-term 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 as this will in part depend how churning affects those who benefit and those who are displaced.

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 (that is, 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.

The Commission expects that its proposals in this report would, if implemented, increase the effective supply of labour by increasing the employability of at least some job seekers, rather than by driving down wages to decrease unemployment, as some have suggested.²

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 rates for 1977, 1990, 1994, 1997, and 2001 were very similar, but unemployment rates varied 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.³ Fahrer 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.

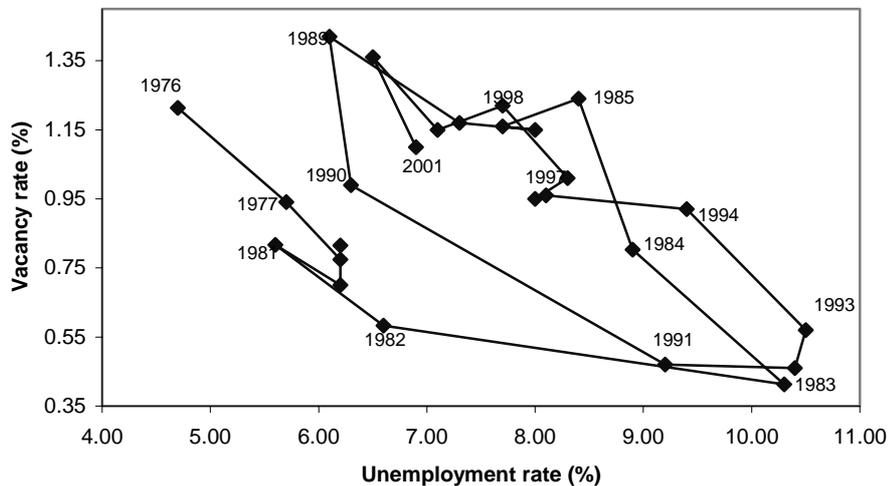
Several participants expressed concern that there are not enough jobs for the unemployed: that the number of job seekers far outstrip the number of advertised vacancies.⁴ But figure 2.2 shows that there is no stable relationship between vacancies and unemployment (although there can be short-term job ‘rationing’ in, for example, particular regional markets). The objective of active labour market programs and placement services such as the Job Network is to change that relationship — to increase employability and shift the curve back in. Indeed, some assessments of the effectiveness of such policies rely on testing this (Webster 1999).

² See Quirk (sub. DR68, p. 2), for example.

³ 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.

⁴ See, for example, Catholic Welfare Australia sub. DR70, p. 6.

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 intervention and assistance. 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 creditworthy 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.⁵ Existing government policy recognises the importance of financial barriers to investments in employability because where these barriers do not exist (as assessed by the assets and income tests), 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 job seeker 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 job seekers 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 income support and income tax policy.

⁵ The Student Financial Supplement Scheme has some of these features. It provides loans, in fortnightly instalments, to some students to help cover their expenses while studying, but generally involves students being required to trade in part of their income support entitlement. Repayment is via the tax system.

These factors justify the government purchase of at least some labour market services on behalf of poor job seekers, but provide 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 job seekers should get the same services. An issue in designing measures that increase search effectiveness and employability is to recognise the heterogeneity of job seekers. This heterogeneity implies a differential capacity by job seekers for financing and making informed decisions about employability and a differential capacity by them to benefit from participation in a labour market program.

A further possible rationale for active labour market policy is that where arrangements involve case management of the unemployed client and mandatory requirements to commit to measures that increase potential employability,⁶ then they generate so-called ‘compliance’ and motivational effects.⁷ These arise where, as a result of a referral to the program, job seekers:

- increase their job search activity and find a job, in preference to participating in the labour market programs. 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 to continued reliance on benefits. This motivational effect provides a positive outcome for the job seeker and for the program;
- 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 (DEWRSB 2001g, p. 9). 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 because of the benefits to society from increased social participation by those who might otherwise be alienated as a consequence of unemployment. Thus, Webster argues:

⁶ As separate from activity tests, which could be implemented independently of job placement services and active labour market programs.

⁷ While the literature lumps these together as ‘compliance’ effects, it is worth noting that there are both positive motivational effects, which prompt a benefit-entitled job seeker to find work, together with a more effective policing of others who may not be so entitled.

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 (1997, 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 Is a purchaser-provider model justified?

Box 3.1 Key messages

The fact that the Government funds (or purchases) employment services does not mean that it is best that it 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 (in the first two contract rounds), 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. The chapter uses the features of the first two Job Network contract rounds for illustration, but recognises the changes proposed for July 2003 (DEWR 2002a).

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 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 limits 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. However, the concept of contestability has challenged the basis for intervention in 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 could 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 on the establishment of the Job Network (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
Administration	26	30

^a 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

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).

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.

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

Competition can encourage good performance if it 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 have competed has been more constrained than might be apparent at first glance:

- there has been some scope for competition through price and quality at the time of the first two contracts, but floor prices on IA have limited the degree of price competition in this service;

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 has been limited by quantity caps (chapter 11); and
 - the competitive influence of choice has been 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. Indeed, in the third round of the Job Network (ESC3), all prices will be administratively set. 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. Choice will remain restricted under ESC3.

⁴ In a market context, this is not a problem because consumers trade off 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 Participants' views on non-price aspects of competition

... competition was cited [by Government] as a key driver in lifting the bar and improving service provision. To some extent that 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 [Northern Territory] 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).

3.4 The main challenges to the purchaser-provider model

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

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. This will remain so in ESC3, even though the incentives for creaming and parking will be somewhat less — due to somewhat greater process specification and Job Seeker Accounts, together with better referral options.

In any case, as in other sectors, such as nursing homes (PC 1999), there is a range of business models and management strategies adopted by charitable and not-for-profit providers, only some of which are focused on profit (or surplus) 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, FaCS and Jobs Australia, 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).

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).

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. Jobs Australia commented that ‘social integration and social capital are a legitimate benefit resulting from the application of Job Network resources, however difficult to measure these might be’ (sub. DR81, p. 4).

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 or other assessment of quality into performance measures (an issue taken up in chapters 8 and 12), but this involves a tradeoff 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). The proposals for ESC3, however, have foreshadowed better linkages between the Job Network and complementary employment and training programs.

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 merits of a specific research arrangement for the Job Network are discussed in chapter 14.

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 a ‘pure’ purchaser-provider model with price competition, the purchaser assesses bids based on expected capacity to generate job outcomes and a 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 outcomes — reflecting the purchaser’s revealed (but not explicitly stated) preferences for this tradeoff.

In reality, it is likely that the inherent unpredictability of outcomes (say, of employment outcomes) confuses the usual tradeoff between price and quality (in this case, a higher quality provider is one with greater expected outcomes). It is very hard to differentiate objectively between 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

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

may be needed— DEWR set floor IA prices during the second contract round — or that prices should be set entirely through administrative means — as IA prices were during the first contract round and as all will be in ESC3. 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.

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.

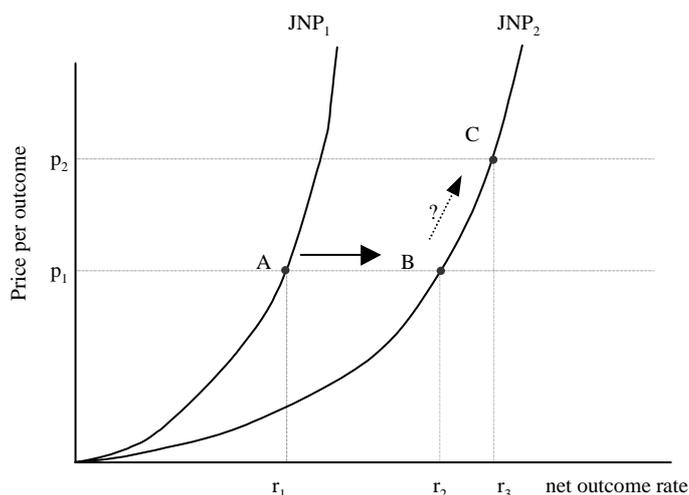
Nor is it the case that eliminating the outcomes focus of the Job Network would be appropriate though that would resolve some of the contracting difficulties (for example, it is possible to have standard competitive bidding on delivery of highly prescribed inputs, such as literacy training or a course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

Box 3.4 The theoretical 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).



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.

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. Although available client satisfaction measures are difficult to interpret, Job Network providers with imperfect contracts appear to have performed much better 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 successful 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. 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.

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 provider 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

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 virtually unilateral contract variations, 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.)

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 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. Some significant changes are proposed for ESC3 — it remains to be seen, however, how the balance between the defining elements of the purchaser-provider model will work out in practice in ESC3. The bulk of the rest of this report is about how to address the deficiencies of the model as applied to the Job Network, while retaining its significant virtues.

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 — 2002

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 currently determined under Job Network. Appendix K outlines proposed changes to arrangements for the funding and operation of the Job Network announced in the May 2002 Federal budget and amplified in a May 2002 discussion paper (DEWR 2002a).

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 (Harvest Labour Services). 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 objectives 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

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).

placement has met the minimum requirements for a JM outcome (DEWRSB 1999, p. 27).

Job Search Training

JST is designed to assist work-ready job seekers to obtain employment. The assistance is provided over a period of 15 consecutive days and is focused 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 12 months for level A job seekers and 15 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.

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

While providers have a substantial degree of freedom in determining IA service strategies, prospective providers in the second employment contract were required 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 ongoing 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 12 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 18 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 been registered as unemployed for three months are provided with JST; and
- High risk job seekers (who 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 with the highest JSCI score 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. 126).

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 30 June 2003.⁵

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

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

⁵ ESC2 contracts were scheduled to conclude on 2 March 2003. However, the Government has extended all current contracts for a four month period.

business secured by the public provider, Employment National (DEWRSB 2000a, p. 24).⁶

Those organisations already being funded to deliver employment services under the Working Nation program were most successful in the request for tender process. Such 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

⁶ The government provider, Employment National, was required to comply with competitive neutrality criteria including full cost recovery and regulatory and taxation neutrality (chapter 13).

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>	
	<i>Providers</i>	<i>Sites</i>	<i>Providers</i>	<i>Sites</i>	<i>Providers</i>	<i>Sites</i>
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 organisations 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 it 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.⁷ 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.⁸ 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.

⁷ Contract variations increasing provider capacity are possible.

⁸ Regions most affected include Sydney, Melbourne, Brisbane and the ACT (information supplied by DEWR).

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

- 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.⁹

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.

Since the commencement of ESC2, six Job Network members (representing 3 per cent of the overall contracted number) have exited the Network.¹⁰ Where business was reallocated, generally only those Job Network members who tendered for, and

⁹ For example, excess capacity has been shifted from Sydney to Perth and other regional centres.

¹⁰ Information provided by DEWR.

were rated as suitable to provide, the service stream in the particular metropolitan region or ESA were considered.

4.4 Pricing

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

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.¹¹

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 13 weeks.

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

¹¹ 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).

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.

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.¹² The quantum of IA payments based on these minima is outlined in table 10.3.

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

¹² Under the first contract, IA prices were set by DEWRSB (DEWR sub. 43, p. 29).

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 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 will be used in 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 its 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 are 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. Compliance effects can reflect positive outcomes for job seekers who respond to the requirement to participate in a labour market program and successfully find employment before commencement.

Gross outcome measures mean very little, and should not be relied upon in program evaluations, which should focus on net impacts, provided they are measured properly.

Measurement of net impacts is inherently difficult. DEWR's 2001 net impact study overstated the benefits of the programs by ignoring attachment effects (which are likely to be significant for IA) and because of biases in the control group methodology. DEWR said that it has revised this methodology, and that forthcoming reports will include more accurate estimates of compliance, attachment and program effects.

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

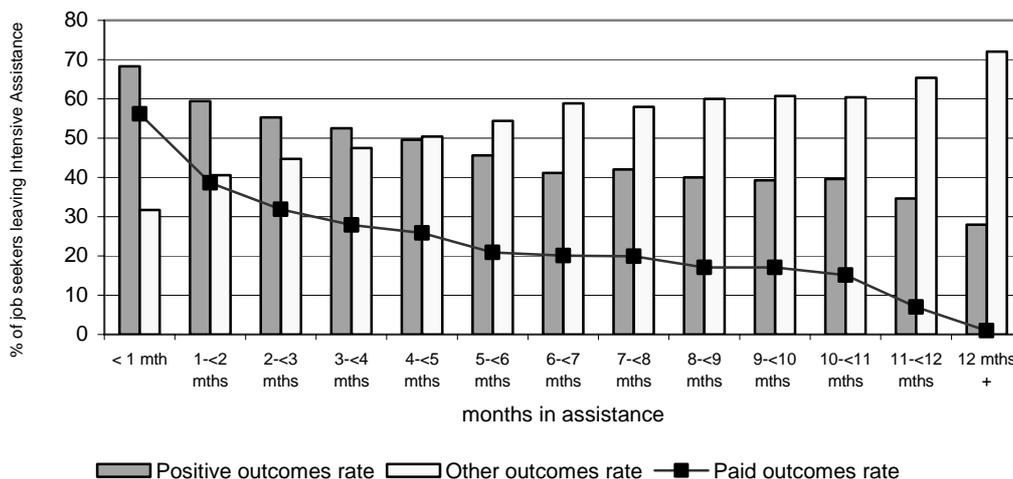
^a Includes commencements in DEWR funded labour market assistance and DETYA programs New Apprenticeships, Literacy and Numeracy and Advanced English for Migrants. Not measured for JM. ^b Education and training outcomes include job seekers who are studying at a secondary school or college, TAFE, business 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 2001f 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 per cent 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). The Department of Immigration and Multicultural and Indigenous Affairs noted that ‘employment outcomes are low for Indigenous job seekers, but the off-benefit result is close to average’ (table 5.3) and expressed concern that:

... defining CDEP as an off-benefit outcome ... may encourage the long-term detachment of Indigenous people from labour markets with good job opportunities in urban and regional centres [and exacerbate] the inability of many CDEPs to facilitate movement into mainstream employment (sub. DR79, p. 6).

- *Youth and sole parents*: Young people and sole parents also had low take-up rates for Job Network programs.² 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

² A recent report on the experiences of young people with the Job Network was provided by WorkPlacement Inc (sub. DR78).

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 (DEWRSB 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). Nevertheless, the Capital Region Employment Council noted that the effectiveness of the Job Network in rural and regional areas is influenced by the location of Job Network offices, their opening hours and opening days, and the availability of public transport to and from the local area (sub. DR69, p. 5).³ NESAs also discussed some of the 'unique issues and challenges' facing providers operating in rural and remote areas, including the difficulty of handling referrals for job seekers who may live up to 200 kms away and high government expectations about job outcomes in remote communities that have very restricted labour markets (sub. DR75, pp. 8–10). Some issues concerning site numbers are discussed in chapter 11.

³ More generally, the Queensland Government said that a 'lack of access to private or public transport because of unaffordability or remote proximity to public transport routes is a significant impediment to job seekers during job search activities and one that traverses both metropolitan and regional and rural communities' (sub. DR76, p. 17). It recommended universal fares assistance for job seekers as part of the Job Network contractual arrangements. The Government's proposed Job Seeker Accounts, announced in the 2002-03 Budget, may help to address this issue.

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.⁴ On the other hand, such ‘churning’ of the unemployed may have a detrimental effect on the employment skills of those who could be displaced. 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).

Davidson said:⁵

... 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 long-term job seeker data⁶ show a continuing, albeit gradual, decline

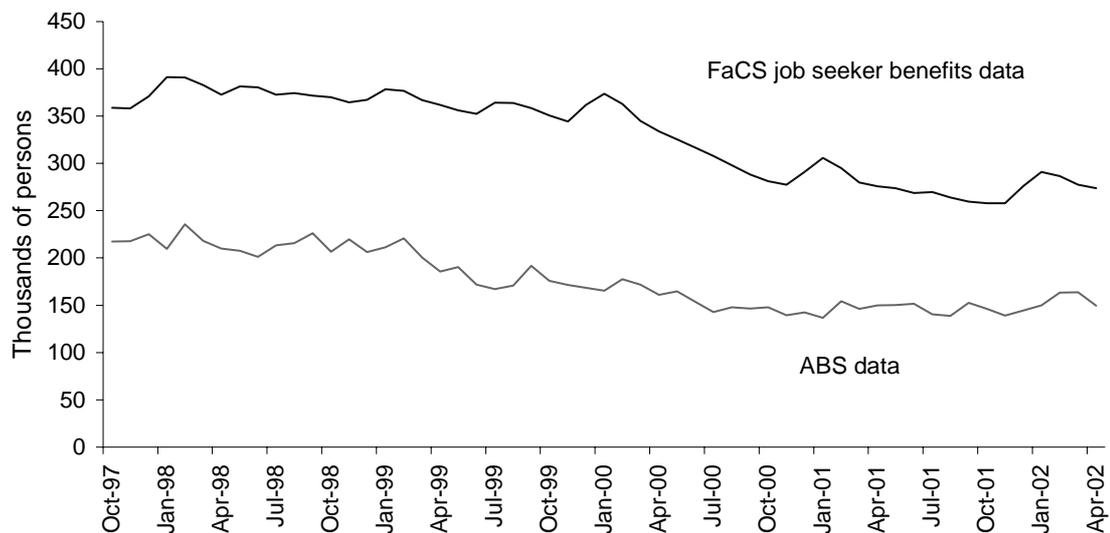
⁴ In the long run, total employment adjusts to effective labour supply (OECD 2001, p. 267).

⁵ 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).

⁶ 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

during the three years to the end of 2000, with some levelling out since then (figure 5.2).

Figure 5.2 Long-term unemployed job seekers, ABS and FaCS estimates
October 1997 to April 2002



Data source: ABS DX data, table LMDL-903 and FaCS, *Labour Market and Related Payments: a monthly profile*, various issues.

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 programs 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).

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 about 25 per cent (seasonally adjusted) 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.

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 has been subject to dramatic changes during the 1990s), job seeker characteristics, 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 a 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 are 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).⁷

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.⁸
- 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

⁷ 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.

⁸ 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.

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>	<i>46.8</i>	<i>40.1</i>			
<i>Funding level B^b</i>	<i>31.1</i>	<i>24.7</i>			

^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: DEWR SB 2001a, pp. 2, 44.

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 its response to the draft report, DEWR said:

Employment net impact is the preferred measure from the Department's perspective as it accords more closely with program objectives. Data on off benefit net impacts, however, are much more readily available. Off benefit impacts can be derived from

administrative data while surveys are required to obtain estimates of employment impacts (sub. DR80, p. 16).

But it noted:

... there is a strong correlation between employment outcomes (and impacts) and off-benefit outcomes (and impacts). Outcomes data from the Post-program Monitoring survey show that around 80 to 90% of those who move off activity-tested allowances achieve an employment outcome (sub. DR80, pp. 15–16).

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. For example, a comparison of the rate at which job seekers across the economy as a whole find employment with the corresponding rate for job seekers in IA appears to show that some job seekers in IA obtain employment more quickly than if they were not in the program. To the extent that this is correct, it implies additional benefits being generated by IA which are not being picked up in IA program outcome measures.⁹

Foremost among program impacts 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.

Commencement rates and compliance effects

Many job seekers do not commence with programs to which they have been referred. There are many legitimate reasons for this. Some will find employment in the intervening period simply because of continued job search activity and the passing of time. Others may be willing but unable to commence because of ill-health or incapacity, participation in other programs or because they were studying (DEWR 2001g, p. 9).

Since the introduction of the Job Network in 1998, the percentage of job seekers who were referred to JST or IA and who subsequently commenced with those programs has declined continuously (and in the case of JST there was a pronounced

⁹ A converse example arises with JST. Participants are required to undertake more intensive job search activities following completion of that program, but under current evaluation arrangements, outcomes generated by this increased activity will be recorded as an outcome of the program, whereas there may be a case for attributing them to the greater job search activity in the post-JST period. In such circumstances, JST outcomes would be overstated, and the outcomes achieved should instead be attributed to the job search activity.

dip on the introduction of the automated referral process).¹⁰ By September 2000, the commencement rate for JST was down to 22 per cent (DEWRSB 2001a, p. 4).¹¹ ACOSS sees the consistently large proportion of non-commencements as:

... predominantly an artefact of the system of referral. There's a compliance impact in there but the bulk of that effect is a flawed referral system and we believe that could be turned around very quickly by changing it (trans., p. 43).

Commencement rates also vary between different job seeker groups:

... 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 (DEWR 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 was relatively high for mature aged job seekers, those from non-English-speaking backgrounds, and those unemployed for over two years (DEWRSB 2001a, table 3.5, p. 33).¹²

Many who do not commence with the program to which they have been referred are entitled to remain on benefits, and many who leave benefits do so for reasons unrelated to compliance effects (DEWRSB 2001g, p. 11).¹³ For example, for the year to March 2000, DEWRSB estimated that, of those who were referred to IA but did not commence, 62 per cent remained on benefits and 82 per cent of those who left benefits did so for reasons other than referral.

For some, however, imposing a requirement to participate in a labour market program can also generate so-called 'compliance effects' whereby some job seekers increase their job search efforts, either because they become more motivated as a result of the process, or to avoid taking part in the program. Accordingly, some will be successful in finding employment during this pre-commencement period. The measure of compliance effects also picks up cases where persons withdraw from benefits which they have inappropriately been claiming. This occurs:

¹⁰ DEWRSB (2001g, p. 9, fig. 4 and footnote 7).

¹¹ For example, for 1999, 132 400 job seekers were referred to JST and 50 300 commenced; for IA, 337 200 were referred and 228 500 commenced.

¹² Job seekers with less than year 10 qualifications also had a high commencement rate with JST.

¹³ Equally, many job seekers exit during the course of programs, as well as before commencement, for a variety of legitimate reasons.

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

Some participants saw references to compliance effects as stigmatising the unemployed, with the implicit notion that compliance is about catching ‘dole cheats’. However, so-called compliance effects comprise two quite different effects, with no current indication of their respective importance. The first, being the increased motivation to obtain employment, is clearly a positive outcome for the job seeker, while the second represents withdrawal of benefits from those not entitled to them. Both are outcomes which contribute to the achievement of the Job Network’s objectives.

To assess the importance of compliance effects on IA and JST net outcomes requires comparison of the compliance activity of those referred to a program with that of a matched comparison group who were not.¹⁴ DEWR 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 5.5).

Table 5.5 Net program and compliance effects, JST and IA
percentage points

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

^a As per table 5.4.

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

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);

¹⁴ DEWRSB 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*. 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).

-
- JST is hard to avoid: it lasts only 3 weeks and is more difficult to be exempted from; and
 - JST requires full-time attendance, making it difficult for job seekers in, for example, undisclosed employment, to attend (DEWRSB 2001g, p. 10).

Compliance effects are 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.¹⁵ Consequently, there is little hard information on the reasons for non-attendance. Dockery and Stromback (referring to broadly similar compliance data in an earlier study) asked:

... 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. In its response to the draft report, DEWR said that ‘improvements in the Department’s administrative system have made it possible to measure compliance effects’ (sub. DR80, p. 15), and that:

A detailed assessment of compliance net impacts relating to employment outcomes for Job Search Training and Intensive Assistance participants ... will be included in the Job Network Stage 3 Evaluation Report (sub. DR80, p. 1).

As of the date of signing this report, DEWR had not provided the Commission with a copy of the stage 3 evaluation report.

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

¹⁵ 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 later). The program and compliance effects also apply to different numbers of job seekers and are measured at different points in time.

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).

If there were a large attachment effect, particularly in the context of a small program effect, it would raise questions about how rigorous should be the activity testing 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 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 methodology used is unrealistic, as IA participants are *required* to look for work while on the program.¹⁶ However, DEWR's planned changes to its methodology will remove these biases.

Although it inflates measured program net impacts, the post-program monitoring (PPM) methodology remains useful to compare previous programs to current arrangements. However, it is important to note that while differences in results between the PPM methodology and the third stage longitudinal method will partly reflect attachment effects, they will probably be largely due to the time bias. For such reasons, appendix E argues that any such comparisons need to be interpreted carefully and that the magnitude of each separate bias or effect has to be understood before any statements about, for example, the size of attachment effects, can be made.

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

¹⁶ This approach may be more appropriate for programs where participants were unlikely to look for work while participating in the program.

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 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.

In its response to the draft report, DEWR indicated areas where it plans to alter future data collection and its evaluation methodology to attempt to overcome some of these difficulties. It advised that:

The Department's most recent net impact studies (which will be reported in stage three of the Job Network evaluation) have measured impacts 12 months after referral to and commencement in assistance. This approach estimates the cumulative effect of compliance, attachment and program effects. While this approach is less than ideal because, in the presence of universal entitlement to assistance, the formation of a 'pure' control group is difficult, it does capture a greater range of program impacts than was possible in the previous methodology and gives a more comprehensive assessment of the benefits at an individual level from program participation (sub. DR80, p. 15).

These matters are discussed in greater detail in the next section.

Taken together, biases and methodological difficulties suggest that past evaluation studies have overstated the net impacts of Job Network (and earlier) programs. 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. The Department's stage 3 evaluation study should further clarify the minimal net impact of the IA program.

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).¹⁷

¹⁷ Programs which seek to provide assistance within the constraints of a fixed budget to job seekers of varying circumstances and levels of disadvantage necessarily face intractable equity issues. For example, putting a greater proportion of a program's resources into helping the most highly disadvantaged sub-group, such as the very long term unemployed, may in turn disadvantage a less disadvantaged sub-group for whom the intervention may have worked more effectively. One implication of this may be that the second group is then at greater risk of becoming even more disadvantaged. Shedding light on the tradeoffs involved would require information on such matters as the nature and sustainability of outcomes for each group, probabilities of re-entry to unemployment etc. Such equity implications arise in many program areas, most notably in the health field.

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 5.6). 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 5.6 **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> <i>(1999-00 prices)^a</i>	<i>Cost per employment outcome (\$)</i> <i>(1999-00 prices)</i>	<i>Cost per off-benefit outcome (net impact) (\$)</i> <i>(1999-00 prices)</i>
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. Were the net outcome rate for IA to be 5 per cent, rather than 10 per cent, for example, the cost per off-benefit outcome (that is, the net impact) would double to over \$44 000 (and at 2 per cent the figure would be over \$100 000). Such net outcome rates are quite possible.

Broadly similar caveats apply to assessments of cost per outcome for each program under Job Network and Working Nation. This makes it very difficult to compare the dollar cost per outcome for different programs or for different time periods.

While net outcome measures, properly constructed, are the desirable evaluation measure for labour market programs, much public reporting and debate continues to be in terms of gross outcomes (or costs per gross outcome).¹⁸ But as noted throughout this chapter, measures of gross outcomes mean little and have considerable capacity to mislead. For example, as noted in section 5.2, the NEIS program generates higher gross outcomes than any other Job Network program, whereas the net impacts are likely to be small. In the Commission's view, much less emphasis should be given to gross outcome measures in reporting the results of program evaluations.

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)).¹⁹ This compared to annual average funding in 1994-95 and 1995-96 of \$3.7 billion (DEWR, sub. 43, p. 22).²⁰

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.

¹⁸ See, for example, Nelson 2000, p. 201.

¹⁹ In its 2002-03 Budget, the Government announced that it will provide funding of \$3.3 billion over three years from July 2003 for arrangements associated with the third employment services contract.

²⁰ 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).

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. There are, however, gaps in information when it comes to addressing 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 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 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.²¹ (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.)²²

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:

²¹ Off-benefit outcomes refer to having left unemployment benefits entirely 3 months after exit from the program or after selection into the control group.

²² 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.

... 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 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 some work experience.

Catholic Welfare Australia questioned whether such jobs were 'stepping stones' to more desirable, longer-lasting employment later, arguing that low-paid, temporary, insecure or part-time work may have minimal, short term benefits only:

Over the medium to long-term, it is likely that low-skilled job seekers gaining this kind of work will remain at great risk of ongoing poor quality employment and repeated bouts of unemployment ... there is much evidence and research showing the impact of prolonged marginal attachment to the labour market through low-paid and temporary work (sub. DR70, p. 30).²³

Similarly, WorkPlacement queried whether low-paid casual or part-time jobs for young people are a pathway to sustainable permanent employment or a recipe for life-long reduced earning and a marginal attachment to the labour market:

Unemployment or precarious employment over a significant period of time in one's youth can lead to a permanent state of marginal attachment to the labour market and

²³ Catholic Welfare Australia cited studies by Campbell (1997), Campbell and Burgess (1998) and Eardley (1998).

society. ... Extended periods of part time, short term work and short term training that does not lead to an accredited qualification for a distinct job pathway lock young people into a cycle of poverty and gradual disengagement with mainstream society (sub. DR78, pp. 11-12).

A recent study of 43 000 job seekers placed into jobs under the Job Matching program provided some evidence to the contrary (DEWRSB 2001).²⁴

- About 68 per cent of job seekers were still employed three months after placement and 82 per cent of these were still employed after 15 months (p. 4).
- Of those working less than 35 hours per week at three months, about 37 per cent had moved into full-time jobs, while many others had increased their paid working hours and/or their wages.²⁵
- More than one-quarter of those who were working by three months in the lowest skill level occupations and were still employed at the 15-month mark had moved into an occupation of higher skill level.
- Where they were still employed 15 months after placement, the vast majority of those earning less than \$400 per week had, on average, increased their earnings by at least \$100 per week.²⁶

An earlier study of low paid adult workers by Dunlop (2000) for the period 1995 to 1997 found that almost half moved to higher pay within a year, over a third stayed low paid, while a further 13 per cent were jobless after a year (compared to 6 per cent of higher paid adult workers).²⁷ It also found that low paid workers who were aged 30 or under or who live in urban areas were more likely to move to better pay. But it also found that about 29 per cent of low paid adult workers who had experienced a recent spell of underemployment were again jobless after a year, more than twice the rate for low paid adult workers in general.

²⁴ DEWRSB surveyed 43 000 job seekers placed into jobs during April/May 1999 at three months after placement and again at about 15 months after placement to measure the extent to which their job placements led to longer-term employment in higher skilled and/or better paying jobs. The majority were initially placed into lower skilled and lower paying jobs, which were often part-time, temporary or casual.

²⁵ Where jobs involved at least 15 hours work per week, job seekers were much more likely to move into full-time employment. Those who worked less than 15 hours per week were more inclined to stay in part-time jobs.

²⁶ DEWRSB noted that 'Some of this impact may be due to wage rises, increased hours and advances in minimum wage rates following age increases. For those aged over 21, promotion is likely to be a significant factor in the earnings increases for those who were employed full-time at the 3-month post placement mark' (p. 4).

²⁷ The study used the ABS longitudinal Survey of Employment and Unemployment Patterns.

There is a need for better data on the long-term sustainability of jobs and their quality. This is discussed later in this section. It is important to understand how successful the Job Network programs are in getting people more ‘work-ready’, and in helping them to build up an employment history or an employment skills base.

But it also needs to be recognised that the pathway to higher quality jobs can be aided by complementary strategies such as combining work with part-time education and training (and there are government programs which may assist this). Importantly, the DEWRSB study found that educational attainment appeared to be the characteristic which best predicted whether a job seeker would achieve an increase in earnings (DEWRSB 2001, p. 4).

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).

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.²⁸ 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.

As noted earlier, DEWR has released the findings of a longitudinal survey of Job Matching participants which measured employment outcomes 15 months after placement. It said that similar surveys designed to analyse the longer-term outcomes of IA, JST and WfD participants are now in the field.

The panel nature of these data will provide information on individual job seeker's longer-term improvements in terms of labour market status, income and promotions, hours of work, employment tenure, skill-level and occupation type.

... DEWR and FaCS are developing a joint longitudinal data set that will include comprehensive information on job seekers' program participation as well as details of their types and levels of income support. This data set will allow short and long-term tracking of job seekers' income support payment levels and pathways following program participation (sub. DR80, pp. 1–2).

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.

²⁸ The Queensland Government (sub. DR76) drew attention to the recommendations of *Age Counts*, the report of the House of Representatives Standing Committee on Employment, Education and Workplace Relations, which recommended monitoring of the progress of NEIS businesses at 3, 6, 12 and 24-month intervals to better assess the outcomes of the program (Nelson 2000, recommendation 35, p. xxxiv).

There may be a case for an independent review panel to advise about the form in which data should be collected and published. In response to the draft report, DEWR noted that:

The Department recently moved to establish an independent panel of researchers to provide peer review. It is intended that this group will meet periodically to discuss research related matters relevant to program evaluation. The Department also solicits the views of overseas experts to help inform the development of research methodologies (sub. DR80, p. 2).

In the Commission's view, the views and recommendations of such a panel should be made public, so as to facilitate informed debate on the data and methodological issues which permeate evaluations of the Job Network.

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.

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. The views and recommendations of such a panel should be made public.

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.

Jobs Australia said:

There is significant research capacity outside DEWR, particularly in the university sector, and we are aware of a number of researchers who have expressed interest in the Job Network. Australian Research Council grant conditions quite reasonably expect an empirical element for research into public programs such as the Job Network. Researchers' lack of access to Job Network data means many lost opportunities for more description and analysis of this internationally significant public policy initiative (sub. DR81, p. 8).

Greater transparency might also help alleviate some of the industry's concerns about the nature and extent of regulation of providers by DEWR (chapter 12).

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.

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.

DEWR said it supports this recommendation in principle:

To a limited extent DEWR data have been made available in the past for research purposes, but privacy issues have constrained the scope for this.

It is important to note that establishing and maintaining de-confidentialised administrative data available on demand carries considerable resource implications. The Department proposes to consider the issues raised by this recommendation in more detail in the context of addressing transparency concerns and future evaluation priorities (sub. DR80, p. 2).

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.²⁹

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

²⁹ 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).

can be quite short when participants are surveyed a short time after completion (2000, p. 1).

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). It is likely that the importance of these unobservables — that is, selection bias — will have pervasive and distorting effects on program evaluations. 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).³⁰

³⁰ 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

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 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.³¹ 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.³² 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

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).

³¹ Stromback, Dockery and Ying used data from the 1994–97 Survey of Employment and Unemployment patterns and DEETYA data on individuals.

³² 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).

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 but who were randomly denied access to the program or treatment.³³ 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.³⁴ 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.

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 reinforced by extra information on those characteristics of job seekers which are

³³ 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.

³⁴ See, for example, Ministry of Labour, Denmark (1993).

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 surveys of job seeker perceptions, with 83 per cent of IA respondents and 84 per cent of JST respondents saying that they are satisfied or very satisfied with the services they received from their Job Network provider. However, the corresponding figure for JM was only 56 per cent. There are some important limitations to the usefulness of these satisfaction results (appendix J).

Submissions to this inquiry and the outcomes from the Value Creation Workshops are mixed in their assessment — some considered the Job Network to be better than previous arrangements while others thought the contrary.

Several participants considered that there was a need for more specialised services for disadvantaged groups.

There is evidence that breaching rates vary considerably across providers and it appears that the most disadvantaged groups of job seekers are being breached in higher proportions than other job seekers.

Although the Commission has no conclusive evidence on the magnitude of the phenomenon, it appears that a significant proportion of job seekers are 'parked' — that is, receive a minimal level of service.

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.

As discussed in chapter 1, this report addresses issues from the viewpoint that the Job Network is primarily a jobs-oriented program. Nevertheless, in striving for employment outcomes, it is important not to overlook social impacts of Job Network participation on job seekers and their families. This is especially so as

many job seekers spend years in the system. Given that participation in the Job Network is usually compulsory, job seekers should be treated with respect and receive appropriate help in a positive and professional manner. Further, the quality of the Job Network experience can have an important bearing on the quantity and quality of employment outcomes.

This chapter concentrates on job seeker and employer perceptions of the services provided through the Job Network and their experiences within it. It aims to identify the positives and negatives, as perceived by them, and to provide other relevant information. Almost inevitably, the negatives receive more attention than the positives, especially those concerning the experiences of particularly disadvantaged groups and breaching. This reflects not only the fact that the dissatisfied are more likely to comment than the satisfied, but also the higher relevance of negative job seeker experiences for policy reform.

The main discussion of appropriate policy responses to the issues raised is left to other chapters.

6.1 Job seeker experience

Several sources of information shed light on the experience of job seekers in the Job Network. This section draws information from: comments from participants; the Value Creation Workshops held in November and December 2001; results from the 1999 and 2001 DEWRSB surveys of job seeker and employer perceptions; a DEWRSB survey report on Indigenous experiences of the Job Network and a survey of job seeker attitudes toward activity testing by Tann and Sawyers (2001). As well, data on the number of complaints submitted by job seekers and breaching reports by providers of job seekers are included. Finally, the section presents available evidence on intensity of service.

Appendix B summarises outcomes from the Value Creation Workshops and appendix J comments on interpretational and methodological issues related to DEWRSB's 1999 surveys of job seeker perceptions about the Job Network, its 2000 survey of activities and attitudes of Intensive Assistance participants and its 2001 survey of Job Network participants.

Quality of experience and service

Several submissions from Job Network providers made positive comments about the quality of assistance in the Job Network:

... the quality of assistance provided through Intensive Assistance is generally more comprehensive than previous arrangements (Salvation Army Employment Plus sub. 35, p. 4).

Few people in Alice Springs would now want to revert to the old policy framework, although many want additions in infrastructure (Tangentyere Job Shop sub. 13, p. 1).

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 (Employment National sub. 28, p. 1).

Some participants submitted that the Job Network is also benefiting particularly disadvantaged Job seekers. For example, Indo-Chinese Employment Services said:

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).

NESA further added 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 more individualised assistance than ever before and the trends show that outcomes are continuing to improve for these jobseekers (NESA sub. 39, p. 4).

And the Northern Territory ACC submitted that 'Clients report greater responsiveness of locally managed organisations which understand their needs' (sub. 36, p. 3).

These positive assessments are also apparent from the 1999 and 2001 job seeker perception surveys. For example, the general level of satisfaction of respondents to the 2001 survey was 83 per cent for IA clients and 84 per cent for JST clients. On the other hand, only 56 per cent of JM clients reported being satisfied or very satisfied with the overall services they received from their provider. (Appendix J discusses important limitations to their usefulness.)

The average satisfaction levels reported at the Value Creation Workshops were much lower (which may well be due to the fact that the workshops were not designed to be statistically sound), yet many positive comments balanced negative sentiments (appendix B).

A number of inquiry participants also pointed to negative aspects of the quality of assistance received by job seekers. For example, according to Work Placement, 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):

Indeed, there is no requirement for JNM to provide quality assistance to disadvantaged job seekers and there are no incentives to provide young people with training. Monitoring of services provided in Intensive Assistance showed those services consisted largely of Job Search only (Work Placement, sub. DR78, p. 23).

The Un(der)employed People’s Movement Against Poverty said it had ‘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 Indigenous people, 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).

Indeed, the 1999 Survey of Job Seeker Perceptions by DEWR shows that a number of job seekers are not receiving what could reasonably be called intensive assistance. For example over one fifth of job seekers reported having had contact with their Job Network provider only once or twice. The sub-section on intensity of service below takes up this issue.

The Value Creation Workshops also pointed to many sources of frustration for job seekers. These ranged from ‘lack of support or services and help to find a job’ to ‘poor staff attitudes’, ‘not respecting my time’ and ‘lack of, inconsistent or wrong information’ (appendix B).

Finally, a number of individual job seekers commented in submissions and at public hearings on their experiences with the Job Network (box 6.2). They expressed dissatisfaction with providers’ practices in regard to passing on applications and

resumes to employers. They also reported frustration arising from a lack of feedback on the progress of applications and objected to having to go to different providers, some far away, just to access information about jobs that happen to have been placed on the system by a given provider. Additionally, some job seekers pointed to the negative effects of the system on their self confidence, self esteem and well being generally. TASCOS and TOES also describe such effects in detail in a joint report (McCormack 2001).

Variation across different groups

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).

However, in a system where financial incentives for providers are based on outcomes, it is not surprising that the Job Network experience varies across different job seeker groups and across providers. Financial incentives for providers often lead to their giving targeted and flexible assistance to job seekers only when they assess that an intervention is likely to result in an appropriate risk adjusted return (chapters 9 and 10). As a result, the most disadvantaged people — those most difficult to place in employment — are those most likely to receive lower levels of service. The star rating system and monitoring of service provision by DEWR mitigates this, however.

In that light, a number of participants believed that not enough is done for particularly disadvantaged job seekers in the Job Network.

Participants’ views

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.

Box 6.2 Individual job seeker experiences

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 (confidential submission).

I was also picked up for Intensive Assistance. Although I was able to report a high level of job search activity, the only thing the IA staff member did was to require me to write a larger number of speculative applications than I was already writing and set me an unreasonable benchmark of job ads to be responded to each week ... I found the experience utterly soul destroying — the staff member did not appear to have any counselling or support skills ... (sub. DR 52, p. 1).

MS RONNE:... I'd been on the books not long, since July, and I brought in my resume, nice and sweet ... Six months later, about a month ago, I rang her up and I said, 'There's this great job that was advertised. I would really like to go for it.' 'I'm sorry, we haven't got your resume.' 'Why not?' 'We lost it.' You know, the great big lost in the sky. 'Where the hell is my resume and everybody else's resume?' ... 'The resume, could you do another one?' 'Okay.' 'No, this is no good. This is five pages. This is too long, but we have a book. You pick which wording you like and we will do it.' It comes back three weeks later full of misspellings, full of nothing. They leave you with nothing. They strip you of your dignity and respect. You feel like nothing. You just don't feel human. You just don't want to belong there. You just don't want to go back. You only do it because the government will cut off your benefits. That's all they do. They punish you like little children. 'If you don't show up on time we will cut you off. If you don't go to [your Job Network provider], we will cut you off.' I don't know what you can do (Newcastle public hearings, trans., p. 101).

MR WHELAN: I suppose basically you've got to really play it by ear. Quite clearly this isn't going to work. When I go back to intensive assistance they usually give you a sheet of paper with name, business, who you saw; I'll do it all again. Well, it didn't work. Basically, unless, as I said, they put an affirmative action program in for people of a certain age and certain disadvantages, I don't think I can see myself taking part in the paid workforce, so I'll just be basically trying to avoid being breached as often as I can, I suppose. It's a case of just trying to wing it (Newcastle public hearings, trans., p. 139).

MR NORMAN: [I found a job advertisement through Job Search Australia advertised by a Job Network provider]. I went there and I got an interview. So I handed my resume in over the counter and I spoke to a chap there. He read my four or five-page resume and his comments were, 'I needn't ask you any questions. You've answered all the questions here.' I said, 'This is very good.' ... Anyhow I found out the name of this company and, by coincidence, we had a chap at the bowling club - he was an owner of that company ... I said, 'Here's my resume. Would you check at work to see if the Job Network provider in fact faxed it through, because they said I was a very good show out of 10 people, which would be five people,' and I said, 'Would my resume have met your criteria?' and he came back the next day and said, 'No, we did not receive your resume and your criteria certainly matched' (Newcastle public hearing, trans., p. 96).

(continued next page)

Box 6.2 (continued)

MR MEEK: [My Job Network provider], has never referred me to one position for which I am qualified. They have referred me to unknown jobs, their advice to me being, 'I have referred you to a job, but I cannot tell you who it is, what it was, or what you'll be doing,' never getting any feedback as to the outcome of whether I got the job. You never get anything back. They have not job matched me with any employer who has contracted them to refer prospective employees, including State Rail, for whom I worked for over 22 years. There was a job actually in the paper last year, and I applied for it. When I'd gone down to put in the information program, it was Mission Employment who were the network provider given the jobs, but they never referred me to that position. I really expect a higher level of professionalism from them than I am receiving (Newcastle public hearing, trans., p. 141).

MR HAMPSON: ... I walked into [a Job Network provider] down in Hamilton and I said, 'Any work in for welders at the moment?' 'No, go back to Centrelink and have a look ... I said, 'I've just come from there.' I said, 'I can't afford to go from A to B, and back again. I'm not on 6, 7 hundred dollars a week. I'm only on' - you know, this is what the problem is. They expect you to travel all over the place, and you've got to go otherwise your money gets stopped, on a measly bloody \$300 a fortnight, or whatever it is (Newcastle public hearing, trans., p. 86).

MR HAMPSON: I just want to say, the last year I worked, I earned \$53,000 working seven days a week - night work and everything. The following year when I was put off work, I went down to \$13,800 and I got the poverty allowance. Now, to go from that to that and still pay the same bills and then you get all that crap from them on top of that - you've already been kicked in the teeth. You're on the ground and they kick you in every way possible ... (Newcastle public hearing, trans., p. 93).

At the other end of the age spectrum, 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 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 from that of mainstream Australia’ (sub. 36, p. 7).

Even in less remote regions, job seekers may experience difficulties in accessing the Job Network. The Capital Region Council, which is the ACC for the ACT region and its surroundings, noted how costly and time consuming it can be for job seekers in small towns to travel across to region to visit Job Network providers (sub. DR69, p. 6).

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).

Data

The 1999 DEWRSB Survey of Job Seeker Perceptions showed some variation in perceptions of service quality across the ‘disadvantaged’ groups as well as some differences in services received. It is noted that the results reported here are subject to the caveats about this survey made in appendix J.

In IA, job seekers 45 years and older were over two and a half times more likely to visit their Job Network provider once a month or less than their 15–20 year old fellow job seekers. Their provider 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 Job Network provider took into account their special circumstances and were twice as likely to be *very satisfied* with the overall service provided by their Job Network provider.

Job seekers from a non English speaking background were less likely to *strongly agree* that the Job Network provider 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. Job Network providers organised English language training for about one in ten job seekers with a non-English-speaking background. Although this figure is double that for any other group, it appears low, given that ‘research consistently demonstrates that English language proficiency is critical to labour force participation and long term success in the labour market’ (DIMIA, sub. DR79, p. 8).

The commission obtained DEWRSB’s 2000 report on Indigenous Job Seeker Experiences of Employment Services. It showed that overall, only about 65 per cent of Indigenous job seekers who had contact with the Job Network were satisfied with the services they received. This figure was stable across gender, age and location groupings.

The report also found that Indigenous job seekers who chose their agency frequently chose them on the basis of their specialist status where such agencies were available. However, access to specialist agencies is not ubiquitous and partly explains the small number of Indigenous job seekers (10 per cent) who had contact with a specialist agency.

The same report also suggests that dissatisfied customers receive less service from the Job Network agencies than satisfied customers:

Indigenous job seekers in the survey who had visited specialist Indigenous Job Network agencies were significantly more satisfied (85%±11%) with the overall services of Job Network agencies, compared with those that had visited general

agencies (61%±7%). Comments by Indigenous job seekers in the survey who had access to a Job Network agency with Aboriginal staff, indicate this was an important feature of the service (DEWRSB 2000, report on Indigenous Job Seeker Experiences of Employment Services p. 53).¹

Overall, the report concluded that the Job Network appears to be providing good quality service to many Indigenous job seekers. However, it also emphasised that a substantial portion are less satisfied with the service and that these are not having their employment assistance needs met. The report also suggested that this may be the cause of disengagement, with some Indigenous job seekers severing contact with their agencies altogether as a result of dissatisfaction with their provider.

Aside from concern over variation of services received by different groups of job seekers, it appears that job seekers are subject to differential treatment by virtue of being with a different provider. For example, according to the 2001 survey of job seeker perceptions, under one third of IA respondents who were with a low star-rating provider were sent to a job interview or to speak to an employer about a job, whereas 44 per cent of those with high star-rating providers had such contacts. Although the potential dynamic gains of flexible provision of services described in chapters 9 and 11 is acknowledged, it is of equity concern that such variations exist, particularly given the compulsory nature of participation in JST and IA and low levels of exercised choice by job seekers (chapter 8).

The OECD reported the same trends for 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).

Further evidence of differential treatment by providers emerges in the breaching section below.

¹ A puzzling statistic to emerge from the report on Indigenous Job Seekers' Experiences of Employment Services is that: 'the pattern of help received by clients classified as eligible for Intensive Assistance was very similar to clients who were only classified as eligible for Job Search Training' (p. 55). The report's explanation that 'this may reflect that Job Network agencies find that clients have higher (or lower) levels of need for assistance than Centrelink has assessed (p. 55)' is not satisfactory given that the duration of assistance and the level of outcome payments is so different between IA and JST.

Intensity of service (parking)

‘Parking’ is the description used by the industry for instances where job seekers receive only minimal assistance from their Job Network providers. As discussed in chapter 9 the problem of parking is of particular policy relevance when:

- affected job seekers have wrongly been referred to IA and would be better served in a more suitable program; or
- affected job seekers could, from a policy perspective, reasonably benefit from IA, but the Job Network provider has assessed interventions to not be financially viable.

The existence of parking was asserted in several submissions, as well as by job seekers at the Value Creation Workshops. Aside from anecdotal evidence about the existence of parking, the Commission has attempted to find evidence for this phenomenon by examining the frequency with which IA clients visit their Job Network provider. Of course, frequency of visits is only imperfectly correlated with intensity of assistance. Nevertheless, face-to-face encounters of job seekers and their case managers once a month or less may indicate that service intensity is low.

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 contact with their Job Network provider. The 1999 DEWRSB Survey of Job Seeker Perceptions, also finds that 46 per cent of job seekers had similarly low levels of contact (calculated from table 6.1).²

Wesley Uniting Employment argued that data on frequency of visits are bad measures of parking since a low frequency of visits may be due to the fact that a proportion of job seekers are working or studying while in IA but by no means parked (trans., p. 65). However, the variation of frequency of visits with employment/study status is minimal. Indeed, 48 per cent of respondents who were studying or working had monthly or less frequent visits compared with 45 per cent for those not studying or working.

Also, it might be argued that the reason for low average frequency of visits is that some job seekers have just entered IA and have thus not had the opportunity to visit their provider more than once or twice. However, the frequency of visits is stable across unemployment duration in the 1999 survey.

² However, intriguingly, data for frequency of contacts varies substantially and significantly at the disaggregated level for the two different surveys — casting some doubt on the reliability of either estimate over intensity of service levels.

Table 6.1 Frequency with which IA customers visit their Job Network provider^a — 1999 survey

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 data from the 2001 survey showed a substantially better picture, with just over 2 per cent of participants reporting to have met their provider only once or twice (compared with over 23 per cent in the 1999 survey). This improvement coincides with changes to contractual requirements in the second tender round that required providers to have more frequent contact with their clients. While this may have had positive impacts on the services received by job seekers, there is the possibility, given the incentive structures inherent in the Job Network structure, that they may simply have induced low quality contacts for the sake of meeting the new requirements.

Another part explanation for the differences between the 1999 and 2001 data may be the fact that the 2001 question is about frequency of contact with the case manager, not frequency of visit to the Job Network agency as in 1999. If contacts in 1999 made by telephone and by mail had been counted, differences between the two surveys would have been less.³

An important finding of both surveys is that the frequency of visits appears to be positively correlated with active participation by the job seeker in job search activities or training. According to the 1999 survey, IA clients who had contact with their Job Network provider 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). The corresponding figures

³ The 2001 survey has a follow up question asking how the contacts were mainly made. The answers were: telephone (11 per cent), mail (1 per cent), in person (67 per cent) and equally telephone and in person (21 per cent). If some respondents who claimed that their contacts were mainly by telephone or by mail did not actually have contact in person, the actual difference between the two survey results may be substantially smaller.

in the 2001 survey are nearly identical — 24 per cent and 43 per cent respectively.⁴ Thus the increase in frequency of contacts at the very infrequent end of the scale does not appear to have changed this indicator of service received by job seekers.

IA clients who had contact with their provider once a month or less were also 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).⁵

A logistic regression was used to shed light on which (if any) group factors are correlated with the frequency of visits. In the 2000 survey (out of the three surveys available to the Commission this is the only one containing JSCI scores), of the following factors: gender, education level, age, Indigenous status, IA duration, regional indicator, disability status, non-English speaking background and JSCI score, the only factor retained at the 5 per cent significance level was the JSCI score. Frequency of visits was segmented into fortnightly or more and monthly or less and the JSCI scores were segmented into four categories (24–26, 27–29, 30–32 and 33+). There was no significant difference in the frequency of visits amongst the three categories above 26 points. However, the least disadvantaged job seekers (in the 24-26 point category) were 25 (± 19) percentage points more likely to have fortnightly or more frequent visits than those with higher JSCI scores (63 per cent versus 37 per cent).

To the extent that JSCI scores can be relied on to identify disadvantage levels, this result is clear evidence that more disadvantaged job seekers get less time from their

⁴ The fact that a substantially smaller percentage of job seekers report having had monthly or less frequent contact with their case manager in the 2001 survey than in the 1999 survey did not change the overall percentage of respondents who were sent to a job interview or to speak to an employer about a job. That is, 38 per cent of respondents to the 2001 survey claim to have been sent to a job interview or to speak to an employer about a job, compared with 37 per cent of the 1999 respondents.

⁵ The corresponding figures in the 2001 survey are not easily reconciled with these 1999 figures. This may be due to changes in the questionnaire design. For example the question: ‘Did the (Job Network Member) organise for you to receive training in job search skills such as writing resumes, preparing for an interview and writing job applications?’ in the 1999 survey yielded 32 per cent and 54 per cent for low and high frequency contact clients respectively. This question was changed to: ‘Did your case manager organise for you to attend education or training courses in job search skills such as writing resumes, preparing for interviews and writing job applications?’. This yielded 12 per cent and 25 per cent respectively. Aside from the different wording the 2001 question was preceded by a question that asked whether the case manager helped write or check the resume or application of a job seeker and whether they had helped them prepare for an interview. Although the absolute numbers differ substantially, the conclusion that there is a correlation between frequency of visits and service levels is sustained in both surveys.

providers. Of course, low levels of assistance are not necessarily attributable to the provider alone. Indeed, many providers reacted to the Commission's draft report by saying that the Commission ought to emphasise the existence of 'self-parking'. For example, Professional Vocational Services said:

Parking of candidates [is] an unfortunate choice of words by the Commission. In our experience it happens infrequently and usually by the choice of the candidate (sub. DR63, p. 2).

The Leichhardt Community Youth Association went further:

We are able to determine that for us a significant proportion of job seekers who do not obtain an outcome are those who we believe park themselves and who resist all efforts, including breaching recommendations to participate in any meaningful way in Intensive Assistance interventions (sub. DR77, p. 3)

Although the existence of low levels of service indeed leaves the question of the direction of causality open, there is anecdotal evidence from the Value Creation Workshops (appendix B) and from participants' comments at hearings (box 6.2) that some job seekers seek help and do not obtain it. Also, 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.

Finally, 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 had meetings with their Job Network provider once a month or less frequently the corresponding figure was only 12 per cent.

The Commission emphasises that while parking can be an adverse phenomenon from a policy perspective and from the job seeker's perspective, Job Network providers that do 'park' some clients can hardly be blamed for responding to the incentives built into the system. A discussion of the policy implications and potential solutions to 'parking' is left to chapter 9. As discussed there, the arrangements proposed for ESC3 are likely to reduce the incidence of parking.

Complaints

The number of official complaints made by job seekers about the Job Network is 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 rate of complaints 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 1 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). Indeed, the Code of Conduct requires Job Network providers to have 'an accessible, effective complaints process'.

DEWRSB's 1999 and 2001 Surveys of Job Seeker Perceptions confirm that the level of complaints — including non Customer Service Line complaints — is much higher. According to the 1999 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 to all sources, according to the survey, is about 2 per cent⁶ — about 25 times that reported for the Customer Service Line.

Similarly, just under 3 per cent of respondents to the 2001 survey claim to have made a complaint with 57 per cent of these saying they complained to their job network agency, 17 per cent to the customer service hotline, 17 per cent to the Department through other channels than the customer service line and 47 per cent saying they complained to Centrelink.

The fraction of participants who reported that their complaints were resolved was substantially below half and less than a quarter of respondents were satisfied with the way in which their complaints were dealt with (table 6.2).

Table 6.2 Resolution of complaints^a
per cent

<i>Satisfaction with the way a complaint was dealt with for complaints made to:</i>	<i>Very satisfied</i>	<i>Satisfied</i>	<i>Dissatisfied</i>	<i>Very dissatisfied</i>	<i>Neither</i>	<i>Don't know / no opinion</i>	<i>Percentage of complaints resolved</i>
Job Network agency [N=60]	13 (10)	7 (17)	14 (22)	59 (40)	0 (3)	8 (8)	32 (33)
Customer Service Hotline (CSH) [N=22]	19 (18)	2 (18)	41 (27)	20 (23)	17 (5)	1 (9)	21 (36)
DEWR (not including CSH) [N=16]	18 (13)	4 (6)	30 (13)	48 (63)	0 (6)	0 (0)	24 (38)
Centrelink [N=48]	15 (17)	20 (17)	10 (25)	47 (38)	7 (4)	0 (0)	50 (48)

^a The results in this table are indicative only. Given the small number of observations (103 participants said that they did complain, some to multiple agencies) they are not reliable. The number of observations is given in square brackets for each agency. The weighted results are given, but because weighted results tend to be excessively influenced by outliers in small samples, the unweighted results are also included in brackets.

Source: Survey of Job Seeker Perceptions of the Job Network 2001 data obtained from DEWR.

The 1999 survey, which contains enough observations to be confident about the results, concords with the results of the 2001 survey in that the satisfaction level

⁶ 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.

with the resolution of complaints was below 40 per cent (table 6.3). Unfortunately, the 1999 survey contains no data on whether complaints were resolved.

Table 6.3 Satisfaction with the resolution of complaints
per cent

<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

Source: Survey of Job Seeker Perceptions of the Job Network 1999 data obtained from DEWR.

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. Moreover, the 2001 survey showed that less than half (46 per cent) the respondents recalled having their provider explain to them how to deal with problems they may have with the provider and only about a third (35 per cent) recalled being given information about the Customer Service Hotline. Similarly, the 1999 Survey shows that less than half the respondents recall having the complaints procedures explained to them by their provider.

A further potential contributing factor to low complaint numbers is that some job seekers may fear retribution due to the role of providers in recommending breaches (chapter 14). 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).

Or, as put more starkly by Mr Meek at the Newcastle public hearing, 'if you do... stick your neck out, you're liable to get it chopped off' (trans., p. 144).

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 who do not comply with various activity requirements are subject to potential withdrawal of benefits (breaching). The breaching regime is a mechanism for enforcing job seeker obligations. These are designed to ensure that unemployment beneficiaries seriously engage in job search or measures that improve their employability, as well as ensuring that job seekers fulfil their administrative obligations. Chapter 7 discusses the positive employment effects of activity requirements and chapter 14 discusses the role of Job Network providers in breaching.

In contrast, this sub-section points to anecdotal evidence that such obligations are not always compatible with serious job search efforts, do not necessarily enhance employability and that their enforcement can have deleterious effects on the job search potential of job seekers. For example, breaches reduce the already small financial resources available to job seekers for job search, may adversely affect trust and may enhance social dislocation experienced by job seekers. Furthermore, the breaching regime may foster a tendency to comply with the letter rather than the spirit of mutual obligation. As such breaching may, in some instances, even lead to adverse employment outcomes. The independent review of Breaches and Penalties found that:

Our inquiries indicate that the current penalty regime ... unduly and counter-productively diminishes many jobseekers' prospects of finding employment ... We consider that greater care should be taken to ensure that the obligations imposed on jobseekers are appropriate to their particular circumstances (Pearce et al. 2002, p. 9).

Aside from the effects on employment outcomes (a discussion of the positive effects of which are discussed in chapter 7), breaching can have adverse effects on the personal lives of job seekers:

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 pointed out in the Independent Review of Breaches and Penalties, 'it is especially important to recognise the severe and demoralising pressures faced by long-term job seekers, particularly if very few jobs are available which they can realistically hope to secure' (Pearce et al. 2002, p. 8).

As indicated in the previous section and chapter 14, the relationship between providers and job seekers is affected by the fact that the system requires providers to notify breaches. This may have positive effects in that it gives providers a

stronger standing in focusing the attention of job seekers, and thus enhances providers' ability to overcome job seekers' motivational problems.⁷

However, breaching also has deleterious effects by disempowering job seekers who do not suffer from motivational difficulties and might be compelled to comply with unreasonable requests or unhelpful directions by Job Network providers that impose high monetary, time and psychological costs.

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 [of unemployed people] (Un(der)employed sub. 3, p. 9).

In short, while breaching has obvious motivational and compliance benefits, its presence can also reduce the quality of the experience for (genuinely job seeking) clients in the Job Network, weaken trust between case managers and job seekers, and even adversely affect job seekers' employment prospects. In this context, it is important that compliance and activity requirements in the Job Network are designed to minimise the adverse effects of the system for those job seekers who are engaged in job search activities that are reasonable given their circumstances (chapter 7 and chapter 14).

Recent changes to the breaching arrangements address some of the issues raised in this sub-section. For example, they broaden the provisions under which a breach penalty can be waived to include participation in the Commonwealth Rehabilitation Service and formal vocational training as part of a specified labour market program. The changes also reduce the breach penalties for not going to an interview with Centrelink or a Job Network provider from an activity test breach to an administrative breach. Finally the changes will give Centrelink more discretion in administering breaches so as to minimise the incidence of harsh or unfair breaches (Vanstone 2002).

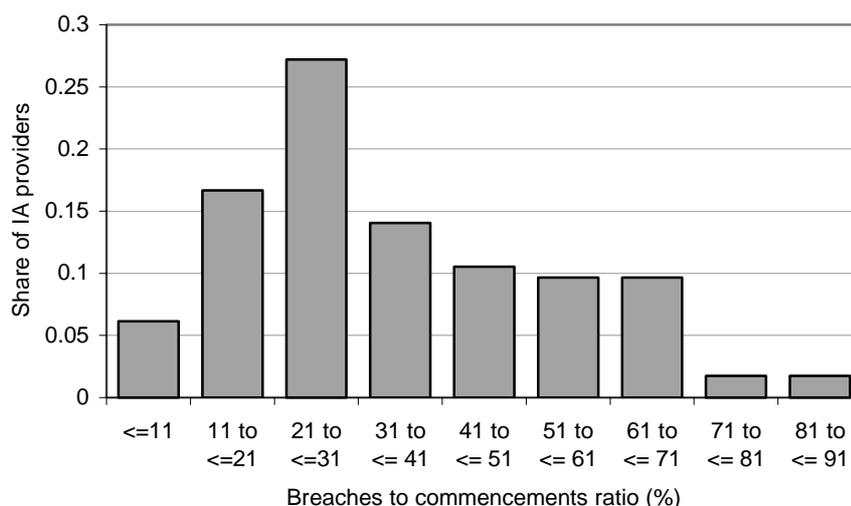
Variation of breaching notification rates across providers and disadvantaged groups

Breaching notification rates (measured relative to commencements) also vary markedly by different agencies (figure 6.1). Some of this variation may reflect

⁷ Indeed, a survey of unemployed peoples' attitudes toward activity tests (Tann and Sawyers 2001) reveals that unemployed people themselves support the principle of breaching and, to a lesser extent, the current level of breaching penalties. 78 per cent of respondents agreed that people who don't meet their activity requirements should have their payments temporarily reduced and 74 per cent agreed that people who don't meet their requirements on three occasions should have their payments temporarily cancelled. The corresponding figures for those respondents who had incurred an activity test breach in the past are 69 per cent and 70 per cent respectively.

factors outside the control of providers, 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 notification 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.

However, a regression model (box 6.3) revealed many of the variations in breaching notification rates could be related to specific features of Job Network providers. 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 who were Indigenous or from a non-English speaking background had higher breaching rates;⁸ and

⁸ 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.

- higher performers, as measured by the star rating, had lower breaching rates.

Box 6.3 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.

The variations in breaching notification rates by client type are of potential concern. There are several explanations for the differences. First, they 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). The Independent Review of Breaches and Penalties concluded that:

It is clear that a very substantial proportion of breaches are incurred by people who fall into this general category of especially vulnerable job seekers. They are job seekers whose personal circumstances make them especially vulnerable to particular difficulties in receiving, understanding or being able to comply with official communications about obligations such as attending interviews or returning forms (Pearce et al. 2002, p. 15).

Centrelink was also concerned about the effects of breaching on particularly disadvantaged job seeker groups.

... 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).

Second, there could be an inherently higher degree of non-compliance with activity tests by these groups.⁹ 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).

The variations in breaching notification rates do not appear likely to reflect strategic considerations on the part of Job Network providers (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.¹⁰

There is no evidence that agencies that have high breaching notification rates are acting improperly. First, the share of breaches notified by an agency that are finally imposed by Centrelink is not related to the breaching notification 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.¹¹

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

⁹ Note that Centrelink is more likely to uphold recommended breaches for these groups, on the face of it, suggesting that this interpretation might have more weight. However, before reaching this conclusion it may be necessary to investigate the extent to which members of such groups are less likely to appeal breaches and are more likely to be subject to administrative breaches.

¹⁰ 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.

¹¹ 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 breaching notification rates.

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).

6.2 Perceptions of employers

Job Network providers assume two broad functions. The first is to help job seekers overcome barriers to employment. The second is to match them to jobs. In the latter function providers can only service job seekers well if they also meet 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 recall using 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). 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 (table 6.4).

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 6.5 below. The most often cited benefits from using the Job Network related to screening of applicants and saving time interviewing and finding applicants. The most often cited poor aspects were poorly trained/incompetent staff and poor service.

Table 6.4 Reasons for employer dissatisfaction with JN 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.

Table 6.5 **Good and 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.

The ACCI survey of 1200 employer members referred to above found that over 70 per cent of employers rate the level of Job Network services as satisfactory or better. Of those employers who had had contact with both the Job Network and the CES, 49 per cent favoured the levels of service provided by the Job Network, while only 22 favoured the CES in this respect. Similarly, 45 per cent of employers favoured the range of services provided by the Job Network compared with 16 per cent who favoured the CES. Finally, 32 per cent favoured the quality of applicants referred through the Job Network whereas 22 per cent preferred those referred through the CES (table 6.6).

Table 6.6 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.

7 What services should the Job Network provide?

Box 7.1 Key messages

The Commission supports the continuation of a Job Matching function for all job seekers (reversing the view in the draft report). Changes proposed for Employment Services Contract Three (ESC3), which introduce incentives for providers to focus job matching services on disadvantaged job seekers, appear to strike a balance between reducing deadweight costs and ensuring providers continue to have access to the vacancies of employers.

Job Search Training should be maintained, but compulsory attendance requirements should remain substantially unchanged for first time users so that its motivational and compliance effects are not compromised (chapter 9).

The Commission advocates a more flexible approach to determining the frequency and duration of provider contact and activity requirements proposed for Customised Assistance in ESC3.

'Personal accounts' have been used with some success in the United Kingdom. The Commission supports the proposal to introduce Job Seeker Accounts in ESC3 and recommends that providers be able to draw on the proposed accounts after the period of Customised Assistance concludes.

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 and should be retained.

There is no clear rationale for the Self Employment Development program. 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 Contracting program 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 effectiveness of the service as well as changes proposed under ESC3 are 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 raise matching efficiency by reducing search costs and increasing information about available jobs — thereby cutting frictional unemployment. This 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 freely available 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.

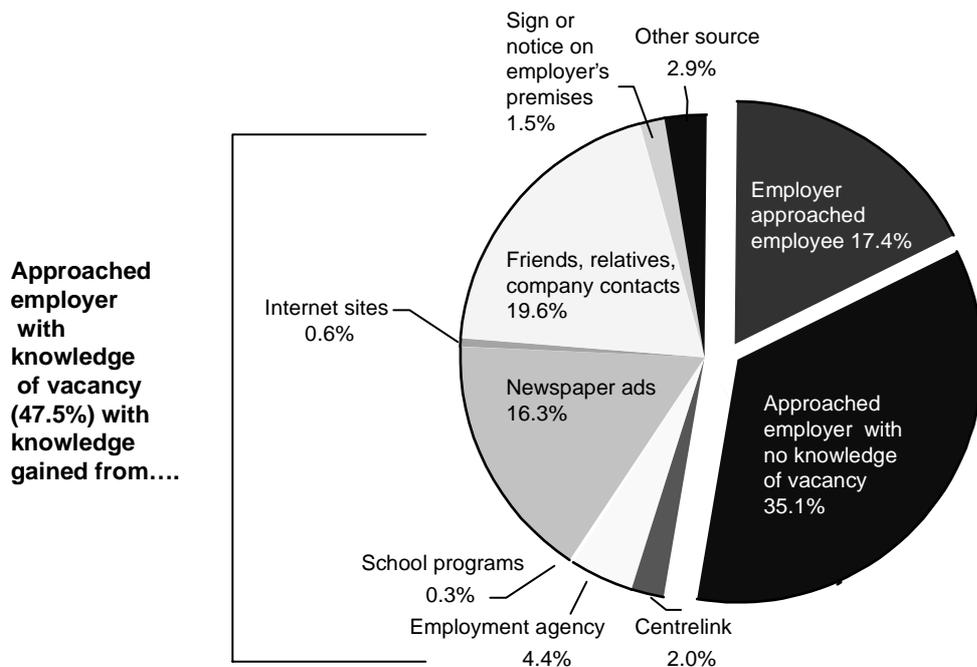
² In a 1996 national survey of employers, Harding and Wooden (1997) find that the public employment service plays a more important role in recruitment, particularly for semi and unskilled blue-collar workers — but still accounts for a relatively modest share of total successful recruitment methods.

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 — as Layard et al (1991, pp. 258, 475) found, unemployment duration is an indicator of poorer human capital and future employability.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 may be 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. DEWRSB’s own qualitative research 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

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. (A survey conducted by VECCI in 2000 found that ‘most of the employers surveyed had little understanding of the Job Network’ (sub. 11, p. 2).

In keeping with the findings of this research, JM services were opened to a broader client base in August 1998.⁶ As noted by DEWRSB (2000a, p. 58):

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 group (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).

Despite the increasing share of JM placements going to non-disadvantaged job seekers, participants considered that availability of a large and diverse group of job seekers was fundamental to their ability to market their services, secure vacancies and hence place disadvantaged job seekers:

Job Matching enables market branding, in that we market ourselves as an organization with a broad range of job seekers providing the best person for the job. Abandonment of Job Matching potentially leads to marginalization and the perception that Job Network Companies are organizations that only work with long-term unemployed people (Your Employment Solutions, sub. DR64, p. 2).

It would be difficult for Job Network service providers to effectively market their services if they could only offer long-term unemployed jobseekers to employers. In many cases, employers simply would not use the services of the Job Network unless the current range of jobseekers was available ... NESAs believe that the Job Network brand would be negatively impacted through a contraction of types and employability levels of individuals offered to employers (NESAs, sub. DR75, p. 3).

The Department considers that there is merit in having a Job Matching service which caters for as many job seekers and employers as possible. By servicing employers with a range of job seekers with various skill levels, Job Network members are able to

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.

secure a larger share of the vacancy pool. Having a wider pool of vacancies improves the scope for providers to place a full range of disadvantaged clients, thereby enhancing the viability of the market (DEWR, sub. DR80, p. 9).

The Job Matching service is a key means by which providers can develop a relationship with employers and increase their chances of finding placements for disadvantaged jobseekers (Jobs Australia, sub. DR81, p. 9).

Furthermore, 37 per cent of job seekers who get a job in IA do so through a vacancy screened by a Job Network member.⁷ Of these, 30 percentage points are with the Job Network agency providing IA services to the job seeker, while 7 percentage points are with other Job Network providers. This suggests that access to vacancies listed by providers — especially their own — is an important factor in securing outcomes for disadvantaged job seekers.

While access to a large and diverse group of job seekers might be an important feature for employers, this does not necessarily mean that government must subsidise the whole group (or provide subsidies of equal amount to individual job seekers). 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. The key issue is whether IA job seekers can gain access to the vacancy pool. To date, the capacity of providers to forge alliances in order to access the vacancy pool is largely untested. It may develop in time as the general recruitment industry accepts licences to provide job placement services under ESC3.⁸

Another argument advanced in favour of a more generalised role for government in providing JM services is that job seekers who do not qualify for JST and IA may still face barriers to employment:

It is important to note in relation to Job Matching that job seekers who do not qualify for Job Search Training or Intensive Assistance can still face barriers to employment. They may, for example, lack knowledge of opportunities in the local labour market or have limited resources for job search activities. The service received through Job Matching can assist these job seekers in overcoming these barriers. Without such a service, many of these less disadvantaged job seekers may remain unemployed, thereby increasing the flow into long-term unemployment (DEWR, sub. DR80, p. 9).

The current Job Matching service plays an important role in assisting, at low cost, a range of demographic groups who cannot get immediate access to Intensive Assistance

⁷ The data, provided by DEWR, relates to the contract period up to and including 19 April 2002.

⁸ There may also be other approaches to ensure access by disadvantaged job seekers to vacancies, such as payments by Job Network providers to employers to screen such job seekers. However, such novel approaches would represent a radical departure from current practice and have unknown effectiveness.

or Job Search Training. This includes school leavers, recent retrenchees and women returning to the workforce. A basic job brokerage service is an effective form of early intervention to move these groups into employment before they lose motivation and confidence. (Employment National, sub. DR73, p. 1).

... categorisation of disadvantaged job seekers through the Job Seeker Classification Index identifies arguably the *most* disadvantaged job seekers and is reliant on self-disclosure. There are other categories of job seekers for whom self-reliance will be difficult. For example, most school leavers would not be rated as disadvantaged and yet this group has the least exposure to job search techniques in a competitive market and would benefit from job matching (Queensland Government, sub. DR76, p. 9).

Other participants however, considered that income recipients were capable of self help job search:

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 (Soraya Kassim, sub. 23, p. 4).

Finally, participants were concerned about the impact on business, particularly on small to medium enterprises of restricting the role of government in the provision of JM services:

Small employers particularly, report their need for free job matching services. For many often the transition when growing from self employed to employing others is challenging. The support and information provided by Job Network through Job Matching can often be the key that encourages employers to consider growth and create positions within their business (Your Employment Solutions, sub. DR64, p. 2).

Job Matching is used by small to medium employers on a significant basis. These employers would find it difficult to engage job seekers without this resource. (Catholic Welfare Australia, sub. DR70, p. 10).

However, it is not clear that such arguments support a more generalised role for government in providing JM services. If firms would find it difficult to engage job seekers in the absence of a free job matching service as suggested, it is likely that they will continue to utilise Job Network services even if it were restricted to disadvantaged job seekers. By focusing JM subsidies on the disadvantaged the relative attractiveness of this group of job seekers will increase.

Generally, targeting labour market programs towards the most disadvantaged job seekers reduces deadweight costs (chapter 5). However, in the case of JM, the evidence is a little more equivocal. In the draft report the Commission recommended limiting the role of government in JM to disadvantaged job seekers.

However, given the possibility that limiting eligibility criteria may adversely affect disadvantaged job seekers, a more cautious approach has been adopted.

Moreover, the Commission's concerns regarding reducing deadweight costs are addressed, in part, by changes proposed for ESC3, which will provide incentives to target job matching services at more disadvantaged job seekers. These include the introduction of tiered payments for job placements. Providers will receive higher payments for placing job seekers who are long term unemployed, or those identified as being at high risk of unemployment, into jobs (DEWR 2002a, pp. 20,44). Further, the proportion of non-disadvantaged job seekers who providers can assist will be capped at 30 per cent (DEWR 2002a, p. 29). (It is not yet clear how this proposal is to be implemented.)

RECOMMENDATION 7.1

The Commission recommends continuation of a generalised job matching function that provides greater incentives for placing more disadvantaged job seekers.

Linking service provision

Under ESC2, providers contracted to supply JST or IA must also provide job matching services (a requirement that, in the draft report, the Commission recommended should cease). However, there is no compulsion on JST providers to also provide IA and vice versa, and no requirement that a JM agency provide any other service. In the proposed approach for ESC3, all providers in the Job Network *must* provide job placement, Intensive Support (which includes JST) and CA (the replacement for IA) as part of a continuum of services to job seekers. Another group of agencies outside the Job Network — particularly in the general recruitment industry — is expected to also offer placement services to Job Network clients.

Prima facie, these relatively rigid requirements do not appear to have a cogent basis. They fail to recognise that firms should decide, on the basis of transaction costs, what the efficient boundaries to their activities should be. As discussed in chapter 11, the nature of job placement services differs from that of JST and IA, and good performance in one function provides little guidance to performance in the other.

One argument for the requirements is that by providing the full suite of services the provider can build rapport with, and obtain information about, the job seeker that will be useful in giving tailored assistance services. However, this ignores the fact that:

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- in the case of job placement services, job seekers will often be required to go to many suppliers of these services anyway — because they hold the ‘closed’ vacancies;
 - there is turnover in case managers;
 - providers will be permitted to subcontract services to other agencies;
 - providers are not expected to supply a range of other services to which the job seeker may be referred for substantial periods in their cycle of assistance (such as the mutual obligation phase at 6 months after commencement); and
 - portable case histories could be an alternative mechanism for coordinating services for job seekers across a range of providers and services (chapter 14).

In that context, an alternative approach would be to contract a Job Network provider to supply case management and coordination services, but allow them to refer job seekers to any other provider of services (such as JST or job placement services) should they so wish.

However, whether the proposed rigidities for ESC3 matter much depends on the ease of subcontracting in the new system. If these are low, then this effectively allows Job Network providers to choose their area of comparative advantage and to outsource other functions.

The Commission considers that subcontracting arrangements should be made as easy as possible. If there are reasons why this cannot be the case, there are good grounds for at least removing the requirement that Job Network providers also supply job placement services (particularly given that job seekers will typically go to many placement agencies anyway).

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 job seeker. 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 are 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 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 on the Australian Job Search system — so that vacancy volumes on that system 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).

It appears that the need for multiple screening will continue to be a feature of the system under ESC3.

Moreover, proposals for ESC3 to implement ‘automated’ job matching may increase costs to job seekers. Under the proposed changes, each job seeker will have their ‘vocational profile’ lodged on Job Search. Job seekers will be automatically matched, based on their profile, to suitable jobs as they are recorded on the system. Details of job matches will be communicated daily to the job seeker through telephone or electronic messaging (DEWR 2002a, p. 8).

To ensure that job seekers are not alerted to the existence of jobs for which they do not possess the relevant skills and experience, the profiling and matching instrument

will need to be suitably refined and detailed. The incentive for this to occur would be increased were the Government responsible for meeting the costs of the system, including the costs of notifying job seekers of job matches. By internalising the costs of poor matches, the Government would face incentives to provide a quality service. Further, given that most job seekers are also financially disadvantaged, this would be an efficient and equitable approach.

RECOMMENDATION 7.2

The Commission recommends that Government meet the costs of the automated matching process proposed for Employment Services Contract 3, including the cost of notifying job seekers of job matches.

Even if the profiling and matching system were suitably refined such an approach still has the potential to impose costs on job seekers:

- There would still remain instances where job seekers were notified of jobs that they had no prospect of securing. When employers use inappropriate screening mechanisms, such as age, or gender, they are reluctant to convey this to job seekers or Job Network providers. While it is not clear how to minimise these practices, it is important to bear in mind that such practices impose costs on job seekers.
- Depending on the individual job seeker's skills and labour market, such a system could generate a large number of daily matches (for example, a kitchen hand seeking work in a large labour market may receive large numbers of notifications per day). It is not clear whether job seekers will be under an obligation to respond to some, or all, of these automated matches.

The Commission considers that a 'blanket' obligation for job seekers to respond to notified job matches would be inappropriate. Any obligation for job seekers to respond to job matches should take account of the circumstances of individual job seekers.

The Commission is recommending some methods for sharing information between agencies that screen job applicants (chapter 14). This will help to avoid 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 beforehand.

7.3 Job Search Training

JST aims to augment the employability of job seekers by:

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- 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 clients' job search networks.

In addition to providing job seekers with training in job search skills, providers are obliged to provide JST clients 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 Australian Job Search system 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', motivating some job seekers to look more intensively for work prior to commencement and to deter individuals who are not genuinely eligible for benefits because they already have jobs. These motivational and compliance effects are its biggest impacts (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,⁹ 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 or Job

⁹ Further, merely being referred to a program acts as a motivational factor for 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)).

Network provider 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).

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 attendance 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 and would also weaken the motivational effects of its present design.

Further, proposed changes to eligibility criteria under Australians Working Together (to be maintained in the new model for ESC3) 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 difference 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 were their propensity to send job seekers to an interview or assist them in interview preparation, both of which, 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.

RECOMMENDATION 7.3

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, and 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 currently 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, including whether the frequency and duration of job seeker contact should be specified. An alternative of ‘personal accounts’ and the more specific question of whether wage subsidies should form part of the package of assistance are also considered.

Consideration is also given to adopting a more prescribed approach to activity testing, as has been proposed for ESC3. 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 met:¹⁰

Compliance with the Disability Service Standards should be extended to all Job Network service providers (Blind Citizens Australia, sub. 14, p. 2).

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 (Un(der)employed People's Movement Against Poverty, sub. 3, p. 9).

¹⁰ ACOSS also put forth an option for the establishment and funding of minimum service levels. This option is explored in chapter 9.

A minimum quality of service is set out by the Job Network Code of Conduct and Declarations of Intent (box 7.2) — though these are not prescriptive. The recently announced Active Participation Model proposes a set of contact requirements that also address concerns about minimum service levels. These contact requirements are to apply to all job seekers, with the most stringent requirements set out for CA. Job Network providers will be required to meet with their CA clients at specified times, for a specified duration amounting to approximately 11 hours of contact over the six month period (DEWR 2002a, p. 45).

Box 7.2 General minimum service requirements

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.

Specifying that each job seeker receive an equal minimum amount of contact is somewhat arbitrary — it is not clear that a minimum total contact requirement of 11 hours over the course of CA is preferable to say 14 or 8 hours of contact. Similarly, it is not clear that the 'spread' of contact proposed (such as the requirement to have 1.5 hours contact in month four) is superior to some other distribution of visits.

Nevertheless, despite their inflexibility and arbitrariness, the Commission considers that these contact requirements are largely appropriate. While employment is the primary goal of the Job Network, it also fulfils certain social participation and equity roles. It is reasonable that job seekers have a minimum degree of engagement with their Job Network providers, particularly when participation in CA is mandatory (as is proposed for most eligible job seekers). Many job seekers in this inquiry expressed their frustration at a lack of contact with their providers (as evidenced in the Value Creation Workshops and submissions to the inquiry). The total quantum of contact is not onerous for the job seeker or provider.

The requirements will not alter fundamentally the generally flexible character of the Job Network. The requirements will represent the only major area in the design of the Job Network where DEWR will hypothecate payments to individual job seekers. The Commission estimates that contact requirements are equivalent to only a 14 per cent claim on the pool of funding available to help job seekers during CA, with the rest mainly available on a flexible basis.¹¹

Nor are any consequent deadweight costs likely to be appreciable:

- job seekers participating in CA are either long-term unemployed or have been identified as being at risk of long-term unemployment and are therefore unlikely to be ‘easy’ to place;
- some options for re-referral of clients, who would not benefit from CA (that is, job seekers with a very low probability of securing a job), would have already been exercised; and
- there is scope for any deadweight costs to be reduced over time by finessing contact requirements. Feedback can be sought from providers on whether the 11 hour contact requirements have been sufficient or too much. Providers willingness to pay for additional contact over the course of CA would also provide valuable information on optimal contact requirements.

However, while there are likely to be benefits from allocating some minimum contact hours for each job seeker participating in CA, the case for prescribing how this contact is to be scheduled is less clear. The Commission considers that providers should be given more freedom to determine the spread of contact. This will allow providers to better incorporate contact requirements into their preferred approach for delivering CA.

RECOMMENDATION 7.4

The Commission recommends that the schedule for minimum contact requirements, proposed for Employment Services Contract 3, not be prescribed by Government.

While accepting that minimum contact requirements may be warranted, the Commission considers that further specifying minimum levels of expenditure on job

¹¹ This was estimated as follows. Many job seekers will get a job or otherwise exit CA prior to its completion, so that the average number of actual contact hours will be significantly less than 11 (the Commission assumes 5 hours at \$70 an hour). The Job Seeker Account is worth \$935 per commencement, while expected outcome payments are around \$1160 per commencement. Thus, the contact requirement is roughly equivalent to $(350)/(935+350+1160) = 14$ per cent of the funding pool.

seekers, or mandating the provision of other types of services, such as training, would result in increased costs without the guarantee of an accompanying benefit.

More ambitious prescriptive requirements of this kind 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 (deadweight costs) 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. A shift away from flexibility may also affect the type of case manager employed by Job Network providers — discouraging the entry of creative people who derive pleasure from working with individual clients in innovative ways. Several participants highlighted this concern in discussions with the Commission.

Job Network providers, chasing outcome payments in order to remain in business, are generally better placed to determine the benefits of spending. 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).

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 chapter 10 (and appendix D), which examines the incentives inherent in the fee structure. The effectiveness of wage subsidies generally is discussed in appendix H, which finds their benefits to be somewhat ambiguous.

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 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,¹² 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 Indigenous and mature age job seekers. Eligible job seekers, including job seekers using IA, will receive a training credit, worth up to \$800 each, which can be spent on recognised training (Vanstone and Abbott 2001b).

A more widely applicable 'Job Seeker Account' has been proposed for ESC3. The proposed account will be a quarantined pool of funds that the Job Network provider can draw on in order to finance assistance for job seekers. It proposed that \$11 will be credited to the Job Network provider's nominal job seeker account when a job seeker commences Intensive Support at 4 months. A further \$935 will be credited to the account when the job seeker moves into Customised Assistance (DEWR 2002a, p. 33). Money from the pooled value of job seekers' accounts must be spent on a Job Network provider's clients, but the provider can choose how much to spend on any given client (a provider could spend \$10 000 on one job seeker and \$30 on another).

The Commission supports the use of personal accounts. Feedback from the UK suggests that they can empower job seekers. Moreover, they demonstrate to job seekers that the Government has committed identifiable resources to assist them in securing an employment outcome.

Finally, as Job Network providers will need to log details of expenditure through the Job Seeker Account, DEWR will be able to collect information on the types of

¹² 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.

services, activities and facilities that prove effective in producing outcomes. (Other aspects of Job Seeker Accounts are considered in chapter 10.)

Duration of assistance

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 (level B job seekers are relatively more disadvantaged than level A job seekers). Further, where agreed to by both the Job Network Provider and the job seeker, the period of assistance may be extended by up to 26 weeks.

In the draft report the Commission recommended reducing the duration of IA to six months. Most participants did not support this, mainly on the grounds that job seekers often face multiple, complex barriers to employment which take time to both identify and address (box 7.3). Another, less widely held, concern was that the rate of referrals of job seekers to IA would fall were the period of assistance to be reduced.

The Commission also notes that reducing the period of assistance to six months without an accompanying increase in, or restructuring of outcome payments, may reduce investment undertaken by providers in job seekers', as well as the capacity of providers to claim secondary outcomes.

However, changes proposed under the *Active Participation Model* address the majority of these concerns.

Employment barriers faced by job seekers and job seeker willingness to be engaged

Under changes proposed for ESC3, job seekers are referred to a single Job Network member who will work with them until they have found employment. Of those job seekers who enter CA, around 90 per cent will become eligible after 12 months of unemployment. By this stage a job seeker would have already undertaken Job Search and Intensive Support with their designated Job Network provider. Hence, the process of identifying and addressing the job seeker's barriers to employment would have already commenced. This process would simply continue (in a more focused fashion) during the six month period in which the job seeker received CA.

In the remaining 10 per cent of CA commencements, job seekers will receive immediate access having been identified by Centrelink as being at very high risk of long-term unemployment. In these circumstances (particularly given that these job seekers have been identified as being relatively more disadvantaged) a six month

period may not be sufficient to address what may be complex and/or severe barriers to employment.

However, where job seekers have been unsuccessful in achieving an outcome during CA, they do not exit the system. Rather, they continue to receive employment assistance from their provider. Moreover, (as outlined in a following section) the incentive for Job Network providers to invest in and assist these job seekers continues after the period of CA ends.

Box 7.3 Job seeker barriers to employment and reducing the period of assistance to six months

Participants noted that, in order to effectively assist job seekers, they must first gain their trust and establish a working relationship. Job seekers are often reluctant to reveal their barriers to employment (such as illiteracy, drug dependency, etc) immediately upon signing up with the provider (or to Centrelink at the time of the JSCI):

The capacity to work with the most disadvantaged of job seekers by skilled Intensive Assistance Consultants can frequently take six months or more to gain their confidence and gain 'permission' to work through the barriers to employment (Catholic Welfare Australia, sub. DR70, p. 13).

... the more disadvantaged job-seekers need time to build up trust and a working relationship with a particular provider (UnitingCare Australia, sub. DR74, p. 2).

Many I.A. job seekers take longer than six months to identify issues and get the job seeker to positively address solutions (St Laurence Community Services (Barwon) Inc., sub. DR72, p. 3).

Once identified, the process of addressing a job seeker's barriers to employment can also be lengthy, particularly with respect to more disadvantaged job seekers:

The truth of the matter is that strategies to overcome multiple barriers take time to take effect ... one could posit that the job seekers facing the greatest barriers to employment would require the most effort, and therefore take longer to place into work (Wesley Uniting Employment, sub. DR71, p. 3).

... there are some categories of job seekers that will require assistance well beyond six months allowing for any training that may be necessary, becoming proficient in job search techniques and building rapport and trust with the Job Network caseload officer. For example, this is often the case with Indigenous job seekers (Queensland Government, sub. DR76, p. 10).

... it is important that job seekers with multiple barriers to employment be afforded sufficient time to address these barriers with the assistance of their provider. This usually means a combination of a range of interventions that are often occurring concurrently and even so, may stretch over some months. We believe that both job seekers and providers need to be afforded the time necessary to complete their work (Leichhardt Community Youth Association sub. DR77, p. 2).

Flow of referrals to Job Network Providers

Leichhardt Community Youth Association raised concerns regarding the flow of job seekers into IA:

... we have concerns over the ability for the DEWR and Centrelink to be able to maintain referral rates in such a timing regime. This coupled with the limits on times people can be a recipient if IA could lead to a shortfall on the supply side which will again translate into instability (Leichhardt Community Youth Association, sub. DR77, p. 3).

It is not clear whether the current flow of job seekers into IA could be maintained were the duration of assistance to be reduced to six months and restrictions placed on the number of times a job seeker could participate in the program. However, the primary object of any modifications to the system should be to increase the effectiveness of the program rather than maintain or guarantee a certain level of business to Job Network providers.

Investment in job seekers

A reduction in the duration of assistance without a accompanying change in payment criteria may affect both the magnitude and nature of investment undertaken in job seekers.

Under the current payment provisions, providers are paid a fee when job seekers achieve outcomes *while in assistance* (chapter 10). By reducing the duration of assistance, the window for providers to make a return on their investment is also reduced, thus depressing expected returns. Hence, providers would tend to reduce their investment in job seekers. This is particularly relevant for education outcomes. Often entry to education courses is limited to twice yearly and may not coincide with a job seeker's spell in assistance if limited to six months.

Alternatively, providers may reduce their exposure to risk by making investment conditional on the achievement of outcomes. For example, with respect to job seekers, providers might only agree to the purchase of necessary equipment or clothing once the job seeker has secured a position, or with respect to employers the provider may 'tie' the payment of a wage subsidy or make the receipt of a 'bonus gift' conditional on 13 consecutive weeks of employment.

The payment criteria proposed for ESC3 appear to address the incentive effects resulting from a reduction in the duration of assistance. As noted by Jobs Australia:

The availability of substantial outcomes payments beyond the period of six months will mean that providers have the opportunity to continue to assist and secure outcomes for people who need more time (sub. DR81, p. 9).

By allowing providers to claim payment for outcomes achieved after the prescribed period of CA, the incentive to invest in job seekers does not cease when the prescribed period of assistance concludes.

Finally, while investment is likely to be financed partly by anticipated outcome payments Job Network providers will also be able to draw upon Job Seeker Accounts (chapter 10 and appendix K). It is not clear whether providers can only draw on the proposed \$ 935 job seeker account during the period of CA. It would be preferable if JNPs could continue to access the account so as to avoid the need to undertake hasty or ill targeted investment, particularly with respect to job seekers who gain immediate access to CA.

RECOMMENDATION 7.5

The Commission recommends that Job Network providers be able to draw on the proposed Job Seeker Account after the period of Customised Assistance concludes.

Given the changes proposed under ESC3, debate about the optimal duration of assistance becomes less relevant — DEWR has proposed that job seekers will effectively receive a continuum of assistance throughout their spell of unemployment.

However, as part of that continuum, DEWR has proposed that job seekers receive ‘high intensity’ assistance for a period of six months — Job Network members and job seekers will be required to undertake certain activities at specified intervals within the six month period.

The more relevant debate now centres on whether a six month period of ‘intense’ assistance followed by periods of less focussed assistance is the optimal approach. In particular, how ‘intense’ should job preparation and search activity be, and to what extent should these levels be prescribed by government? These issues are explored in the following section.

What activity requirements should apply in IA/CA?

Job seeker activity over the duration of their assistance

Typically, individuals in receipt of unemployed benefits are required to meet activity test requirements such as demonstrating regular, active job search and undertaking activities to improve their employment prospects. In the main these requirements are determined and monitored by Centrelink.

However, when job seekers enter into IA, the Job Network member and job seeker enter into a Preparing for Work Agreement that articulates the level and nature of job search and preparation activity that the job seeker will pursue over the course of their assistance.

However, under ESC3, DEWR proposes to require that each job seeker engage in job preparation activity ‘each week for at least the first three months of assistance’ (DEWR 2002a, p. 18). However, it is not clear whether this requirement will be prescribed in more detail. For example, a presentation delivered by Minister Brough noted that the requirement for job preparation activity would be for ‘three days a week for the first three months’ of CA.¹³ There are several elements of this proposal that need to be considered:

- do higher levels of job search and preparation activity produce proportionally better results and, more particularly, is three days per week for three months the ‘optimal’ level of activity?;
- what kind of assistance can job seekers expect to receive if such a high level of activity were mandated?; and
- should job seekers be subject to universal activity requirements or should consideration be had to the individual circumstances of job seekers?

Do higher levels of job search and preparation activity produce better outcomes?

A greater emphasis on engagement with job search activity and upgrading hard and soft skills has several possible benefits. It reduces the de-motivation and habituation that can occur with long-term unemployment and, through increased job search, increases the chance of a successful job match. It also produces a compliance effect for some job seekers (chapter 5).

In the draft report the Commission recommended that job seekers be subject to the same level of activity testing that applies outside of IA. This was designed to ensure that IA participants engage in some positive level of job search or preparation activity. The Commission notes, however, that the levels of activity proposed for ESC3 far exceed the level of activity that generally apply (both inside and outside of IA) under the current regime.

It is not clear that such higher levels of activity necessarily produce better outcomes, nor that the benefits of requiring such higher levels of activity outweigh the costs to job seekers.

¹³ Presentation by the Hon Mal Brough MP, Minister for Employment Services, Parliament House, 15 May 2002.

In their submission DEWR observed the following pattern:

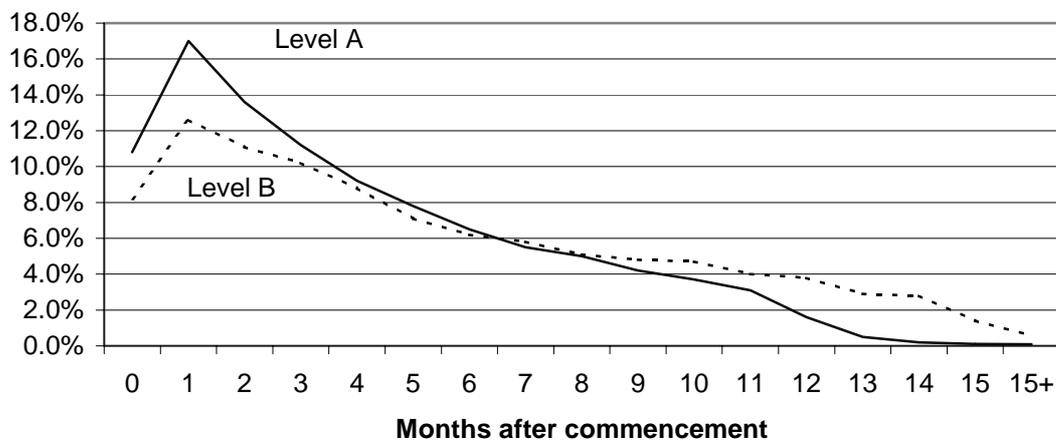
The frequency and intensity of assistance provided to job seekers in Intensive Assistance decreases rapidly after the first six months of assistance. While levels of actual assistance vary considerably, generally the assistance provided to job seekers is most active, and contact with the provider most 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. Towards the end of assistance, however, levels of activity increase but the focus changes to participation in community work or volunteer work rather than pro-active job search activities.

The achievement of outcomes reflects a similar pattern. Most outcomes are achieved by job seekers in Intensive Assistance within the first three months of participation. A secondary, and smaller peak in outcomes occurs towards the end of the period of Intensive Assistance (DEWR, sub. 43, p. 63).

This suggests that increased activity results in an increase in outcomes. However, further examination of the data raises some questions.

While interim outcomes data demonstrate that where job seekers achieve an outcome while in assistance, this outcome is more likely to occur within the first few months of assistance, outcomes do not appear to increase again towards the end of assistance (figure 7.2). The Commission emphasises that figure 7.2 differs substantially from the distribution of interim outcomes included in the draft report (reflecting the different basis on which the outcomes are recorded). The differences between these two distributions are outlined in appendix L.

Figure 7.2 Intensive assistance interim outcomes by placement date
(share of total outcomes in each category)



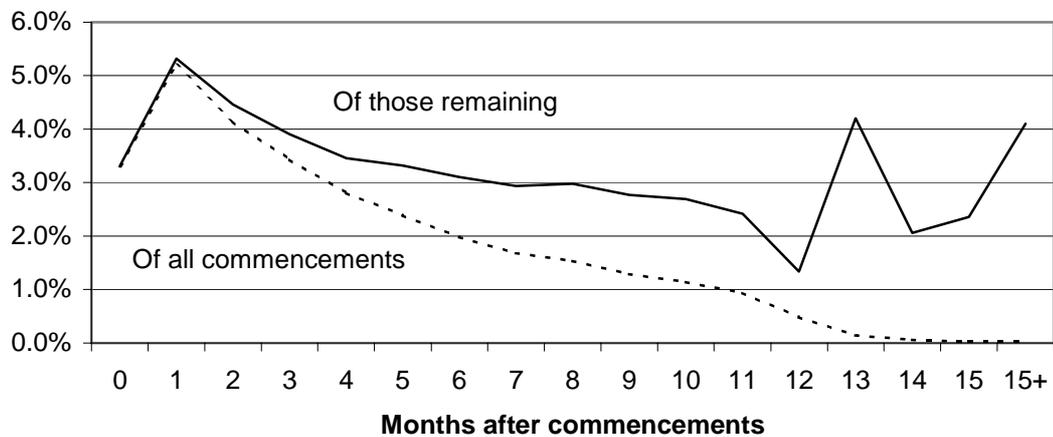
Data source: Information provided by DEWR

However, as noted by Wesley Uniting Employment (sub. DR71, p. 2), graphing the share of outcomes achieved after a given duration in IA can provide a misleading indication of the probability of leaving unemployment over time, because it fails to control for the diminishing pool of job seekers (noting that many job seekers exit without getting a job or education outcome).

Figures 7.3 and 7.4 have been adjusted to take account of those job seekers that have already exited the program, and as such represents the ‘hazard rate’ or probability of a job seeker with a given duration of assistance achieving an outcome in the next month.¹⁴ Again, it shows that the probability of achieving an outcome is highest in the first few months of assistance. While there is a ‘second peak’ this occurs *post* assistance and relates to job seekers who have had their duration of assistance extended. It suggests that where job seekers have their duration of assistance extended they are relatively successful in achieving an outcome. Given that only a small selective group of job seekers have their duration of assistance extended, this does not support the view that outcomes for job seekers generally increase again towards the end of assistance.

Figure 7.3 Intensive Assistance interim outcomes level A

Expressed as a share of the total number of clients and as a share of those remaining in assistance each month

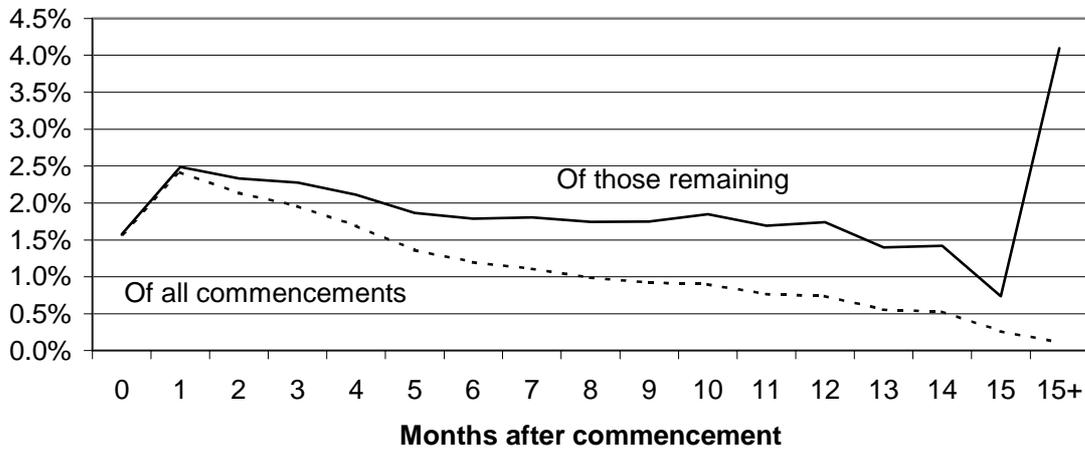


Data source: Information provided by DEWR.

¹⁴ For level A job seekers, interim outcomes comprise 47 per cent of total exits in the first 11 months, while for level B job seekers, interim outcomes comprise 29 per cent of total exits in the first 14 months.

Figure 7.4 Intensive Assistance interim outcomes level B

Expressed as a share of the total number of clients and as a share of those remaining in assistance each month



Data source: Information provided by DEWR.

DEWR has undertaken a number of surveys in order to determine the nature and intensity of assistance over the course of assistance (tables 7.1 and 7.2).

Table 7.1 IA participants: rate of participation in activities undertaken in the week prior to interview by duration in assistance

Activities in the previous week	Duration in Intensive Assistance		
	1-4 months	5-8 months	9 months plus
Pro-active job search	69	62	56
Ring or visit employer	51	41	34
Discussions with employment officer	43	31	32
Training	23	20	16

Source: Table 4.12 DEWRSB 2001a, p. 63.

Table 7.2 IA participants: frequency of contact with Employment Officer in the previous four months by duration of assistance

Frequency of contact	Duration in Intensive Assistance		
	1-4 months	5-8 months	9 months plus
Monthly or more often	85	77	72
Once or twice	14	19	22
Not at all	1	4	5

Source: Table 4.13 DEWRSB 2001a, p. 64.

While the above data demonstrate that job seekers who have been in IA for say 5-8 months have less contact with their provider than those who have only been in the program for 1-4 months, it is not clear what happens to the level of contact for individual job seekers over the course of their assistance.

The most employable job seekers tend to exit IA early, hence the job seekers remaining in IA later in the period of assistance tend to be harder to place. It is likely that the least employable job seekers have lower returns from the activities represented in tables 7.1 and 7.2. Accordingly, over time, we would expect to see less contact with providers for those job seekers who stay in the program for longer.

For example, it is possible that a job seeker who has been in IA for 5-8 months has only ever received the same, relatively lower level of assistance because they were considered to have poor employment prospects — those who exited early because of success in obtaining a job may have had the benefit of a higher contact rate.

While on balance the Commission considers that it is likely that the activity of individual job seekers still decreases to some extent throughout the course of their assistance, no firm conclusions can be drawn in the absence of longitudinal data.

Finally, to some extent, the activity requirements proposed for CA appear to build on some elements of the existing system that have proved effective in achieving off-benefit outcomes — namely, attendance requirements for JST. However, these benefits stem primarily from compliance effects (chapter 5) — that is, the process of ‘sifting’ out those job seekers who are already employed or can easily obtain employment. If JST operates as an effective sieve, then job seekers remaining in the group who subsequently enter CA are likely to be genuine job seekers. Hence, it is unlikely that the compliance effects associated with the proposed activity requirements for CA will be significant.

Based on the data made available to the Commission, it is not clear that beyond a certain point, higher levels of activity result in higher level of outcomes. Nor is there evidence to suggest that requirements for job seekers to undertake job preparation activities for around three days a week for three months will prove more effective than, say, a similar requirement lasting for two months or four months.

The Commission accepts that it is important to test other strategies and approaches to delivering IA in order to improve the quality of assistance for job seekers and the return to government from the program. However, it is equally important to minimise the, often hidden, costs to job seekers in testing these alternative approaches. Further, it is important to ensure that these approaches do not dampen the operation of other factors, such as job seeker attitude and the capacity of Job Network providers to tailor assistance to meet the individual needs of job seekers,

which may prove instrumental in determining outcomes. These issues are considered in the following section.

Should job seekers be subject to universal activity requirements?

As emphasised throughout this report, job seekers are heterogenous. For some job seekers, mandatory requirements to be engaged in job preparation or search activity for a prescribed period may be unreasonable given their prospects.

Further, such measures may also prove counterproductive. A survey undertaken for FaCS revealed that some job seekers engaged in a degree of 'low commitment' job search, applying for unsuitable jobs solely for compliance purposes (Wallis 2001). Moreover, if job seekers do not consider that the activity requirements (or level of activity required of them) increase their job prospects then they may become frustrated and demotivated.

Further, while, in theory, providers are free (in conjunction with job seekers) to determine the nature of job preparation activity undertaken in CA, in practice, this is likely to be influenced by the need to meet specified levels of activity. By requiring job seekers to be active for three days a week for three months, providers are likely to increasingly focus on low cost activities such as self-help job search or volunteer work. It is not clear, for example, that having job seekers come in to their providers' office three days a week to read the newspapers and use the telephone facilities will prove more effective than say a short, targeted course of equivalent cost. However, under the proposed arrangements, providers will have an incentive to elect the former activity.

These problems suggest the need for a degree of flexibility in implementing activity tests.

At present there is scope for some flexibility in the implementation of activity tests by Centrelink outside of IA. These tests are assessed on an individual basis, taking into account local labour market conditions and other individual factors, such as whether the job seeker has access to reliable transport and the existence of any disability or health problem.

The Commission considers that in determining activity levels for job seekers, whether it be 'work preparation activity', as will be required under the Active Participation Model, or job search activity, which applies more broadly, regard should be had to the circumstances of the individual job seeker. This should encompass both the cost to the job seeker of engaging in the activity, as well as the likely benefit.

This view was echoed by Jobs Australia, which argued:

It is imperative, however, that providers are given substantial flexibility to moderate standard activity test requirements to take account of individuals jobseekers' ability to meaningfully engage in job search activity (sub. DR81, p. 10).

One possible alternative approach would be for DEWR to set default levels of activity, with scope for providers to submit alternative activity strategies for pre-approval. This approach could mirror the current process for providers' Declarations of Intent. Job Network providers could articulate activity strategies for job seekers (not for specific individuals, but for their client mix as a whole), depending on their circumstances. These strategies could then be signed off by DEWR. For example, providers might articulate different activity regimes for mature age job seekers, those attending certain sorts of courses, or for job seekers facing poor labour markets.

This approach has a number of advantages. It avoids the need for exemptions to be secured for individual job seekers, while still allowing providers to tailor activity requirements to the circumstances of job seekers. Moreover, it enables DEWR to collect information on what levels of activity yield the best outcomes.

RECOMMENDATION 7.6

The Commission recommends there be scope for adjusting activity test requirements to take account of the circumstances of individual job seekers.

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 et al. (2001) revealed that around 87 per cent of NEIS participants aged over 50 years 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) that may affect their employment 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.¹⁵ 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:

¹⁵ 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).

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 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,¹⁶ 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).

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 (for example, 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).

While few participants commented on the recommendation to retain NEIS, those participants who responded supported the recommendation.

RECOMMENDATION 7.7

The Commission recommends that the New Enterprise Incentive Scheme be retained.

¹⁶ 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.

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. For example St Laurence Community Services (Barwon) Inc argued:

SEDS has provided clients looking at small business development a rare and valuable opportunity to develop their business to the point of applying for NEIS rather than being used as a way of "parking " clients. Removing a pathway such as this only further reduces the options available to address individual client needs (sub. DR72, p. 3)

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.¹⁷

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.

This view was supported by Jobs Australia and acknowledged by DEWR:

The modest resources involved might well be better applied to NEIS (sub. DR 81, p. 10).

The Department will consider whether the resources associated with the Self Employment Development program could be used more effectively in the New Enterprise Incentive Scheme (DEWR, sub. DR80, p. 3).

RECOMMENDATION 7.8

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

¹⁷ Information provided by DEWR.

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 forgone social security benefits but transport and accommodation costs and the social costs of separation. As noted by the National Harvest Trail Working Group (2000):

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).

Drawing on the analysis of the National Harvest Trail Working Group, it is often those individuals who 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 forgone social security benefits (illegal workers) who are willing to perform harvest work (box 7.4). 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.

Box 7.4 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'); and
- illegal workers.

Source: Report of the National Harvest Trail Working Group 2000.

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 for provision of these services by the Job Network as a government-funded program.

As the Report of the National Harvest Group (2000) noted, while growers experienced difficulties in sourcing adequate labour, those growers that 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 2000, 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).

As noted by Employment National (sub. DR73, p. 2), withdrawing Project Harvesting services would shift the costs of recruitment back to industry. This is not a rationale for retaining the service.

Similarly, although DEWR (sub. DR80, p. 10) supports a continuing role for government in the provision of Harvest Services, they do not identify why this is the case.

In the absence of a clear rationale for subsidised provision of Project Contracting 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.

RECOMMENDATION 7.9

The Commission recommends that subsidies be removed for Project Contracting (Harvest Labour Services).

8 Job seeker choices

Box 8.1 Key messages

Presently, job seekers exercise few choices in the Job Network and appear to have even fewer options under the proposed Active Participation Model.

For eligible benefit recipients, participation in Intensive Assistance (soon to be Customised 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 currently do so, with the rest assigned a provider through an auto-referral system. Streamlined referrals proposed for ESC3 will increase the scope for choice.

The majority of those who do exercise choice do not do so on the basis of Job Network provider performance.

Information available to job seekers to make an informed selection of a quality 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 Customised Assistance, but not Job Search Training for a first time user;
- some limited scope for movement by job seekers between Customised Assistance providers and for job seekers to exit Customised Assistance;
- full scope to move between providers at certain stages of the assistance cycle; and
- improved complaints processes.

Caseload flexibility and changes to auto-referrals may increase the scope for informed choice by providing better incentives for providers to market their services (discussed in chapter 11).

Under the Job Network, eligible job seekers may make a choice among competing 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 JST and IA). A profiling instrument (the JSCI) determines the early eligibility of job seekers for intensive services. Participation in JST is mandatory after a given duration of unemployment. Job placement services must be accessed immediately upon receipt of benefits. Benefit recipients are breached if they do not participate in a given program or activity. Once job seekers have chosen, or been assigned to, a Job Network provider to deliver a service, they may not move to another provider (but there is scope for using many job placement agencies). 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 appears to persist, and may even be exacerbated, in the proposed arrangements (DEWR 2002a).

This chapter is about whether the configuration of choices is 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 Job Network programs for eligible benefit recipients (section 8.3);

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.

- the potential for job seekers to change their providers if they are dissatisfied with their services or wish to change for other reasons (section 8.4);
- whether there are circumstances in which job seekers should have rights to terminate their involvement in the intensive assistance phase of the Job Network, without being breached (section 8.5); and
- the scope for job seekers to complain about service quality (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).² These figures were cited by the OECD in its (largely positive) assessment of the program (2001, p. 128).

Table 8.1 **Choice of Intensive Assistance provider^a**
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 are 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. The 2001 survey gave generally similar results. For example, 29 per cent of job seekers gave convenience as the basis for choice, while reputation or recommendation was the next most important basis for choice. Around 42 per cent of job seekers either did not choose or chose on grounds other than the attributes of the agency.

Source: Job Seeker Satisfaction with Job Network Members Survey 1999 cited in DEWRSB (2000a, p. 78).

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

² A concern with the survey data is that a substantial share of job seekers going to specialist agencies reported that they did not make a choice. However, there is no auto-referral system for such job seekers.

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 cent³). 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 one third of commencements chose their own provider.⁴

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 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). Analysis by the Commission of DEWR's 2001 survey of job seeker satisfaction finds few factors that explain whether a job seeker was likely to choose a provider or not. There was no evidence that high star rating providers were more likely to be chosen than low star rating providers — suggesting that awareness of star ratings by job seekers is probably low.⁵

³ Based on DEWR's performance information pack for November 2001.

⁴ 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, its 67 per cent cannot be reconciled with the administrative data.

⁵ A logistic regression was undertaken on choice for non-specialist agencies. In the initial general specification, the regression included variables on the star rating, employment outcome, age, gender and education of job seekers, and membership of NESB, disabled or Indigenous groups. Education level had a statistically significant positive associations with choice, but no other variable. However, the reliability of these results must be in question because of concern over data errors.

There was some evidence that job seekers who chose their provider expressed higher satisfaction with Job Network services — but the effect was small.⁶

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

The ANAO (2002, p. 11) found that the provision of information by DEWR and Centrelink to job seekers is generally effective. However, it is important to note that the ANAO audit covered general information provision by DEWR and Centrelink — much of which is not related to the Job Network.

The ANAO found that the majority of job seekers saw the information provided as easy to understand and accurate, but there was less agreement that it was useful in getting a job or that the right amount of information was provided (ANAO 2002, p. 38). Moreover, less than a third of job seekers recall attending the (compulsory) information seminar provided to job seekers using the Job Network and of those who recall attending, only around half recall receiving information directly from representatives of Job Network providers.

Participants in this 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.

Currently, there is little information on Job Network providers that is provided as part of the Centrelink interview or available in Centrelink offices:

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. A number of informed participants in the inquiry, including in the relevant bureaucracies, claimed that star rating information for such providers was available over the touchscreens. Others disputed this.

⁶ A logistic regression was undertaken on satisfaction levels. It suggested that older job seekers, those that achieved job outcomes and those that had chosen their provider expressed higher satisfaction. However, the effects, while statistically significant, were not large. For example, on average, job seekers making a choice had a 3 per cent additional probability of being satisfied.

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 ... can cost substantial funds for a job seeker to travel to a provider to find out more information (UnitingCare 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).

In fact, (at least in May 2002) star ratings of providers are not available from the touchscreens.⁷ However, star ratings are accessible from DEWR's website, albeit currently in a relatively roundabout manner (they also currently relate to the average

⁷ Although ratings have been available on touchscreens in the past.

ratings of providers in an ESA, rather than to specific sites).⁸ It is not known how many job seekers are aware of star ratings, their meaning or how to access them. The main function of star ratings is as a device for contract renewal, rather than as a measure to assist job seekers make choices between competing providers in their local area. Other information on the service quality or performance of providers is not systematically provided to job seekers by DEWR or Centrelink.

This might not be a problem were providers to be active in supplying information to job seekers. However, 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.

⁸ To access the public record of star ratings would require that a job seeker would log on to the jobsearch website administered by DEWR (jobsearch.gov.au), select Job Network services, select a region and seek information on a provider or providers in that area. The job seeker would then obtain some basic information about the selected providers — but not their star ratings. However, the web page that discloses this information has a link to the 28 February 2002 star ratings released by DEWR — which provides a comprehensive description of the star ratings and the actual ratings at the ESA level of all providers.

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,⁹ 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, material 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);
- other performance measures of providers as these are developed and validated (for example, based on satisfaction surveys);
- a factual indication of the services provided by providers or other relevant attributes of the agencies (for example, this could include: the relevant

⁹ Multilingual problems are discussed by the Multicultural Development Association Inc and the Multicultural Employment Advocacy Network (QLD) (sub. 34, p. 5).

credentials and specialisations of case managers; the nature of internal training and coaching available; any special affiliations with other agencies that might be helpful to the job seeker; the availability of computers, printers, telephone and internet services; and policies in regard to travel and clothing allowances);

- copies of the Declarations of Intent of providers (which the Commission recommends should be made public — chapter 12);
- the role and availability of specialist providers;
- questions that job seekers may find useful when assessing providers; and
- supplementary material supplied by local providers.

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).

Job Network providers should assess their information provision strategies and programs against universal accessibility guidelines ... Improved information provision would assist all users of the Job Network, including people with disabilities and people from non-English speaking backgrounds (Blind Citizens Australia sub. DR62, p. 2).

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. It should be borne in mind that it is likely that for many job seekers the issue of which Job Network provider to choose does not loom large among their other concerns. The

opportunity for informed choice is probably strongest just after the seminar. Accordingly, a choice of provider should ideally be made relatively quickly and certainly much less than the ten day limit that has prevailed to date. However, whether it is desirable to enforce rapid commencement of the job seeker with the chosen provider is less clear (chapter 11).

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.

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.

Streamlined referral is to be adopted more generally under proposed changes for ESC3.

Source: Information provided by Centrelink.

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.

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 job seekers greater scope for informed choice.

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 existing DEWR contracts for IA,¹⁰ individual Job Network providers have fixed contract capacities.¹¹ 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

¹⁰ 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.

¹¹ There are limited provisions for changing these constraints by a small margin at the discretion of DEWR.

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).

... if they do choose our organisation and we're full, they roll to the next one anyway. So probably they think sometimes that making the choice is not really making a choice anyway (Joblink Plus trans., p. 7).

... 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, the imposition of fixed caseloads and the operation of the auto-referral system that needs to be resolved. The Commission advocates relaxation of caseload quotas (chapter 11), which should address this tension.

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?

The flexible caseload model largely overcomes any perverse 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 (as noted by ACOSS sub. 32, p. 21).

The current arrangements also lead to undisclosed 'parking' of some job seekers, whereas greater disclosure to job seekers and choice would (combined with other new design features) reduce this phenomenon.

However, greater scope for choice and for flexible caseloads (which underpins effective choice) may also have adverse incentive effects.

Job Network providers unconstrained by a caseload ceiling will have greater incentives to market their services — but they may do so in a selective way by attempting to recruit those job seekers with the characteristics most likely to be associated with a payable employment outcome (‘creaming’). Within any outcome payment category, those job seekers with larger obstacles to employment are less attractive to Job Network providers — and so the marketing and information disclosure by providers may be engineered to discourage them from entry. There are, however, several forces acting against this. The Commission has recommended broader scope for Job Network providers to re-refer job seekers (and be rewarded for doing so), so the costs of recruiting hard-to-place job seekers are diminished. Provisions under ESC3 mooted by DEWR (2002a, p. 15) appear to allow much more flexible referrals. Moreover, the proposed new system will move to fee-for-service and reimbursable expenditures (through the pooled Job Seeker Account fund) that makes more disadvantaged job seekers much more attractive to Job Network providers. Flexible caseloads — if implemented — reduce the cost to a provider of having a harder-to-place client on their books relative to an easier-to-place client.

Another argument put to the Commission against encouraging choice was that it may enable job seekers to select ‘soft’ Job Network providers — those that impose less stringent job search requirements and were less diligent in enforcing activity testing. Under current arrangements, such providers would benefit from commencement fees and from the lower costs of dealing with ‘self-parked’ clients that expect and want few services. However, the shift away from commencement fees to fee-for service and personal accounts proposed for ESC3, combined with the incentives provided by the star rating system and outcome payments, would not make such a ‘soft’ option viable or attractive 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 type of 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 in assessing provider performance. This suggests that mechanisms employed in facilitating informed choice are very important ingredients in making a choice-based approach truly useful, but that other approaches for assessing the performance of providers will remain relevant.

A further possible concern is that were marketing by providers to be significantly expanded it would probably increase the importance of locational convenience (such as proximity to Centrelink) 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, increasing informed choice by job seekers puts greater competitive pressure on providers, allows services to be targeted better to job seekers' needs and empowers job seekers. 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 mandatory¹² 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 participation in eligible training, community work or Work for the Dole — box 8.5) that they would be obliged to attend.¹³

¹² Two caveats should be noted. First, some categories of job seeker are not required to attend IA (such as single parents). Second, there *is* some scope for choice in the system. A job seeker who was eligible for IA could elect under current arrangements to go to Work for the Dole instead and similarly a job seeker who was breached for not attending IA could (if there were a place) avoid the penalty by going on Work for the Dole. However, these provisions are not well known to job seekers and are not presented as explicit choices.

¹³ 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

Box 8.5 Mutual obligation activities (in addition to job search)

After June 2002, unemployed job seekers aged 18 to 49, receiving Newstart or Youth allowance for six months, will be required to undertake a mutual obligation activity in addition to job search. The activities are outlined below.

Part-time paid work for at least 130 hours over six months.

Voluntary community work for 150, 200 or 240 hours (depending upon age) over six months.

Literacy and numeracy training for up to two semesters involving 12 to 40 hours a fortnight for up to 400 hours.

Relocation to an area with significantly higher employment prospects followed by 14 weeks of more intensive job search.

Work for the Dole, involving 12, 24 or 30 hours of activity per fortnight, for the length of the activity, which is generally six months.

Part-time study in an approved course, involving 12 hours of contact a fortnight for courses over 16 weeks. For shorter courses, 12 hours of course contact a fortnight are required, as well as participation in another activity to make up between 150, 200 or 240 hours of activity.

Job Search Training for the length of the course followed by 14 weeks of more intensive job search.

Intensive Assistance for the duration of the program, typically twelve months.

Job Pathways Program – for young people who have just left school – requiring regular contact with the program provider for at least six months (the minimum contact is once per month).

Job Placement, Employment and Training Program – for job seekers aged 15 to 21 – for the length of the program – supplemented with other activity if the program runs for less than six months.

Green Corps – for job seekers aged 17 to 20 – the program provides an opportunity to gain accredited training and skills while working on environmental projects. Participation is usually five days a week for six months.

Community Development Employment Projects (funded by ATSIC for indigenous job seekers) – participants undertake work on community projects. Participation is usually five days a week for six to twelve months.

New Apprenticeship Access Program, for the length of the course, which involves pre-apprenticeship and pre-traineeship off-the-job training, followed by intensive job search, to make up a total of 17 weeks.

Service in the Australian Defence Force Reserve. Job seekers to complete 150, 200 or 240 hours of reserve service over six months.

Source: Centrelink 2002.

opportunity to preserve their benefits if they take up one of the recognised mutual obligation options.

Job seekers could also be informed of other options (such as attendance at an educational institution funded by Youth Allowance, Austudy or Abstudy) which removes them from unemployment benefits and potentially increases their future employment prospects.

The advantages of voluntary entry to IA/CA

Choice of entry has four main advantages. First, it would mean that Job Network providers would have no guaranteed market. Even a single provider in a remote location would have to actively convince job seekers that participation in the program is likely to be beneficial. It 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 those with a low probability of getting a job anyway. Since the second group do not contribute to program success, choice of entry may increase overall program effectiveness and lower the budgetary costs.

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.

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 who is 'parked' or 'self-parked' in IA may have relatively light mutual obligations. The Commission's proposals to secure more positive and frequent engagements by Job Network

providers with the job seeker (chapter 7), to introduce re-referrals (chapter 9) and to alter 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 a recognised activity that increased their prospects for employment, overcame specific obstacles to job readiness and/or that contributed to the general community and be obliged to meet any relevant activity test.

It should be noted that under ESC3, DEWR proposes that job seekers could be referred by their Job Network providers to Work for the Dole or other mutual obligation options during CA. They would also be subject to at least fortnightly contacts with the Job Network provider in which their job search efforts and progress will be reviewed by the Job Network member (DEWR 2002a, p. 19). In that sense, CA and other mutual obligation options become complementary rather than substitute activities in the new system. The Commission supports these flexible referral options, but notes that in their present form, it is the Job Network provider that decides which referral option is to be selected for the job seeker. The advantage of voluntary entry into CA is that the power of choice of options is (momentarily) given to job seekers.

Possible objections to voluntary entry into IA/CA

However, there are several possible drawbacks from allowing job seekers to choose among a suite of mutual obligation options.

Some job seekers may not have sufficient information to make an informed choice and choose the wrong menu item. DEWR argued that ‘all job seekers would have to be well-informed consumers regarding the most appropriate assistance options for them and they would have to be motivated to make this choice (sub. DR80, p. 10).’

The test that all job seekers should be well-informed seems too stringent — and is hardly applied by government in other consumer choice contexts. The presumption underlying the Commission’s view of voluntary entry is that some job seekers have knowledge that is superior to that of the JSCI, Centrelink or a Job Network provider in deciding where to place themselves in the system. The notion that everyone should be compulsorily selected for IA because *some* job seekers might mistakenly choose an alternative is to ignore those other job seekers who are better off by going somewhere different from where the system would otherwise place them. Compulsion also ignores the cost of coercion and the fact that the scheme into which job seekers are compelled has limited efficacy (as far as the existing IA component is concerned) and an unknown efficacy in its new guise as ‘Customised Assistance’ (CA).

DEWR also points to the existing information inadequacies:

In addition to having well-informed and motivated job seekers, there would have to be enough information in the market place on provider services and performance to inform these job seekers' decisions [if entry were to be made voluntary]. Notwithstanding significant improvements in the availability of information on the performance of Job Network members, through initiatives such as the star rating system, it is not currently possible for these conditions to be met (sub. DR80, pp. 10-11).

Catholic Welfare (sub. DR70, p. 11) also highlighted the need for better information disclosure to job seekers before they could be expected to make an informed choice about where in the system to participate. It argued that voluntary entry should not be implemented unless more effective ways of providing information to job seekers at referral are introduced. The Commission agrees that current information dissemination is inadequate and has recommended changes to improve these. Any move towards voluntary entry into IA is premised on changes being made to improve information flows.

Another possible concern is that *some* mutual obligation alternatives to IA, such as Work for the Dole, typically involve relatively intensive projects that many participants wish to complete, so that participation may reduce their probability of getting a job while on the program (an attachment effect).¹⁴ There is also some evidence that participation may act as a signal of low quality to employers, reducing job prospects.¹⁵ However, the adverse effects of such programs on employment prospects during participation have to be balanced against the potential benefits of social participation (and potentially some skill upgrading). Significant numbers of participants report that they enjoy intensive team-based community projects.¹⁶ The program design of certain mutual obligation options could also be altered to try to reduce any stigmatisation effects.

While mutual obligation options extend well beyond Work for the Dole, some participants were concerned that under voluntarism, many job seekers would end up

¹⁴ While there appear to be no econometric studies of this for Australia, there is some evidence of such attachment effects for mutual obligation programs in New Zealand (De Boer 2000). However, these results may reflect peculiar aspects of the New Zealand programs, the definition of the control group and interpretation of the program effects.

¹⁵ For example, in a survey of Work for the Dole participants, FaCS (2000) found that more than 40 per cent of participants did *not* agree that the program made employers look more favourably on the job seeker.

¹⁶ 80 per cent of participants said participation in Work for the Dole made them 'feel better about themselves' and more than 90 per cent that it was 'better than doing nothing' (FaCS 2000). Sawyer (2000) found that 72 per cent of recipients ranked 'making friendships and social contacts' as a beneficial aspect of the program and 'meeting new people' was the aspect most commonly liked about the program.

on Work for the Dole without substantial employment-centred assistance (box 8.6). The availability of training credits and the requirement for some ongoing job search during Work for the Dole partly addresses these limitations. Even so, some groups may make choices that inadvertently maintain disadvantage. The concern expressed by the Department of Immigration and Multicultural and Indigenous Affairs (box 8.6) about the unknown reasons why Indigenous clients so rarely commence IA suggests that it is likely to be important to understand why job seekers make the choices they do. There are grounds for Job Network providers to maintain some degree of case management of job seekers in Work for the Dole and other mutual obligation options — and through periodic interviews and coaching, maintain a continued orientation to jobs. Such a move is anticipated in ESC3, with bi-monthly contacts made by the Job Network provider during the 7 to 12 month mutual obligation period (DEWR 2002a, p. 17, p. 45).

Finally, a further concern is the effect of voluntary participation in IA on compliance effects. However, compliance effects are not likely to be affected for eligible job seekers who elect not to participate in IA since they would still be required to choose another activity that satisfied their mutual obligation. Alternatives to the intensive phase of assistance — even after the changes mooted for ESC3 — will in many cases have greater requirements for attendance and therefore hardly weakened compliance effects.¹⁷

In summary, introduction of voluntary entry into IA (or CA) involves some tradeoffs, primarily between some freedom of choice for the unemployed and circumstances where expert judgment suggests an alternative pathway to that chosen by the job seeker. At the moment, entry into IA is on the basis of (a relatively blunt) assessment of future unemployment risk, not on the basis of judgments about whether the program will prove useful or not. In this context, the evidential basis for compulsion is low.

The Commission does not consider that offering choice would result in dramatically fewer intakes to the newly proposed CA. Many job seekers will find the options for training and access to intensive assistance in CA attractive. Moreover, the alternatives to CA are not ‘easy’ options that are sought by less motivated job seekers. In that context, it would not be undesirable (as DEWR implies) that ‘some job seekers, if given a choice of whether or not to participate in Intensive Assistance may choose not to’ (sub. DR80, p. 10).

¹⁷ In some cases, the Job Network provider will refer a job seeker in CA to such mutual obligation options and so have the same attendance requirements as if the job seeker had selected the option directly.

Box 8.6 Participants' views on voluntary entry

Catholic Welfare Australia sees some value in the proposal to offer eligible clients some choice concerning participation in Intensive Assistance. Voluntary entry may ensure a higher level of motivation among clients who are referred onto providers Intensive Assistance caseloads. However, there are two major concerns emerging from this proposal. The first concerns the risk that job seekers will not have adequate access to a level of information that would enable them to make an informed choice and that, as a result, they will end up receiving an inferior mutual obligation service that is unable to address the level and full extent of their barriers to employment ... The second concern is that such a proposal will be adopted with the expectation that the most disadvantaged and demoralised job seekers would self-select out of Job Network and that this would lower the overall budgetary cost of the Network's operation (sub. DR70, p. 12).

The Commission's proposal that Intensive Assistance be voluntary is not supported. In canvassing voluntary participation in Intensive Assistance, the Commission suggests that other forms of meeting mutual obligations be acceptable alternatives. In this context the Commission places substantial weight on Work for the Dole as an alternative to Intensive Assistance particularly for the most marginalised of job seekers who are least likely to secure employment through Intensive Assistance. This gives rise to concern job seekers who elect not to participate in Intensive Assistance would, in the absence of a range of active labour market programs, receive very little assistance besides Work for the Dole (Queensland Government sub. DR76, p. 11).

An understanding of why Indigenous job seekers are not utilising IA is crucial in determining what impacts changing entry into IA from a mandatory to a voluntary basis (draft recommendation 8.2) will have on Indigenous job seekers and may assist in assessments of appropriate activities to meet mutual obligations (Department of Immigration and Multicultural and Indigenous Affairs sub. DR79, p. 5).

The obvious way to improve the quality of service to jobseekers under a quasi market system is to give them the consumer sovereignty they were initially led to believe they would have ... [This would include making] participation in all aspects of the Job Network completely voluntary (Victor Quirk sub. 68, p. 8).

Providing candidates with a choice as to whether they participate in IA is a bad idea. The other 'choices' are really non-existent at present (Professional Vocational Services sub. DR63, p. 2).

Should voluntary entry be permitted in other Job Network services?

It is not appropriate to allow choice of entry into other aspects of the Job Network. JST is a short intensive program (or phase in the proposed Intensive Support component of the Active Participation Model). Offering a choice between it and much more lengthy mutual obligation programs would not constitute a real choice for most job seekers. Moreover, eligibility for JST occurs after only three months of unemployment duration when a focus on getting a job is appropriately strong, whereas alternative programs have primarily social goals.

If JST were made voluntary Job Network providers would be motivated to offer and market high quality job search training. It would encourage only those who thought they would benefit to participate.

However, the strong compliance and motivational effects associated with JST (chapter 5) would be lost, producing significant budgetary losses (especially given that these effects are achieved earlier in the engagement of the Job Network with the job seeker). This, and the fact that compulsion only extends over a short period, suggests that compulsory attendance be maintained for JST. However, chapter 9 examines the question of recurring participation in JST and recommends scope for choice of participation for repeat users (subject to the existence of another activity that elicits compliance effects).

Similarly, the additional degree of engagement between Job Network providers and job seekers mooted in the new Active Participation Model are ones that are largely complementary to other mutual obligation options — and are appropriately mandated (though see chapter 7 for a discussion of options for flexibility).

RECOMMENDATION 8.2

The Commission recommends that, in association with implementation of recommendation 8.1, entry into Customised Assistance in Employment Services Contract 3 should be voluntary, rather than mandatory, for eligible benefit recipients, provided they participate in some activity that meets mutual obligation.

It would also be appropriate to allow scope for someone to enter CA at a later stage if they thought it inappropriate at present. For example, they may undertake some minimum period of community work instead and then be given another opportunity for participation in CA.

If the Commission's view on voluntary entry is not accepted, there are several alternatives that should be considered:

- the relevant Centrelink officer/Job Network provider case manager could at least elicit the preferences of the job seeker. These preferences — and the individual circumstances of the job seeker and the local labour market — could be taken into account in deciding whether they must attend CA or some alternative. For example, an older job seeker with redundant skills, and seeking work in a poor labour market. An opportunity for voluntary work has appeared that might be a pathway for a part time job in the future, but this will be forgone or delayed if the job seeker is forced to go to CA; and/or
- choice could be restricted to those job seekers who have participated in similar labour market programs in the past (Working Nation and IA). This (with other

measures) could partially stem recycling of job seekers through programs that have failed to work for them in the past.

8.4 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 has been 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 and on their presumption that the service of other providers is better. This raises the question of the extent to which job seekers should be able to move between Job Network providers.

Movement *during* Customised Assistance

Several participants in the inquiry saw a role for allowing job seekers in IA 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 allowing job seekers to move between providers while receiving the intensive component of their assistance (to be CA).

The major obstacle is that CA is the period when a Job Network provider will be likely to make their greatest investments in improving the employment prospects of their clients. If the client moves midstream to another provider, then the returns on that investment are lost. Were a job seeker able to move freely, the incentive for the Job Network provider to make any upfront investments in the employability of their clients would be weakened.¹⁸ 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.

¹⁸ This is only slightly offset by the fact that providers receive staged fee-for-service fees instead of commencement fees. They still may put at stake any amount from the pooled value of job seekers' personal accounts and anticipated outcome payments.

In the draft report the Commission raised three limited options for portability, where these investment concerns were thought not to be a major consideration.

Allowing a short upfront period for portability

One possibility raised in the Commission's draft report would be to allow the job seeker to move to another provider in an initial short period — an orientation period — such as after the first week of CA. In the first week, the provider would be expected to outline their strategies for helping the job seeker, which would enable the job seeker to see if the Job Network provider was likely to meet their needs. If the job seeker was not satisfied with the provider, they could shift to another in the second week. DEWR argued that such a short window:

would create administrative complexity (for both providers and the Department) regarding the management of provider payments (eg, recovery of payments) and would lead to increases in costs when a further payment is made to providers (sub. DR80, p. 11).

However, since no commencement fees are envisaged in the Active Participation Model, these form no barrier to movement at this time. Even so, some resources are expended in providing orientation, which generates costs for providers. Accordingly, the scope for portability during CA would have to be limited, probably to just one potential move. This would encourage job seekers to carefully weigh up the offerings of competing agencies and for agencies to provide more information about their services.

The strongest argument against this orientation period in CA is that typically the job seeker will, under the new arrangements, already have been with the provider for 12 months, and will be familiar with their operations and approaches. Under the Commission's proposals, there will be options to move between providers prior to the commencement of CA (see below), which reduces the need for further options to move at the start of CA. However, where a job seeker has been assessed as of high risk of future long-term unemployment and therefore enters CA early in the assistance cycle, there could be grounds for the above orientation approach.

Portability if a provider fails to meet its obligations

The Commission's draft report proposed that a further basis for portability could be that a provider has failed to meet its reasonable (implicit contractual) obligations with respect to the job seeker. For example, this might include failure, without good grounds, to provide a service to a job seeker that was specified in their revised Job Search Plan during CA. However, there are several limitations with this proposal:

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- determining when such a failure is unreasonable could be very difficult to judge (for example, a service might not be provided because the job seeker has been poorly motivated, or a change might be made to training offered, reflecting changes in the needs of local employers or awareness of the capabilities of the job seeker). Any provider that changed its plans for a job seeker would face a risk of losing any investment made, if subsequently the job seeker reported the change as ‘unreasonable’. Thus, the result might be to penalise flexibility as much as unreasonableness;
 - the risk under the current system that Job Network providers can provide almost zero assistance is moderated in the new proposed system — which reduces the grounds for having midstream portability; and
 - the provision of blatantly inadequate services that is not corrected after complaint could trigger the existing provisions allowing for movement after irreconcilable differences.

The Commission considers that the proposal would be hard to implement without unintended impacts on flexibility and its need is rather less in the new system. However, it does point to the need for DEWR to adopt a risk management approach in monitoring complaints so that a systematically poor provider is either exited earlier or required to amend its practices.

Mutual agreement

In some circumstances, a provider may wish to refer a client to another provider that is better equipped to help that particular job seeker. For example, this may be because of differing specialisation by providers or because another provider has a comparative advantage in a particular training program. Mobility could be permitted if 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,¹⁹ but there is no reason to outlaw them per se. It might help develop some strategic alliances between providers and further encourage specialisation.

¹⁹ An important aspect of these costs may be verifying expenditures on job seekers, as a basis for compensation. However, under the proposed arrangements for ESC3, most relevant expenditures (from the Job Seeker Account and any contact requirements) will have been reported to DEWR reducing the costs of verifying the record of expenditure on any job seeker.

The Commission recommends that there be some scope for job seekers to change their Job Network provider during Customised Assistance, but that portability should be limited to:

- (a) a short orientation period at the commencement of Customised Assistance, but only for those job seekers who enter this phase of assistance after 6 months or less of their current unemployment episode; or*
- (b) where mutual consent is given by the job seeker and current and prospective Job Network providers.*

Movement at other times in the assistance cycle

Under the proposed new arrangements to apply for ESC3, a single Job Network provider is to act as the case manager for the job seeker until they get a job or cease getting benefits (DEWR 2002a, p. 2). The new arrangements have some major advantages in that the Job Network provider can develop a relationship with a job seeker and tailor assistance to their needs over the long run. The provider coordinates the involvement of the job seeker with other parts of the system — such as job placement agencies and Work for the Dole or other mutual obligations and complementary employment and training programs.

However, the Active Participation Model has the implication that the initial choice locks the job seeker into a particular provider, potentially until retirement. Job seekers will not be able to change providers unless there are irreconcilable differences, or they move. The absence of scope to move fails to recognise that:

- the initial choice is made with limited information;
- a provider that is good at one thing that suits the circumstances of the job seeker at one time (such as dealing with literacy barriers or improving job search skills) may not suit them later (developing innovative options for the long term unemployed);
- a provider that is performing well at commencement, may be performing worse later (eventually such providers will be forced to exit, but the job seeker has to wait for the contract to finish); and
- that the degree of continuity of service implied by the new system is overstated. There is significant turnover of case managers employed by providers. Consequently, the underlying basis for coordination are case histories, which, if

made portable, allow for coordination involving different Job Network providers over time (chapter 14).

An alternative to a single choice exercised at the start is for the job seeker to be able to freely change providers at various stages in the life cycle of assistance. This would typically include just prior to JST and CA, and some time after completion of CA. There should be no difficulty in tracking the movement of job seekers among providers at these points and it is not obvious how choice between providers can be abused by job seekers to avoid any job seeking obligations.

However, just as the potential for portability *during* CA can affect ‘investment’ incentives for Job Network providers, greater options for portability at other times may also have a potentially adverse effect on investment. Under the proposed pricing model for ESC3, Job Network providers are able to secure outcome payments for job seekers who get eligible outcomes at any point in their assistance cycle, rather than just during the period of their involvement in a particular program segment (such as CA), as presently. This implies that Job Network providers have a long horizon over which to reap the returns of any investment they might make in a job seeker. If a job seeker can move to another provider, then the horizon is shorter and willingness to make such investments must decline at the margin. This is likely to be an unimportant issue before commencement of CA (because few large investments have been funded and outcome payments are small when unemployment duration is low), but it is also uncertain whether it will be very significant after completion of CA. In reaching this judgment several things should be noted:

- the most significant source of funding for investment in job seekers during CA will be from the pooled personal accounts fund. Since providers must spend this money to get it, they have no incentive to cut back on total spending funded from this account were job seekers permitted to move to another provider at a later stage;
- another source of funding for investments are prospective outcome payments. The willingness to spend these upfront will be affected by allowing subsequent portability. However, DEWR has argued that most outcomes appear early in the period of IA (CA) (sub. 43, p. 61). Since the Commission is not proposing that portability be allowed during CA (other than in exceptional circumstances), the returns on early investments in CA are not likely to be significantly affected by the scope for portability after the cessation of CA. A way of reducing the risks would be to allow portability some time after the completion of CA, such as 6 months; and

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- many job seekers will not elect to move — especially if their Job Network providers have been meeting their needs well — so that the risks of forfeiting investments are substantially moderated.

In this case, the risks to investment could not justify permanent removal of choice after the initial decision by a job seeker.

The Commission considers that the ability of job seekers to choose their provider at certain key stages in the assistance life cycle is important in disciplining provider performance (especially in some of its qualitative service aspects), in providing some empowerment of job seekers, and in strengthening incentives for providers to disseminate information about their services.

RECOMMENDATION 8.4

The Commission recommends that job seekers should be able to exercise choice of their Job Network provider at selective stages in the cycle of assistance being offered under the new Active Participation Model.

8.5 Choice of exit?

Finding a job, undertaking eligible training or going off-benefit are always available program exit options for a job seeker. In chapter 9, the report discusses the possible capacity of a Job Network provider to re-refer participants to other programs. The question is whether job seekers should possess similar reciprocal rights, which would allow them to leave CA if they wished to, move onto another eligible mutual obligation activity and yet retain social security benefits. The same difficulties that beset portability during CA also affect the scope for such a right. In particular, it would reduce the returns to providers from investing in job seeker skills and employability, with adverse effects on program performance. However, if portability is permitted when irreconcilable differences arise between the provider and the job seeker, then consistent with the scope for voluntary entry into CA, there should also be an option for the job seeker to opt out of CA altogether and meet some alternative mutual obligation at this point.

RECOMMENDATION 8.5

The Commission recommends that a job seeker be able to transfer to another mutual obligation activity from Customised Assistance if DEWR determines there is an irreconcilable breakdown in the relationship between the provider and the job seeker.

8.6 Complaints mechanisms

The options for portability and exit from the Job Network are necessarily limited. And even though the Commission suggests that participation in CA be voluntary, the requirement that job seekers have to select one mutual obligation activity means that in many cases choice is circumscribed.

In a context where choice is limited, a complaints mechanism is far more important than in normal market contexts. It provides practically the only way in which job seekers can communicate individual 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 and personal experiences of job seekers 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.

There were various views about the adequacy of the complaints mechanism (box 8.7 and chapter 6). A major concern is lack of awareness, and this awareness may even be declining over time. In the 2001 DEWR survey, only 22 per cent of job seekers recalled being told about how to make a complaint, should they want to, compared to 31 per cent in the comparable 2000 DEWR survey (ANAO 2002, p. 42).

DEWR has suggested it will revise the Code of Conduct of Job Network providers to address awareness problems (ANAO 2002, p. 43) and NESAs also indicated it is working with DEWR to clarify the Code (NESAs trans., p. 207). However, it may also be necessary for DEWR to increase awareness by job seekers in other ways and to more actively facilitate complaint where it is warranted (and feedback more generally). For example, this could include:

- information on the touchscreens on how to complain or provide feedback about Job Network providers;
- a more visible complaints mechanism on the Jobsearch website (including email-based complaints);
- ensuring that complaints procedures reach groups in ways that recognise limitations in literacy and in English understanding (Centrelink does have

pamphlets in other languages, but in several offices the Commission visited, there were large gaps in the publications available). The Department of Immigration and Multicultural and Indigenous Affairs (sub. DR79, pp. 21-22) drew attention to some of the culturally-specific aspects of complaint processes. It recommended that DEWR consult community groups about the complaints mechanisms at the local level, including using existing reference groups within ethnic communities so as to equip clients with greater information; and

- material that encourages people with complaints to act on them (some pamphlets may have deterred complaint — box 8.8).

Box 8.7 Participants' views about the complaints mechanism

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 (NESA sub. 39, p. 16).

A client might never be aware of any complaints mechanism; A provider can forestall the possibility of complaints firstly by informing clients only about a 'dispute resolution mechanism' (organised by the provider, and presided over by a party directly paid by the provider). A provider can foment a 'dispute' rather than identify 'complaints'. Another office of a same-brand provider might offer a superficial and sympathetic response to a relayed complaint, but proffer no information about the existence of the DEWR Job Network Customer Service Line. Given an awareness that DEWR has no authority to direct an agency to change its policies or procedures, a dissatisfied client might be unlikely to approach its Customer Service Line, even if aware of its existence (David Brabet sub. DR67, p. 8).

... what we've heard from unemployed young people is that they don't feel like they're empowered to make ... complaints (Ms James, Melbourne City Mission trans., p. 244).

... most job seekers are well aware of their obligations and responsibilities. This is mainly because job seekers focus on what they need to do to receive income support, and keep it by avoiding breaching their obligations. However, very few job seekers could recall their rights as a customer (ANAO 2002, p. 42).

... systemic problems such as incorrect information and referrals can be particularly confusing and disempowering for those with limited English proficiency and this may hinder them from airing grievances. Newly arrived job seekers may be reluctant to complain about the Job Network and 'risk' securing a job while they have the added pressure of settling in a new country. Culturally appropriate ways to handle complaints can also vary greatly (Department of Immigration and Multicultural and Indigenous Affairs sub. DR79, p. 21).

Some job seekers fear the consequences of complaining or face cultural barriers in doing so (box 8.7 and chapter 6). This reticence stems partly from the fact that job seekers fear that Job Network providers may find excuses to notify breaches if a complaint is made (noting that severe breaching penalties are imposed by Centrelink). This highlights the fact that a complaints mechanism in the Job Network has a completely different context to that applying to sovereign consumers

in normal markets. This context should be taken into account in its design, and suggests that job seekers be told that they have rights to make complaints on a confidential basis to an agency outside their Job Network provider.

RECOMMENDATION 8.6

The Commission recommends that measures be adopted to make job seekers more aware of the complaints mechanism.

Some participants argued that an independent agency, rather than DEWR, was necessary for hearing job seeker complaints (UnitingCare 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 agency is raised in chapter 14.

Box 8.8 Facilitating complaint

Given evidence that people with complaints may not act on them (ANAO 2002 p. 43), and the concern expressed by some job seekers that they were sometimes fearful of making a complaint directly to their Job Network provider, it is important that any pamphlet on the complaints mechanism encourages rather than deters complaint. This has not always been evident. For example, it is interesting to contrast two pamphlets outlining job seekers' rights:

If you are not satisfied with the service you receive you should talk to your Job Network member. If necessary you could then contact the Department of Employment, Education, Training and Youth Affairs on: 1800 805 260 (Information for Job Seekers. Job Matching).

If you have problems with your Job Network member or consider they have not met the standards set out in the Code, you should, if possible, first discuss the issue with your Job Network member. If you are still not satisfied, you can contact the Job Network Customer Service Line on Freecall 1800 805 260. A customer service officer from the Commonwealth Department of Employment, Workplace Relations and Small Business will listen to your problem and, if necessary, will undertake an investigation (in Centrelink, Looking for Work, Future Directions A guide for Job Seekers).

The first implies that no complaint should go to the hotline unless it has been first discussed with the Job Network provider, while the second allows for the possibility of a complaint going directly to the hotline. The first assumes the complainant is aware that 1800 numbers are free, the second makes it explicit. The second suggests a far more responsive attitude to complaints. Both pamphlets were in distribution in Centrelink offices in May 2002, despite the first clearly being out of date in respect of the responsible department.

9 Targeting

Box 9.1 Key messages

The JSCI serves a valuable role in profiling job seekers' risks of extended unemployment, but it needs to be further refined and better implemented.

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 engagement with job seekers by Job Network providers (chapter 7), the availability of real choice (chapter 8) and changes to pricing (chapter 10), are likely to reduce problems with targeting and parking in the apparently intensive phase of assistance. However, other reforms are likely to be useful:

- 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 the intensive phase of 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 the intensive phase of assistance may be needed to overcome barriers to participation by certain disadvantaged groups. Existing pilots should be extended and other pilots of innovative ways of engaging such groups in the labour market should be introduced.

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 labour market programs. The roles of targeting and streaming are to ensure that:

-
- 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 have been addressed in several ways in the existing Job Network framework.

First, using the JSCI (described in chapter 4), job seekers are classified into broad groups based on their risk of prolonged unemployment. The presumption is that the greater the anticipated duration of unemployment without assistance, the greater are the social returns from early intervention. 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 outcome 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 (to become PSP) (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 will be better served by other programs (this capacity is to be widened in the new arrangements).

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 assesses the major weaknesses in present and anticipated targeting arrangements and suggests 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 intensive forms of assistance;

- 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;
- examines options for re-referral of job seekers who are not going to be realistically assisted by the Job Network in the short term and also points to other parts of this report where measures that could limit parking are discussed (section 9.4);
- considers the implications of repeated access to the intensive phases of assistance (section 9.5);
- examines any incentives to provide services to job seekers who do not need them (section 9.6);
- 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 9.7); and
- considers pathways for the more disadvantaged job seekers — such as Indigenous job seekers (section 9.8).

The focus of this chapter is on IA/CA, given that most resources flow to this phase of assistance and that it deals with the most disadvantaged group of job seekers. However, targeting issues also arise for other Job Network programs or assistance phases — JST, SEDS and NEIS — and options for change are examined in section 9.9.

9.2 Classifying job seekers

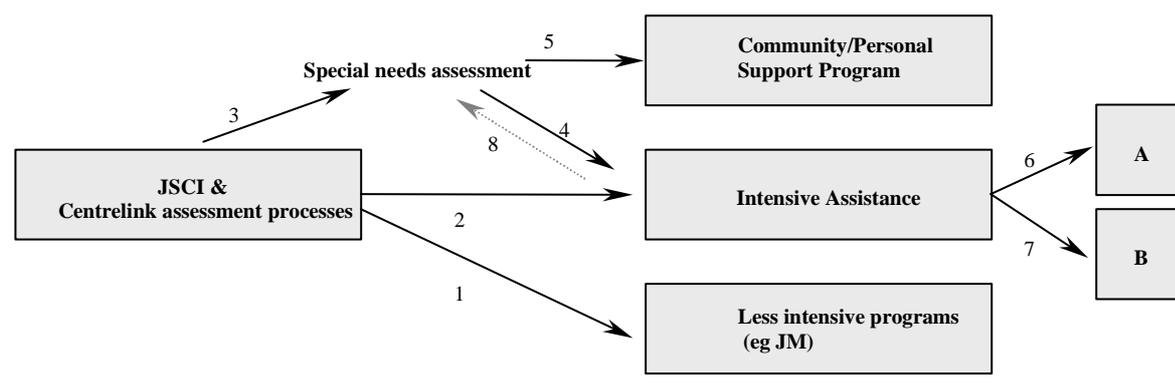
The Job Seeker Classification Instrument (JSCI)

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 the intensive phase of assistance and influence the level of payment to providers if they secure an outcome for the job seeker. 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 there will be people who should have been assigned alternative destinations (there are in fact 12 combinations of error that arise from the current system).

At entry into unemployment, these arrangements will not alter materially under the proposed Active Participation Model, with Centrelink still acting as the initial gateway to services. However, unlike current arrangements, entry by a job seeker into different phases of assistance (after an initial stage of Job Search Support) will occur automatically according to unemployment duration. This automatic process will be supplemented by updates of the JSCI as a job seeker progresses through the cycle and this can lead to re-referral through Centrelink to PSP/disability services or to fast tracking to CA (DEWR 2002a, p. 15).

Figure 9.1 The current classification process



Referral errors can have substantial implications for Government expenditure, 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 the ‘intensive’ phase of assistance are parked or receive only minimum mandated services because the costs of addressing 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 (or automatic progression, under the new arrangements) to IA/CA is inappropriate if this assistance phase does not 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 and any other profiling tools properly.

Incorrect referrals to IA

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.

Overwhelmingly, concerns expressed by the industry in this review related to classification errors that meant that job seekers were referred to IA when:

- they should have been referred to CSP (PSP in the new system). 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 with the Job Network provider. This arises because there can be a 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. The new Active Participation Model being introduced in ESC3 will involve rapid referral to Job Network services when a person first becomes unemployed. The new model avoids any present delay between referral and commencement in the more intensive phases of assistance, since the job seeker has already commenced with their Job Network provider.

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.

Other classification errors are also likely, but Job Network providers may not report them as fully. For example, incorrect diagnosis of a job seeker for eligibility for intensive forms of assistance where basic job search services would have been more appropriate provides additional fees and a good prospect of higher outcome payments to the provider.

However, there is little substantive evidence on the extent of such classification errors. There have been 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 such errors:

- under current pricing incentives, 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 appendix I). The proposed new pricing model largely solves this problem;
- 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 have, to date, had to pay a charge for re-assessment once a job seeker has registered with their service (and the provider has received a commencement fee). This may have discouraged 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.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 (UnitingCare 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; UnitingCare 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; UnitingCare 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 is 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, which can lead to this problem; and
- self-assessment of literacy skills provides 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.

There is 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. DEWR (sub. DR80, p. 4) indicates that it and Centrelink have introduced a Quality Assurance Program to monitor and improve the application, accuracy and consistency of the use of the JSCI (including training and changes to some questions).

² For example, see DEWR SB 2000a, p. 32; DEWR sub. DR80, p. 3; FaCS sub. 42, p. 17; Centrelink sub. 54, p. 16; UnitingCare sub. 12, p. 7; and WorkPlacement sub. 19, p. 25.

Another initiative may be to provide greater flexibility to Centrelink in implementing the instrument. 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.³ It would be possible to pilot such a flexible approach and compare the accuracy of the flexible approach with the current rigid application of the JSCI enforced by DEWR.

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 (sub. 45, pp. 17–18).

The Commission agrees that it may not be appropriate to implement the full JSCI at a job seeker's entry to unemployment, but only if a short screener can be developed that can identify those with clear early problems who should be referred to IA/CA immediately.

The problems of disclosure and the changing circumstances of job seekers also suggest that profiling should be conducted on a more continuous basis. 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 often 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 reforms in Australians Working Together 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.

³ 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.

ACOSS (sub. 32, p. 8), for 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 proposed new Job Network arrangements under ESC3 largely give effect to this proposal. As job seekers progress through increasingly intensive phases of assistance with their providers, the case managers provide updated information to automatically recalculate the JSCI (DEWR 2002a, p. 15 and sub. DR80, p. 4).

The Commission strongly supports this more iterative process for information collection, subject to it being coordinated with other parts of the system, such as Centrelink. It could readily be translated into a case history approach, akin to that which operates in the medical system. This could feed into better profiling of job seekers and improved ongoing case management across different providers in the Job Network and to other agencies, such as Centrelink and PSP providers. Its implementation is 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 14.

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) and recognises the need 'to further refine the instrument and test its predictive capabilities' (sub. DR80, p. 3).

The limits to the JSCI also suggest that there may be benefits from research into other instruments and assessment approaches. 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. DEWR (sub. DR80, p. 4) indicates that in the new Intensive Support phase of assistance to job seekers, Job Network providers will determine whether job seekers have barriers in foundation skills (language, literacy or numeracy) or other major job-readiness barriers. Those with such barriers may be referred to language, literacy or other training prior to participation in CA.

A complementary 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. 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.

Finally, a further option may be to assess job seekers’ social participation needs, since this is also relevant in choosing among referral options — especially for job seekers whose likelihood of getting a job is low. Centrelink is currently moving in this direction (sub. DR82, p. 1).

Use of the JSCI to manage the Job Network flow of work

At times, the JSCI has been used as a ‘tap’ to control the flow of clients to Job Network providers to satisfy their capacity objectives and viability:

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 the early days of the Job Network it was important to maintain provider viability by ensuring providers had a sufficient pool of job seekers (sub. DR80, p. 3).

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, until recently, but no longer, was also recorded as a key performance indicator for Centrelink).

Removal of caseload quotas (chapter 11) should remove any need for DEWR to ever lower thresholds in the JSCI to assist Job Network providers meet capacity objectives.

During times of increasing unemployment, workloads would generally increase — as would budgetary outlays on IA/CA. If these costs were excessive, then increases in thresholds in the JSCI or other changes in eligibility criteria for CA would provide an ultimate check on budget costs. However, in general, the principal function of the JSCI should remain as a tool to identify the needs of job seekers.

RECOMMENDATION 9.2

The Commission recommends that thresholds in the Job Seeker Classification Instrument should not be lowered to meet Job Network providers' capacity objectives.

DEWR anticipates that the JSCI will no longer be used as a demand management tool in ESC3 (sub. DR80, p. 3) and in its discussion paper advocates that the flow of eligible job seekers be determined by local labour market conditions alone (DEWR 2002a, p. 29).

Long-term unemployment as a trigger for participation in intensive phases of assistance

A number of participants argued that some key sub-groups did not get reasonable access to the intensive phase of assistance. 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 the intensive phase of assistance in the Job Network. The proposed basis for eligibility to CA in ESC3 is either a high risk of future enduring unemployment or existing long term unemployment status.

There is little question that the long-term unemployed are disadvantaged, but this may not be enough basis for automatic qualification of the entire group to CA. Job seekers are very heterogeneous, and the risk of continued unemployment reflects a mix of traits, of which present long-term unemployment is only one indicator. If a program has limited funds and intends to target those who have the highest ongoing 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, in assessing the role of long-term unemployment in the JSCI, DEWR implied that the weighting on long-term unemployment 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 ... 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).

To the extent that the original model is subject to data errors (due to disclosure problems), misspecification and selection biases that distort its estimates, then it may be appropriate to supplement the JSCI with other eligibility rules.

Even to the extent that the JSCI predicts future unemployment risk relatively well, like all predictive tools it will generate false positives (people who are said to need intensive help but do not) and false negatives (people who are said not to need help but do). However, such false positives and negatives are not necessarily equally costly. One conjecture is that false positives are more costly than false negatives for job seekers with shorter duration unemployment (reflecting the significant resource costs of helping people who would get a job anyway, relative to the low costs of not helping some people who have so far only endured a short spell of unemployment). However, the asymmetry may be reversed as unemployment duration rises, because the potential costs of not helping the long-term unemployed are high. To the extent that this is the case, this could justify setting a relatively high threshold for determining early eligibility for intensive help and using long-term unemployment as a trigger for subsequent eligibility (and for higher outcome payments).⁴

However, in the long run, it should be possible to refine the JSCI or other profiling techniques to better inform decisions on who, when and how to help job seekers — taking explicit account of the possible asymmetric costs of false positives and negatives. Ultimately, an evidence-based profiling instrument, such as the JSCI, is likely to have lower classification errors than alternative rule-of-thumb approaches for eligibility.

⁴ Moreover, at 12 months the costs of false positives are likely to be reduced since most job-ready job seekers would have got a job, and those for whom intervention is seen by providers as currently unproductive will tend to have been referred elsewhere.

9.3 Parking — sources, implications and solutions

A major concern in the draft report was that a significant share of disadvantaged job seekers were receiving little assistance — referred to as ‘parking’ by industry participants.

Several participants argued that parking was not widespread — at least in their own organisations, and also emphasised that parking might often be a behavioural response by demotivated job seekers, rather than necessarily a choice by providers (box 9.2, chapter 6). Colmar Brunton Social Research and DEWR (2002) have conducted qualitative research that provides some support for this contention. They classify job seekers into different intensities of motivation to search for jobs and selectiveness about jobs they are willing to take. Such qualitative research is imprecise by its nature,⁵ but it suggests that there is a significant share of job seekers who disengage themselves from job search, often through repeated failure to get a job, disenchantment with the support of their Job Network providers or because unemployment has become normalised for them. Their research suggested that around 28 per cent of job seekers were highly demotivated by their unemployment experiences (the ‘disempowered’ and ‘withdrawn’). Another 16 per cent of job seekers had relatively low motivation and search effort, and were relatively content with unemployment (‘cruisers’). The study (pp. 33ff) suggests that Job Network providers should adapt their strategies for dealing with these different kinds of job seekers. The failure to do so might be seen as another form of parking (ie failure to arrest self-parking).

Collectively, the data from successive surveys of job seekers paints a rather complex and ambiguous picture of parking. Different measures of its prevalence emerge from looking at contact frequency, training, job interviews and quality of interactions between job seekers and providers. When all the evidence is reviewed, including anecdotal information provided by job seekers and providers, it still appears that a significant number of job seekers do not get substantial assistance. These are, through their own or provider’s intent, parked in the system.

⁵ The original qualitative research was undertaken on a very small sample of 52 job seekers. This was then used as basis for classifying the qualitative responses of a much greater number of job seekers.

Box 9.2 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 disadvantaged 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 (UnitingCare 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).

We find it difficult to accept largely anecdotal evidence that there is wide spread 'parking' occurring in IA as we believe the evidence to be insufficient to determine this. We are able to determine that for us a significant proportion of job seekers who do not obtain an outcomes are those who we believe park themselves and who resist all efforts including, breaching recommendations to participate in any meaningful way in Intensive Assistance interventions (Leichhardt Community Youth Association sub. DR77, pp. 2-3).

The truth of the matter is that strategies to overcome multiple barriers take time to take effect, and that at the time many industry observers cry 'parking', what is occurring is the quiet, steady, courageous process of meeting a person at their point of need, and then turning their life around (Wesley Uniting Employment sub. DR71, p. 3).

In our experience it [parking] happens infrequently and usually by the choice of the candidate (Professional Vocational Services, sub. DR63, p. 2).

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 heterogenous, 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,⁶ 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, say, 2 percentage points (at existing outcome payment levels). One determinant of the likelihood that investment can be made in the employability of a job seeker will be their motivation in overcoming any obstacles to job-readiness — hence the term ‘self-parking’.

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 spend only what is mandated on 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 incentives may not only affect the most disadvantaged job seekers. Outcome payments in the new Active Participation Model to be implemented in ESC3 (DEWR 2002a, p. 46) recognise more risk categories, based on the JSCI and various unemployment durations. This should increase incentives to provide more help to disadvantaged job seekers.

⁶ 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.

In practice the incentives and capacity for Job Network providers to vary intensity of assistance to particular job seekers is more complex than a simple analysis of incentives might suggest.

Lack of identifiability

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 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.

Monitoring and contract compliance by DEWR

Second, 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. That said, 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). It appears, however, that the frequency of contacts did rise in the second contract — albeit little is known about the quality of the interactions. Implementation of the Active Participation Model will further reduce parking by specifying contact requirements for all job seekers (chapter 7).

Ethical and professional constraints

Third, 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. Accordingly, they may work against the incentives provided by the system. For example, the Leichhardt Community Youth Association noted:

We operate under a mission to direct our services to the most disadvantaged people in our community and this is underpinned by a set of values which precludes us from ‘parking’ our intensive assistance job seekers (sub. DR77, p. 2).

The incentive effects of the star rating system

Finally, 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 much of the ‘excess’ profits earned from easy-to-place clients through cross-subsidies to more difficult-to-place clients:

... 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 (NESA sub. 39, p. 13).

... it is actually in our interest to keep working with the hard to place people ... continuing contract provision means that we can relatively easily get 20 per cent of the people in the city, or 10 or 15 per cent in the country, into jobs. It’s the difference that sets us apart because the stars are based on how far ahead or behind the pack we are....
... it is actually the work you do with those hard to place people that will make the difference between you keeping a contract or not (Wesley Uniting Employment, trans., p. 68).

To this extent, star ratings are likely to significantly reduce 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.

While the star rating model accentuates incentives to assist disadvantaged job seekers, it is important to note that 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;

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- 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. ABS data on profits of employment placement providers suggests that average profitability is higher than many other service industries, which may indicate some excess profits;⁷
 - 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.

Consequently, while the need to get good star ratings for future contracts acts as a powerful, and sometimes overlooked, incentive for spending resources on job seekers, it does not guarantee that there are no excess profits or that spending is always efficiently allocated among job seekers.

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 more than minimal 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.

⁷ The operating profit margin for the employment placement services industry was 19.7 per cent in 1998-99, noting that Job Network payments comprised about 60 per cent of the total income of the industry (ABS, *Employment Services, Australia 1998-99*, Cat. 8558.0). In contrast, the average profit margin for other industries was 9.4 per cent (ABS, *Business Operations and Industry Performance, Australia 1999-2000*, Cat. 8140.0). Only finance and insurance, and communications services had higher margins. However, such data should be interpreted with caution. They do not take account of variable risks between industries and provide a snapshot of profitability that may not persist. Nevertheless, they are consistent with the imperfect discipline that star ratings exert on profits.

Even so, their inclusion in the intensive phase of the Job Network represents an identification problem. This could be 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 task because it is likely to be subjective and erratic factors, such as motivation, that are most important).

However, removing such higher quality job seekers from the intensive phase of assistance 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 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).

Low levels of assistance to more severely disadvantaged job seekers raises 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 can be a pretence of aid. Because the activity requirements for job seekers within IA can be less than is required for non-IA clients of Centrelink, it is possible that such disengaged job seekers may have a reduced chance of getting a job under IA than outside the program (chapter 7).

Parking can be seen as primarily a referral, funding, incentive and/or behavioural 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);
- a referral problem if interventions outside the Job Network are more appropriate. For some job seekers, job-focused 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;

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- a behavioural problem if, through choice, demotivation or habit, job seekers fail to search adequately for jobs or to take up opportunities for increased employability offered by Job Network providers.

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 some 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 the provider's reported breaches, this enables the provider to clear such clients off their books to make space for those for whom an outcome payment is more likely:⁸

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 who reveals special needs after commencement (section 9.4 and appendix I). While such breaching recommendations may be technically correct, it is a form of exiting that is 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. Many 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,

⁸ It may also increase their star rating if it enables them to get a greater throughput of easier-to-place clients.

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 (sub. 28, p. 4). However, the principal role of the job placement provider is to gather vacancies by developing relationships with employers and to screen job applicants competently. Accordingly, the concept of parking does not readily apply. Moreover, a job seeker can seek job placement services from many providers.

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 (CA in the new system). 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; and
- mandating a minimum level of expenditure and/or activity for all IA job seekers. This would ensure that no job seeker received little assistance. The Commission is cautious about the application of minimum expenditure levels per job seeker 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, requirements for greater engagement by job seekers with their providers 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.

This chapter examines several other policy approaches that could ameliorate parking and in particular, re-referral to other, more appropriate, services

(section 9.4). Changes to the screening process recommended in section 9.2 are also likely to reduce parking.

9.4 Referral to other services

Job seekers are heterogenous, in terms of their obstacles to employment, preferences, and responsiveness to assistance. The relatively flexible design of the Job Network recognises this diversity by allowing providers to tailor services, but the existing model keeps job seekers largely within the confines of the Job Network for substantial periods, even if other programs might produce better social and economic outcomes for some job seekers. This suggests the need for mechanisms to refer job seekers to other programs.

Re-assessment of job seekers with special needs

This problem has been recognised for one group — those with special needs — who may need assistance from CSP/PSP. Job Network providers are able to seek re-assessments of special needs where these are divulged. As noted in appendix I, providers (particularly those that are not capacity constrained) currently face significant disincentives to seeking re-assessment because they have to pay for it, even when it subsequently transpires that the re-assessment was warranted. This is problematic if it leads to job seekers continuing in the Job Network when their special needs warrant alternative assistance.

The incentives to seek re-assessment of special needs are partly addressed in *Australians Working Together*, but it is not clear what arrangements will apply in the new Active Participation Model. In the latter, referral to PSP or disability employment services will result in the exit of the job seeker from the Job Network member's contracted responsibilities (DEWR 2002a, p. 9). If this means that providers relinquish eligibility for outcome payments, then this will reduce incentives for seeking re-assessment of special needs. Other aspects of the new arrangements are not yet finalised, and depending on the choices made, may also affect incentives to re-refer job seekers (see below). Either way, the Commission's analysis (appendix I) suggests that any charges for re-assessment of special needs levied against Job Network providers should be reimbursed if the need for re-assessment is vindicated.

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 several possible solutions to the problem, including more Centrelink specialist staff and outsourcing of the re-assessment function to private practitioners. A penalty payment to Job Network providers for delays over a certain period would provide the incentives for the responsible agency⁹ to remedy the problem through adequate resourcing.

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.

Allowing Job Network providers to more generally re-direct job seekers

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 weaker activity tests in IA;

⁹ 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.

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- 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. For example, DIMIA (sub. DR79, p. 11) argued that under the present arrangements, there are no financial incentives for providers to refer clients to English language tuition; 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: 'it is becoming apparent that IA participants are beginning to 'churn' through IA programs for a second time'.

Requirements for more intensive engagement between the job seeker and the provider 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 continue to get only the minimal assistance mandated by Government. 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 (or CA in the new model), while undertaking token expenditure on essentially unproductive activity. This gives the appearance that something is being done, but it promotes false expectations about what Job Network 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.

A strategy to prevent this is to allow Job Network providers to assess job seekers and then re-direct those for whom an eligible job or training outcome is unlikely under the Job Network to alternative interventions. 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. Re-referral would not mean that mutual obligation activity ceases to apply to these job seekers. Rather, alternative mutual obligation options would be offered (as described in chapter 8), while retaining activity requirements relating to job search.

Where they were in the most intensive phase of assistance (IA now and CA under ESC3), re-referred job seekers could be given the option to approach another Job Network provider if they considered that the re-referral was unwarranted. If they

were not successful within a limited period of time, job seekers would be re-assessed by a personal adviser and referred 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 (Catholic Welfare sub. DR70, p. 14). 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 or other profiling instruments so that in future some job seekers would immediately be referred elsewhere (as noted by DIMIA (sub. DR79, p. 17) for re-directed NESB job seekers); and
 - determine whether higher outcome payments 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.

Some participants emphasised that the value of re-referrals depended on the quality of the programs to which job seekers were referred (box 9.3), and were particularly concerned about the appropriateness of Work for the Dole as a referral option.

The Commission agrees that any referral options should be appropriate to the job seeker. It is critical that all mutual obligation options be subject to careful evaluation and refinement to ensure that the services they provide are appropriate and of high quality. There have been recent changes to Work for the Dole, such as its greater integration into the Job Network and the introduction of a training credit, which should partly address the concerns about this particular mutual obligation. The Commission has not examined Work for the Dole in any detail as it is outside the terms of reference for this inquiry, but some issues associated with the program are raised in chapter 8.

Re-referrals raise some other important dilemmas. First, it will be important that re-referrals are disinterested. For example, many Job Network providers also run Work for the Dole programs. It may be tempting to refer a job seeker to one of their own programs — especially if it is currently under capacity — than to another one more suited to the job seeker’s needs. One way of resolving this is for Job Network agencies to provide a recommendation for a referral to the gateway agency, Centrelink, which ultimately, after consultation with the job seeker, determines whether to accept the Job Network provider’s recommendation or select another (this is consistent with the approach adopted for breaching, where similar conflicts of interest can arise). It is possible that some referrals — for example vocational ones — could bypass Centrelink, so long as they were to an agency not connected to the referring Job Network provider.

Box 9.3 Participants’ concerns about re-referrals

... some job seekers are at the lower end of labour market competitiveness and consequently, referral to other activities may be warranted. But this should not occur until there has been a thorough assessment of the job seeker’s needs and every opportunity for assistance has been pursued. ... Queensland believes that the Commonwealth must invest more resources in labour market programs that provide a greater array of referral options that are aimed at improving labour market competitiveness as distinct from compliance activities such as Work for the Dole (Queensland Government sub. DR76, p. 13).

In general we disagree with this recommendation because it could lead to providers finding a new way of ‘creaming’ and purging their case loads. We do believe the principles referred to here would however be appropriate if they referred to those job seekers who do not to have the capacity to benefit from the Intensive Assistance (Leichhardt Community Youth Association sub. DR77, p. 5).

Disability employment services, at least the best of them, are very ambitious about what they can achieve with people who have significant social and personal barriers to employment. We think that that approach ought to be applied to a greater extent within the Job Network, rather than giving providers incentives to refer people on to somewhere else from where they might not ever emerge into employment (ACOSS, trans., p. 26).

[There are] concerns about the emphasis that is given in the Draft Report to proposals which entail the exiting of clients from Intensive Assistance into mutual obligation programs that are unlikely to address the full range of barriers faced by this client group (Catholic Welfare Australia sub. DR70, p. 14).

Second, there is a risk that, in some cases, re-referrals may shift costs from providers onto other parties and also distort the incentives for selecting the best options for assistance to job seekers. Under the Active Participation Model, Job Network providers will generally still be able to get outcome payments when the job seeker is in another program. Consequently, they may get the benefits of an outcome, but avoid the costs. Table 9.1 illustrates an example where assistance outside the Job Network would be more costly and less effective, but would earn

more revenue for the Job Network provider. In some cases, the cost shifting may be to State and Territory Governments if re-referrals are to non-Commonwealth programs (Queensland Government sub. DR76, p. 4).

While it is possible to contrive examples where cost shifting and outcome distortion occurs, a significant brake on this problem in the new system is the structure of payments. There are no incentives to avoid the costs of assistance to job seekers remunerated by fees-for-service or through the Job Seeker Account — which are estimated to account for just under 60 per cent of Job Network providers’ revenue (DEWR 2002a, p. 37). The star rating system would also penalise outcome distortions (but not cost shifting per se). Cost shifting and outcome distortions will need to be monitored by DEWR and other agencies funding the complementary services to which job seekers may be referred.

Table 9.1 Illustration of possible cost shifting^a

	<i>In Job Network</i>	<i>Referred to other program</i>
Probability of a primary interim outcome (PROBPI)	0.15	0.12
Probability of a final primary outcome (PROBFP)	0.1	0.08
Expected gross revenue to Job Network provider (GR) \$ ^b	880	704
Cost of investment by Job Network provider (CJN) \$	500	0
Cost of referral by the Job Network provider (CREF)\$	0	100
Cost of investment by other agency (COTH) \$	0	700
Net revenue to Job Network provider (R) \$ ^c	380	604
Net total revenue from intervention NR \$ ^d	380	-96

^a The calculations are hypothetical and are based on the outcome payments for the most disadvantaged job seeker (\$4400 for the interim and \$2200 for the final). Parameter values are set in a way that illustrates the cost shifting story. That is, outcome rates are actually lower outside the Job Network, while the costs of intervention (COTH versus CJN+CREF) are higher, yet the provider still has an incentive to re-refer job seekers. ^b This is calculated as $GR = PROBPI \times 4400 + PROBFP \times 2200$, noting that outcome payments are still payable even if the job seeker is referred elsewhere (other than PSP). ^c This is calculated as $R = GR - CJN - CREF$. ^d This is calculated as $NR = GR - CJN - CREF - COTH$.

Source: Commission calculations.

Third, greater options for re-referrals do not necessarily resolve the problem of parking in all cases — depending on subtleties in the design of the system. For example, it is not yet clear what happens to a Job Network provider’s claim on the Job Seeker Account pool of funds if a job seeker is re-referred during CA. If the funds are adjusted down by \$935 this would act as a barrier to re-referral, but would counter some of the cost-shifting incentives associated with re-referral.¹⁰ Whether the funds should be adjusted or not will probably have to be determined by DEWR

¹⁰ There is no guarantee that if the referral is not made that the \$935 would be spent on that particular job seeker, so it is still possible to provide only minimal service when the job seeker is in CA.

on the basis of experience with the operation of ESC3, but it is an issue that warrants monitoring.

RECOMMENDATION 9.5

The Commission recommends that where a Job Network provider considers that existing services are unlikely to generate an outcome for a job seeker:

- *the Job Network provider be given the capacity to re-direct job seekers to other programs;*
- *reasonable activity tests generally be maintained for re-directed clients;*
- *the characteristics of re-directed job seekers be assessed, recorded and analysed by DEWR to improve future initial referrals of clients and potentially to increase outcome payments in selective instances; and*
- *DEWR develop criteria to detect and discourage re-referrals that shift costs or distort outcomes.*

Greater options for re-referral were foreshadowed under Australians Working Together, albeit the window available for referrals was relatively narrow compared with the more flexible options being recommended by the Commission. DEWR's Discussion Paper (2002a, pp. 9, 19), which explores options for ESC3, extends Australians Working Together. It proposes a high degree of flexibility for referrals — and is largely consistent with the Commission's recommendation. The new Active Participation Model allows scope for referral to State and Territory programs, numeracy or literacy programs and other options as the needs of job seekers become apparent to their case manager.

In its draft report the Commission discussed supplementing re-referrals with either minimum expenditure amounts or exit payments so as to further discourage parking. These policy options were aimed at alleviating the problem that, where a provider that is not capacity constrained and can maintain a job seeker on their caseload at very low cost, it may still have weak incentives to re-refer them (appendix I). This is because the low expected benefits from a job outcome may still exceed the even lower costs of having them on their caseload. The Active Participation Model largely resolves this problem by allowing continuity of outcome payments, and so the Commission does not consider there is a need for the supplementary options raised in the draft report.

High intensity assistance and milestone contracting

As several inquiry participants told the Commission, the existing IA program is neither intensive nor assistance to some disadvantaged job seekers. The proposals for CA under the Active Participation Model guarantees a much higher level of interaction with job seekers — through an apparent requirement that job seekers attend the Job Network provider for three days a week for the first three months and have a minimum prescribed 11 hours of case management (funded by fee-for-service).

However, there is no guarantee that individual job seekers will get access to any Job Seeker Account funds or that the three day a week requirement need amount to genuinely significant assistance. Accordingly, some job seekers with large barriers to employment may not get much direct assistance from the Job Network. There may be grounds for providing more tailored and very intensive assistance outside the Job Network to a selective group of 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.
- 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 the Job Network 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 would be desirable for the Job Network provider to 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 9.4 reports on a review of such a system in Oklahoma) and is consistent with the re-referral options foreshadowed for ESC3.

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. It would generally confront problems that are different from those targeted by PSP — and do so in a different way. 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. Milestone contracting might be applied to some existing services that are currently organised on a different basis (such as language skills).

9.5 Repeated access to intensive phases of assistance

The current Job Network allows repeated access by job seekers to IA over time. Data on commencements over the year from March 2000 indicate that just under 50 per cent of commencements in IA were by job seekers who had commenced previously. Around 41 per cent of level A job seekers had participated previously, while the comparable figure for level B job seekers was 70 per cent. A substantial proportion of current IA participants have participated in Working Nation programs

as well.¹¹ Such repeated use implies that past interventions have not been effective in achieving a sustained employment outcome.

Box 9.4 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).¹²

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.

¹¹ At one stage, this was 40 per cent of commencements in IA.

¹² The largest payment is at the final milestone, full employment for 17 weeks plus 90 days, which is known as '26 closure'.

Moreover, repeat use is also associated with reduced short-run outcomes (which is likely to reflect the lower average employability of repeat users). Data on the interim outcome rates achieved by repeat and non-repeat users of IA reveals that the gross effectiveness of the program is 30 per cent lower for repeat users than first time commencers (figure 9.2).¹³ Around 80 per cent of repeat users are not achieving an interim outcome from participating in the program. DEWR noted:

Many job seekers do not achieve employment or positive outcomes after participating in labour market assistance. As noted earlier, this is not unique to Australia, nor is it a function of current labour market assistance arrangements. It contributes, however, to many job seekers having multiple episodes of assistance with no apparent improvement to their employment prospects. While in some instances, repeat episodes of labour market assistance are justifiable and in the longer-term interest of the job seeker, the scale at which it currently occurs raises questions about the effectiveness of labour market interventions for some job seekers (sub. DR80, p. 13).

Options for voluntary participation in IA and re-referral are likely to reduce some instances of wasteful repetition, but there may be other policy options that could be considered as well.

Lifetime accounts that give job seekers a notional budget for employment assistance over a long time period were raised as one possibility in the draft report. Such accounts might have the advantage of:

- 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.

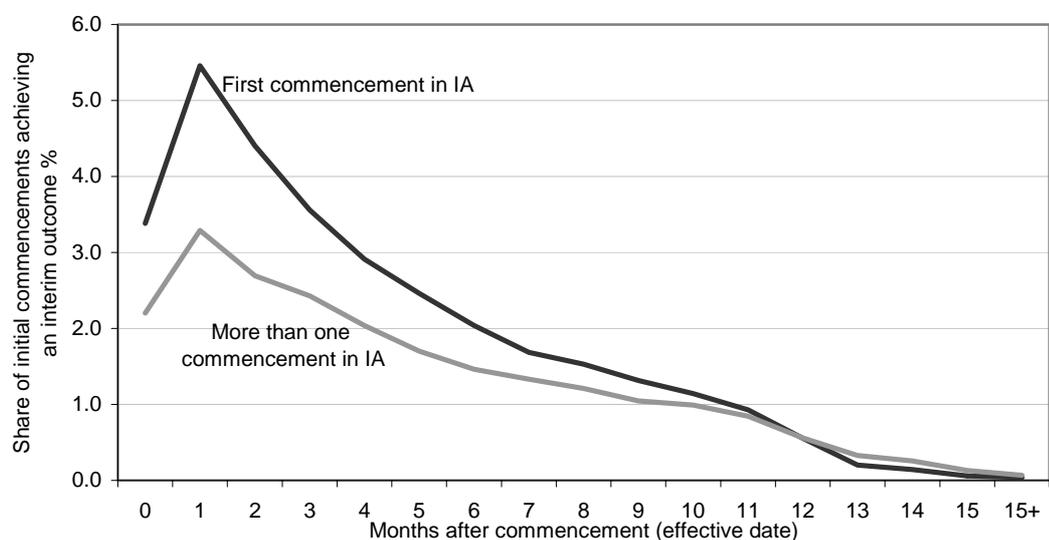
On the other hand, a person's level of disadvantage is not static, but may change with circumstances (for example, change in demand for certain skills, having carer's responsibilities, falling into or out of substance abuse, an episode in prison). Similarly, so may their responsiveness to assistance. It would be inappropriate not to invest in a job seeker when a return seemed likely just because their lifetime account balance was zero. Blind Citizens Australia argued that lifetime accounts:

... cannot adequately account for life circumstances, for example, the acquisition of a disability, nor for the differing costs between and within disability groups (sub. DR62, p. 5).

The Commission does not advocate lifetime accounts for labour market assistance.

¹³ These calculations are based on comparing gross outcome rates of the different groups. This does not take account of the outcomes that would have occurred in the absence of IA. The Commission has not been able to obtain estimates of net impacts for repeat episodes of assistance. Estimates will be included in DEWR's third stage evaluation.

Figure 9.2 Interim outcome rates by months after commencement^a
 For first time and repeat commencements



^a The graph aggregates results for level A and B job seekers. For level A job seekers, the data relate to outcomes of job seekers who commenced between 1 March 2000 and 28 February 2001 covering the full period of their IA participation from their commencement date. For level B job seekers, the relevant period is from 1 March 2000 and 31 November 2000. The data show interim outcome rates as a share of the total commencements by months after commencement. The outcomes are recorded at placement (not exit). The period goes beyond 12 months because extensions are sometimes permitted. The sum of the outcome rates over the entire period is equal to the total interim outcome rate achieved by the cohort. The overall interim outcome rates are: 31.8 per cent for job seekers on their first use of IA and 22.6 per cent for job seekers on their second or more use of IA. Data on interim outcome rates are also available separately for level A versus level B job seekers. The same pattern as shown in the graph is apparent for level A job seekers. In contrast, outcome rates for level B job seekers who have participated in IA before are nearly identical to those of first-time level B job seekers. However, this is a misleading indicator of program efficacy associated with repeated episodes of assistance because many of the level B who have participated in IA before did so originally as level A job seekers. Thus, the comparison of repeat users and new users of level B IA fails to control for potentially important differences in job seeker characteristics.

Data source: Unpublished data provided by DEWR.

An alternative approach would be to develop assessment methods that better identify job seekers who can benefit from repeated use of the intensive phases of assistance. The Active Participation Model proposes at least some flexibility in targeting assistance for repeat users, which the Commission supports:

Changes to employment services are designed to prevent repeat episodes of ineffective assistance, however, should the assessment [at 24 months] reveal that reasonable job prospects exist for a job seeker, he or she will commence a further six month period of Intensive Support customised assistance (DEWR 2002a, p. 19).

The Commission recommends that DEWR develop assessment methods that better identify job seekers who can benefit from repeated use of the intensive phases of assistance.

This would not prevent the repeat involvement of a person in CA where it takes a significant amount of time to overcome barriers to employment. As pointed out by Blind Citizens Australia:

People with disabilities will often require more resources and assistance to find work because of these systemic barriers (sub. DR62, p. 5).

9.6 Reducing deadweight costs

The existing design of the Job Network allows Job Network providers substantial scope to tailor services to individual job seekers and to avoid giving much assistance to those job seekers who do not need it (the relatively highly job ready).

The design of the \$800 training credit for mature and indigenous job seekers,¹⁴ the \$935 Job Seeker Account and outcome payments (chapter 10) under the Active Participation Model and Australians Working Together also permit this flexibility, since providers are not required to provide the same funds to every individual. The Commission strongly supports these design features of the new system.

However, several feature of the Active Participation Model will tend to increase deadweight costs:

- the requirement that every job seeker in CA be engaged in an activity for three days a week for the first three months may be excessive for some job seekers and dissipate resources that would be better targeted. The Commission considers some possibilities for flexibility in chapter 7; and
- 11 contact hours are prescribed for every job seeker in CA, scheduled mostly in the first half of the program, when deadweight costs are likely to be highest. However, as argued in chapter 7, there are other reasons why this level of

¹⁴ While the training credit may appear to be an entitlement (which would raise deadweight cost problems), it is actually rationed and targeted. In order to qualify, the training must suit their local labour market conditions and be seen to be making a difference to their employment prospects. In order to ensure that providers did not automatically endorse \$800 worth of training for everyone, DEWR limited funding. The budget is such that there is only enough money to finance a full \$800 worth of training for 1 in 4 eligible job seekers. In that sense the credits are pooled with a maximum set per person and there is an incentive to target their use.

prescription may be valuable — and it represents the only major case in the design of the Job Network where DEWR hypothecates payments to individual job seekers.

9.7 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.

Second, there are a number of options for recognising the differential costs of achieving outcomes for various disadvantaged sub-groups. Currently, NESB, Indigenous and disabled specialist Job Network providers tend to get (somewhat) higher tender contract prices, reflecting the additional costs of achieving outcomes for their clients.¹⁵ But this is not true for all specialist providers, many of whom get no premium over generalists, while youth specialists appear to get lower prices than the average (appendix G). An alternative to the unpredictable resourcing of specialist providers 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, but would be not guaranteed such a premium if they had other characteristics that offset these disadvantages. As Catholic Welfare Australia noted, using the JSCI has significant advantages over merely paying premiums for outcomes based on membership of certain groups:

The introduction of additional payment categories based on membership of particular disadvantaged groups would be likely to be distortions for the simple reason that any disadvantaged group consists of a range of client difficulty. Since the Job Seeker Classification Instrument measures disadvantage of each individual based on their full range of characteristics, its outcome is a far more reliable measure of each client’s disadvantage and hence need for assistance (sub. DR70, p. 28).

If it were felt that outcomes for certain groups deserved particular emphasis, a complementary approach would be to provide greater weights to job outcomes for

¹⁵ 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.

such groups in the star rating system (outcomes for Indigenous, NESB and disabled job seekers already receive an additional weighting in the star ratings).

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 would provide 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 9.2). For example, in the case of job seekers with a disability, specialist agencies cater for less than 3 per cent of those job seekers.

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 would also remove the current contract condition that (to avoid ‘creaming’) requires specialist providers only to service job seekers from the prescribed specialty group.

Table 9.2 Share of target populations catered for by specialist agencies^a

<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 The table is based on performance information reports from DEWR at the site level. 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. It should be noted that for administrative and technical reasons, the performance information reports drawn from the Corporate Management Information System reflect a job seeker's characteristics as recorded on their 'referral' record. In up to 5% of cases, referral records do not accurately record the characteristics of the job seeker. This is largely because recording is dependent on a job seeker's self declaration of their status (for example, as an indigenous person). Consequently, the table will not be a completely accurate measure of commencements and will not match exactly the revised data that DEWR uses for star rating calculations.

Source: Based on unpublished performance indicator data from DEWR (November 2001 database).

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 9.3).¹⁶ 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.

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:

¹⁶ 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 9.3 Outcomes for specialty groups by type of Job Network provider^a

<i>Type of group</i>	<i>Indigenous</i>	<i>NESB</i>	<i>Disabilities</i>
	%	%	
Interim outcome rate for specialist agencies	10.6	25.7	16.1
Interim outcome rate for other agencies	11.1	18.0	14.4
Final outcome rate for specialist agencies	4.6	11.5	8.6
Final outcome rate for other agencies	4.6	8.8	6.8

^a The table is based on site data and 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. See the previous table notes for a discussion of data limitations.

Source: Based on unpublished performance indicator data from DEWR (November 2001 database).

- 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.

RECOMMENDATION 9.7

The Commission recommends that Job Network providers be able to choose whether they wish to offer any combination of generalist and specialist services.

RECOMMENDATION 9.8

The Commission recommends the continued use of the Job Seeker Classification Instrument, supplemented by unemployment duration, 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.

9.8 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 9.5).

Box 9.5 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:

[These 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).

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 Indigenous job seekers (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 9.7) should partly address the needs of these groups of job seekers. It is clear that some providers already take novel steps when trying to earn trust with particular groups. For example, Joblink Plus noted that:

[Indigenous clients] are difficult to contact, but the indigenous staff that we have know them and they go out into the communities and they explain what the meeting is about and sometimes bring the people back into our offices. With indigenous clients it’s a matter of earning their trust and respect and, once we’ve done that, they come in quite happily by themselves. But when they just get a letter from Centrelink it probably doesn’t even get opened, to be honest. So we do a lot of our sign-ups and a lot of hard yards travelling into their communities and forming those relationships with each family or each group. Often it is a family issue, too, not just the client that we speak to (trans., p. 15).

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.

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.

9.9 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 available to all unemployment beneficiaries and even to some non-allowees. It has high deadweight costs because of its non-targeted nature. However, targeting on disadvantaged job seekers (as recommended in the draft report), while generally desirable, might have the unintended impact of reducing the attractiveness of JM to employers. This would be likely to reduce its effectiveness for disadvantaged job seekers. In that context, bearing the deadweight costs of assistance to non-disadvantaged job seekers may be worth the gains of a viable JM function to disadvantaged job seekers. Chapter 7 discusses the resolution of these tradeoffs.

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 (chapter 5). 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 a job seeker could undertake JST multiple times if they had periodic spells of employment and unemployment (under the Active Participation Model, JST continues to be a mandatory requirement for job seekers three months after they become eligible for unemployment benefit).¹⁷ JST is likely to have its biggest program effects on its first application.

Several participants indicated that repeat use of JST could wastefully impart the same skills:

... because of the magnitude of compliance effects of Job Search training, you might say you require people to participate in something that requires them to turn up every day for three weeks, but I think it's a nonsense to suggest they should go through the same training every time they undertake that (JST). We'd have a nation, as I said, of unemployed people with PhDs in Job Search (NESAs, trans., p. 215).

¹⁷ If a job seeker remains unemployed, they undertake JST just once.

Catholic Welfare Australia questions the value placed in recurring participation in Job Search Training – a one-off curriculum concerning self-presentation and search techniques – while further Intensive Assistance which lends itself to long-term skills development is to be denied [were the Commission’s draft report recommendation to be implemented] (sub. DR70, p. 15).

However, as noted by NESAs, its compliance effect may still apply, even after repeated participation. One possibility would be to:

- only *require* a repeat of JST after some years have elapsed since the last formal training in job search skills, but to allow repeat users the choice of access to the program three months after commencing any qualifying unemployment episode; and
- in those periods where a repeat user decides not to voluntarily participate in JST, to have some other activity that could elicit a compliance effect. One option would be attendance at the Job Network provider’s premises for 2 or 3 days a week for several weeks, using the self-help facilities.

This would reduce the costs of wasteful repetition for government, but also the frustration to job seekers of being compelled to attend a course whose contents are familiar.

RECOMMENDATION 9.9

The Commission recommends that the mandatory repeat use of Job Search Training for the periodically unemployed be restricted, with greater voluntary participation in the program by repeat users. Compliance effects for those job seekers electing not to repeat Job Search Training should be elicited in other ways.

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 is a 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, 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.

RECOMMENDATION 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.

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 7).

The Commission has recommended that SED be abolished (chapter 7). However, if it is not, the Commission considers eligibility and targeting for SED should be significantly tightened.

Project Contracting (Harvest Labour Services)

This is a poorly targeted program. Indeed, as noted in chapter 7, 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 cessation of government funding (chapter 7).

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, with prices for the most important service (IA) tending to gravitate to the administrative floor price.

The Commission recommends that default prices for the Job Network be set administratively, but DEWR should consider:

- taking account of any significant cost variations across regions;
- trialing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default; and
- attempting to correct administrative prices for the large differences in gross outcome rates in different labour market regions.

Many participants claimed that payments under the Job Network 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 towards 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 an interim primary outcome fee for a job lasting 7 weeks.

The business cycle has profound effects on the revenue of employment agencies that only supply job placement services for the unemployed, but much less so for agencies delivering more intensive assistance. Diversification, prompted by the proposed arrangements in ESC3, resolve the problem for placement services.

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 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 payments made to secure outcomes for the most disadvantaged job seekers (occurring in IA under the current system and on a completely different basis under ESC3). However, section 10.9 deals with some residual pricing issues for JST and JM.

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 intergenerational dependency and anti-social conduct. 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 although, notably, the projected funding under ESC3 is due to rise significantly (DEWR 2002a, p. 38). 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). Research also suggests that while those IA providers that bid above floor prices achieved, on average, better outcomes than other providers, these effects are not large (appendix G). Many providers that did get premiums performed more poorly than providers without premiums.

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 Competitive tendering, floor prices and 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 quality (or the level of anticipated outcomes) is adequately verifiable or signaled in the current process for the more intensive services offered by Job Network providers. 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).

The Commission confirmed this by examining IA price data (appendix G). For example, the difference between the average and the minimum price for upfront payments for B level clients in IA was less than 7 per cent, compared with nearly 90 per cent for JST (where no floor price was set). As a consequence, while it may

appear that tender processes set IA prices, many gravitated to the administratively set floor price.

The price tendering system in ESC2, however, did provide some scope for prices higher than the floor in IA — and in the cases of JST and JM, where no floor was set — allowed considerable price variation (appendix G). However, the scope for such price variation comes at a relatively high cost:

- 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;
- as noted in chapter 11, tendering is a very costly process; and
- 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 too high a price for JM, to be allocated 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 had 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.

Given that the price of the key service (IA) gravitated to the floor anyway and given the other disadvantages of competitive tendering revealed above, there is a prima facie case for shifting to administrative pricing.

However, whether this is desirable also depends on any disadvantages of administrative pricing and some of the implementation issues that arise. These include how (and whether):

- to set prices so as to test the effects of higher prices on outcomes;
- to take account of cost variations; and
- to overcome some of the problems arising from a system based on rewarding gross outcomes.

Testing the effects of higher prices on outcomes

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. Experimentation is justified by the fact that supply conditions are uncertain (chapter 3) and that government must act on behalf of job seekers and taxpayers when determining how much to demand. Such experimentation 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 for taxing income — that increases payment levels as outcome rates increase. Payments at the average outcome rate would result in payment rates that were lower than the administrative prices, but providers achieving job outcome rates that exceeded these would get premium payments. For example, providers achieving outcome rates below 20 per cent might receive payments that are only 80 per cent of the administrative price, but those achieving outcomes between 20 and 30 per cent might receive a 10 per cent premium, those achieving from 30 to 40 per cent, a 30 per cent premium, and those achieving 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:

- 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 could 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 be 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

The notion of testing incentive pricing received cautious endorsement by several participants. Catholic Welfare Australia argued that any incentive plan should:

... provide a weighting in favour of the areas of high need and should act to support organisations who choose the more challenging areas of need and purposefully need to invest significantly in their clients to ensure a sustainable employment outcome (sub. DR70, p. 28).

ACOSS noted that one barrier to implementing incentive plans was the difficulty of modeling θ in model 1 in box 10.2 or in being able to ascribe differences between the actual and the threshold gross outcome rate in model 2 to the ability of the provider. As ACOSS noted: ‘there are many factors that contribute to gross outcomes’ (trans., p. 37). The risk factor, ϵ , is intended to overcome this problem.

Even so, there are clearly risks in moving to incentive plans without tests of their workability, and so the Commission considers trials as the appropriate next step.

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 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; and
- 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.

Taking account of cost variations in administrative pricing

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. Leichhardt Community Youth Association (sub. DR77, p. 6), in commenting upon the Commission's draft proposal for administrative pricing, was concerned that administrative prices be 'realistic in terms of producing some financial stability for providers as well as allowing sufficient funds to be available to ensure a quality service delivery for job seekers.' Catholic Welfare Australia (sub. DR70, p. 28) pointed out a need for 'regional differentiation'.

Cost measurement as a basis for administrative pricing always raises controversies, but the 'technology' for producing Job Network services is relatively simple (compared to other services where prices are highly regulated, such as utilities). NESAs (sub. 39, p. 12) considered that prices could readily be changed by DEWR to reflect cost changes.

Even so, there was a concern by some participants to ensure that any administrative price setting process was objective, transparent and open to review (Jobs Australia, sub. DR81, p. 14). Catholic Welfare Australia (sub. DR70, p.28) argued for an independent intermediary to set prices to prevent arbitrary pricing and 'avoid any possible diminution of service arising from budgetary pressures without reference to the needs of job seekers and the cost structure facing providers.'

There are grounds for transparent and objective cost modeling, if nothing else, to establish publicly whether changes in budgets over time for the Job Network represent changes in real funding. But the system used should avoid reversion to simplistic input funding, not involve large data collection costs and eschew frequent updates. It should be relatively simple in design. It would also be undesirable if the way in which costing was institutionalised encouraged stakeholders to spend significant resources trying to influence the model. At best, any costing model is an attempt to ensure that the most prominent regional and temporal cost differences are measured.² Whether these cost differences should necessarily be accommodated is another question. Ultimately it should be recognised that it is reasonable for DEWR, as the purchaser, to decide how much it wishes to fund Job Network services (and for providers to determine whether it is viable for them to supply at these prices).

² In examining pricing options for ESC3, DEWR contracted Econtech to develop a costing model. This is clearly a starting point for modeling costs — but so far is not publicly available.

Finally, any contention that administrative pricing would cater for regional or temporal cost differences in any worse a fashion than the existing tendering system is highly questionable. For example, the Commission found very little regional variation in IA bid prices in ESC2. This probably reflects the impact of the ‘race to the bottom’ problem (chapter 3) and the floor price. In this case, administrative pricing might allow for much *greater* cognizance of cost variations than the present system. This should defuse concerns about shifting to administrative pricing and being excessively finicky about the construction of cost measures.

Distortions from rewarding gross outcomes

The orthodox application of administrative 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 different³ (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. For example, looking at maximum and minimum gross revenues per commencement for providers with the same star rating, the minimum revenue per commencement for a five star provider was \$1960 per commencement, while the maximum was \$5150 (table 10.1). These results also imply that providers with low stars can get much higher revenues per commencement than providers with high stars — this is also evident in table 10.1; and
- in the absence of competitive tendering (subject to no floor), 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

³ Net and gross outcome are defined in chapter 5.

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 uniform administratively set outcome payments, leads to potentially large distortions in the allocation of resources to disadvantaged job seekers across Job Network providers in different labour markets.

While the Commission considers that these resourcing variations are a major problem, they do not constitute a strong case against administrative pricing. First, it may be possible to set administrative prices in a way that recognises this problem. Box 10.3 outlines a possible approach, which takes account of differences in gross outcomes, as well as recognising regional variations in costs and the desirability of incentive payments.

Second, even if nothing is done to ameliorate the problem, it is not necessarily unique to administrative pricing. It applied with nearly equal force when a price floor was set in competitive tendering arrangements for IA in ESC2 (but was not a relevant issue for JST or JM).

Table 10.1 Estimated gross revenue per commencement
Minimum and maximum observed for each star rating

<i>Star rating</i>	<i>Minimum gross revenue</i>	<i>Maximum gross revenue</i>
	\$ per commencement	\$ per commencement
1	1 593	3 294
1.5	1 644	2 554
2	1 669	3 027
2.5	1 626	2 721
3	1 706	2 646
3.5	1 901	3 269
4	1 878	3 049
4.5	1 944	3 504
5	1 960	5 150

^a The revenues were estimated using the method described in table G.4 in appendix G.

Source: Derived from the November 2001 Job Network performance data provided by DEWR.

Box 10.3 Recognising differences in gross outcome rates by ESA

DEWR uses an econometric model to estimate the expected gross outcome rate for any group of job seekers in a particular ESA (the basis for the star ratings). Let θ_i be the gross outcome rate estimated from such a model, based on the client and labour market profile of the i th provider.

Let P^* be a benchmark administrative price for outcomes set at a level that for given commencements (C_i) and gross outcome rates (θ_i), the value of outcome payments is roughly at present levels. For example, if there were only interim outcomes and level A clients, then P would be roughly equal to \$2 514 in ESC2:

$$V = \sum_{i=1}^N P^* \times C_i \times \theta_i$$

Then the initial administrative price to prevail for the k th provider would be set so:

$$\frac{P_k}{P_i} = \frac{\theta_i}{\theta_k}, \text{ which implies that } P_k = \frac{P^* \sum_{i=1}^N C_i \theta_i}{\sum_{i=1}^N C_i \theta_k}$$

This means that the lower the expected gross outcome rate, the higher would be the administrative price. In effect, this form of administrative pricing moves in the direction of capitation payments based on labour market disadvantage.

A provider would be eligible for P_k for any actual gross outcome rate (z_k) less than or equal to the expected gross outcome rate. For any margin of z_k over θ_k , a premium payment \bar{p} would be made, which (abstracting for the present from cost variations) could be equal across all providers, so that marginal incentives to get better outcomes were identical. Thus gross revenue per commencement would be:

$$GRC_k = \min(\theta_k, z_k) \times P_k + [z_k - \min(\theta_k, z_k)] \times \bar{p}$$

To adjust for cost differences between areas, GRC would be multiplied by an adjustment factor, which could take account of any regional variations that affected costs. For example, in an area with 10 per cent higher costs than the average, the adapted measure (GRCA) would be $GRCA_k = 1.1 \text{ GRC}$.

One problem in implementing such a version of administrative prices is that θ_k is not observed until ex post. This could be solved by using some proxy, such as that based on the average ex ante characteristics of job seekers and the labour market in the ESA, and then having an adjustment at the end of each year for the difference between proxy income and GRCA.

RECOMMENDATION 10.1

The Commission recommends that DEWR set default prices for Job Network services, and in doing so, should also consider:

-
- *taking account of any significant cost variations across regions;*
 - *testing new forms of incentive contracts for those providers that believe they can get better outcomes at a price higher than the default; and*
 - *attempting to correct administrative prices for the large differences in gross outcome rates in different labour market regions.*

In its May 2002 discussion paper on the new arrangements, the Government has proposed that prices for Job Network services be set administratively under ESC3 (DEWR 2002a) — in concordance with the Commission’s draft and final recommendation. However, the existing proposal appears to involve uniform pricing throughout Australia, with the possible exception of remote areas (DEWR 2002a, p. 22).

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 program outcomes — 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 under ESC2, the average Job Network provider could get revenue of around \$1960 per commenced IA job seeker without doing anything compared with

overall revenue of about \$2145 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 who do get an outcome would do so in the absence of any intervention. Changes mooted in ESC3 (DEWR 2002a, pp. 44ff and table 10.5) will partly address this issue by eliminating commencement fees and replacing them with fee-for-service payments and job seeker accounts, but still enable providers to earn outcome payments⁴ from outcomes that would have occurred anyway.

In any case, the incentives to spend resources on disadvantaged job seekers are greater than the above simple analysis suggests.

Why incentives to assist may be higher

There are several reasons why providers actually spend resources on job seekers, even though it appears to reduce their revenue. First, the most obvious of these is that providers are often motivated by more than profit — and have ethical and professional concerns for job seekers.

Second, 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 most job seekers would obtain a minimum of services, mainly face-to-face contacts with a case manager.

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 using wage subsidies — for responsive job seekers. For example, if a case manager can increase the probability of an interim primary outcome for a particular 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 who are good at distinguishing responsive job seekers.

Fourth, 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

⁴ The primary outcome payments proposed for ESC3 have generally declined relative to ESC2, but this ignores the fact that the time horizon over which they can be achieved is potentially the working lifetime of the job seeker.

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.

Finally, 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 10.2), even if the average ability is rather small. Once variations in job seekers' characteristics and local labour market conditions have been accounted for, there is an average 20 percentage point difference in outcome rates between a one star and a five star provider.

Of course, not all of these performance margins will reflect systematic differences in the quality of the interactions of the Job Network providers with their job seekers. Some of the variation in the value added by different providers will be due to random factors. 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 (chapter 11).

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.

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 weaker 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), but not overcome the remaining constraints. Heterogeneity among Job Network providers and existing limits to targeting job seekers (posed mainly by the difficulties in *ex ante* identifying job seekers who are responsive to assistance) 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 re-refer 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 10.2 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 10.3).

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 ESC2 for a successful final primary outcome is 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 10.4), but with 'varying levels of success'.⁵

⁵ 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 10.3 Fee structure in the 1st and 2nd IA contracts for the Job Network^a

	<i>First contract</i>			<i>Second contract</i>	
	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 10.4 Fee incentive structures
Australia (ESC 1 & 2) 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 Upfront payments are limited 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).

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.

Currently, 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 a more explicit role for fee-for-service payments in the Job Network.

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 be applied properly to all job seekers at some base level. Even here, however, there are grounds for encouraging some flexibility in the compliance function of providers. This recognises that compliance risks vary between 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 more ambitious 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. This suggests that while there are grounds for a fee-for-service approach for some limited services (chapter 7), it should not be overly extended.

Pure 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).

The ACOSS model

ACOSS (sub. 32, pp. 7-9) proposed an innovative 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 10.4). The funding model has several limitations, but it also has insights that are useful in considering alternatives to the current system.

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 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.⁶ However, the effect on incentives to undertake higher expenditures is identical to a dramatic increase in the outcome fee, and would require payable outcomes to be redefined (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 10.5). 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 (appendix H).

⁶ 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 $p > 0.25 E/F = E/(4.F)$.

Box 10.4 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 skill 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 10.5 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 \$2000 so that the wage subsidy is around half the award wage. This implies:

$$WS = 26 \times \$178.50 + \$2000 = \$6641$$

The 'net' cost of the wage subsidy is calculated as WS less the social security offset (the Newstart allowance), which is then \$2000. Under the 25 per cent cost sharing arrangement, the Job Network provider must only pay \$500 to access the \$6641 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 anyway. 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, which 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, cost sharing greater 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 has some advantages over the existing funding model if the incentive effects of the star rating model are sufficiently attenuated. 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 was used to bid them away), but at least there would be incentives to generate outcomes for disadvantaged job seekers.

The proposed Job Seeker Accounts in ESC3 are a step in the direction advocated by ACOSS.

Proposed fee-for-service and cost-reimbursement arrangements under ESC3

Under ESC3, DEWR (2002a) has proposed the abandonment of (non-hypothecated) commencement fees and the introduction of two alternative measures in the intensive phase of assistance. It is estimated by DEWR that these new payments will contribute almost identically to Job Network providers' revenue streams as the commencement fees they replace (DEWR 2002a, p. 37).

The most important of the new measures is the Job Seeker Account. During CA, the Government will make a fund available to providers equal to the number of commencements times \$935.⁷ Providers can only use these funds against demonstrated expenditures that assist job seekers. The Government retains unspent money in the accounts. Providers are not required to spend any given amount per job seeker and so can allocate the pooled funds represented by the accounts to those job seekers that are most responsive to assistance. The pooled fund approach has the advantage over present commencement fees (like the ACOSS proposal) that, if the star rating model only imperfectly competes away rents (chapter 9), it ensures resources are used for job seekers, rather than appropriated by the agencies.

It has two possible disadvantages. First, it requires that DEWR must determine eligible expenditures, which reduces flexibility by providers and increases compliance costs. However, this can probably be kept in check by having a list of accepted expenditures and a streamlined mechanism for allowing agencies to consult DEWR on alternative expenditures. A risk management approach (chapter 12) could reduce compliance burdens on most agencies.

Second, DEWR may have to monitor cost padding and cost shifting that can afflict all cost reimbursement schemes. Presumably this is partly abated by the incentives to perform presented by the star rating system.⁸

The Commission's overall view is that the proposed Job Seeker Account is probably a positive move, notwithstanding the compliance and administrative costs

⁷ An \$11 per Job Seeker Account will be available in the earlier Intensive Support period, but clearly this provides negligible assistance.

⁸ However, the underlying premise of the account is that these incentives are rather imperfect.

it will entail. This is because the Job Seeker Account ensures that a sizeable pool of funds is spent on job seekers.

DEWR has also proposed the introduction of conventional fee-for-service payments for 11 hours and 10 minutes of interaction between providers and every job seeker in the intensive phase of the Job Network (CA). This accords with the Commission's view above that such fee-for-service arrangements may be warranted for assessment, job seeker compliance purposes and on the basis that there should be a minimum level of service for social and equity reasons. However, as noted above and in chapter 7, there are grounds for some flexibility in the fee-for-service model.

Increasing the number of categories of job seekers

If the incentives provided by star ratings were sufficiently strong then there would be no need to have any payment differentiation between categories of job seekers. Windfall gains on low risk job seekers would simply be bid away on higher risk ones, as competing Job Network providers tried to get higher star ratings. However, as noted in chapter 9 and above, it is not certain that this condition is met.

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. As noted by *UnitingCare*:

Outcomes could also be improved by differential payments or resourcing for different classes of job seekers, recognising that different groups of people will require different levels and different types of assistance and support (sub. DR74, p. 2).

In chapter 9, it was also suggested that rather than DEWR (sometimes) paying premiums to specialist Job Network providers, it would be better to pay additional outcome payments for the characteristics that underlie disadvantage in such groups — using the JSCI as the instrument for assessment. It may also be appropriate to introduce additional payments based on ex post revealed disadvantage — as indicated by lengthier spells of unemployment — as well as the ex ante forecasts of the future probability of unemployment from the JSCI (chapter 9).

There is, however, a limit to the feasibility of increasing payment categories — because it stretches the capacity of the JSCI (or some other profiling instrument) to accurately discriminate between different risk classes. The scope for further payment categories based on future unemployment risk 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. There would also 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.

RECOMMENDATION 10.2

The Commission recommends that there be more outcome payment categories for intensive phases of assistance to take account of the characteristics that underlie disadvantage in present specialised groups, but that further payment categories should only be created if the supporting Job Seeker Classification Instrument classifications are sufficiently reliable (see rec. 9.8).

DEWR (2002a, p. 46) has proposed a significant expansion in the number of outcome payment categories for ESC3 (table 10.5) — largely based on unemployment duration. They also allow a high, immediately available, outcome payment for job seekers revealed by the JSCI to be at very high risk of being long-term unemployed.

These outcome payments are not limited to the duration of CA, but are available for as long as a job seeker is on the caseload of the provider. This has several significant benefits in terms of incentives for re-referral (chapter 9) and willingness to invest in job seekers (chapter 7), but it has one potential disadvantage. Outcome payments do not increase continuously with unemployment duration, but rather only change at certain critical duration thresholds. Accordingly, there is an incentive to reduce efforts to get outcomes for the most disadvantaged job seekers prior to these thresholds. Monitoring could reduce this risk, as could inclusion of a new criterion in the star ratings that rewards early outcomes. However, the most appropriate way of dealing with these perverse incentives is to make outcome payments increase smoothly with unemployment duration (as shown in figure 10.1). This could be accommodated with the advanced information technology and record keeping that is routine in the Job Network.

RECOMMENDATION 10.3

The Commission recommends that the fees payable to a Job Network provider for securing an outcome for a job seeker should increase gradually as the job seeker's unemployment duration rises.

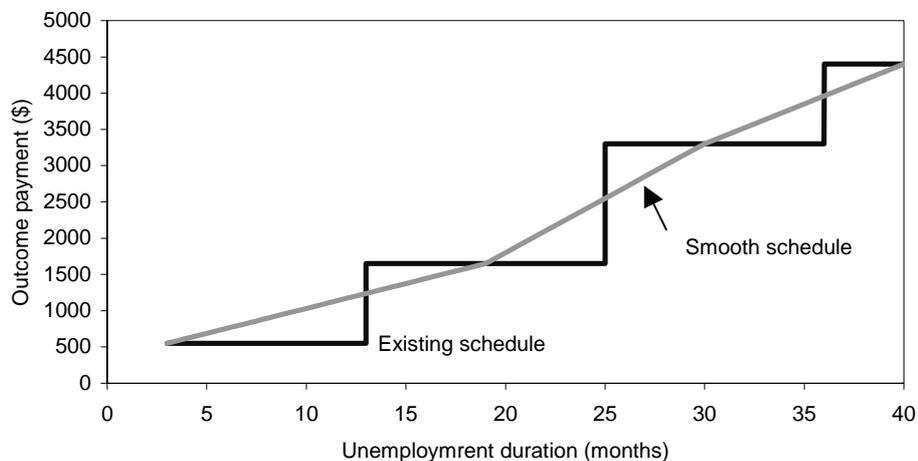
Table 10.5 **Proposed fee structure for Intensive Support and Customised Assistance in the 3rd contract for the Job Network**

<i>Fee structure</i>	<i>Unemployment duration (months)</i>			
	3-12	13-24	25-36	36+
Fees for service				
Interviews and assessment (\$)	169	834	951	..
JST (\$)	660	0	0	0
Job Seeker Accounts				
Intensive Support (\$)	11	0	11	..
Customised Assistance (\$)	0	935	935	..
Commencement fee equivalent^a (\$)	840	1 769	1 897	..
Outcome payments^b				
Primary interim outcome fee (\$)	550	1 650	3 300	4 400
Secondary interim outcome fee (\$)	0	550	550	4 400
Primary final outcome fee (\$)	0	825	1 650	2 200
Secondary final outcome fee ^c (\$)	0	550	550	2 200

^a Non-hypothecated commencement fees have been replaced by fee-for-service and Job Seeker Accounts. All prices include GST. In calculating the value of 'commencement' fees for a job seeker who gets an outcome when their unemployment duration is less than one year, it has been assumed that the job is gained at the end of the period so that all possible fees for service have been received from 3 months on. (This equals \$660 for JST plus 2 hours and 25 minutes of contact at \$70 per hour and the \$11 Job Seeker Account). For a job seeker with an unemployment duration of 13-24 months, it is assumed that the job seeker receives 11 hours and 10 minutes of service during CA and a further 75 minutes of job search reviews after CA. They also get access to the \$935 Job Seeker Account. For a job seeker with an unemployment duration of 25-36 months, it is assumed that the job seeker receives a second round set of services associated with Intensive Support and CA (but does not get access to JST again). No fees are calculated for a job seeker with 36 months or more of unemployment given no obvious period over which to measure the value of the fees. ^b A job seeker with a very high risk of long-term unemployment (as disclosed by the JSCI) is eligible for early entry into CA and to the outcome payment rate applicable to job seekers unemployed for 25-36 months ^c The proposed fee structure for ESC3 does not differentiate between primary and secondary outcomes for the very long term unemployed.

Source: DEWR (2002a) and advice from DEWR.

Figure 10.1 Outcome fees by unemployment duration
Proposed and alternative schedule



^a The step schedule is the one proposed by DEWR, while the smooth one is an alternative recommended by the Commission.

Data source: DEWR 2002a.

10.5 Pricing of primary and secondary outcomes

Under ESC2, primary outcomes⁹ are paid at much higher rates than secondary outcomes.¹⁰ 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's prospects. Data for the 13 week versus 26 week payable outcome rate confirm 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.¹¹

⁹ 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.

¹⁰ 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.

¹¹ Based on the November Performance Indicator data from DEWR.

Primary and secondary job outcomes

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.

Primary and secondary education outcomes

Another issue is whether primary education and training outcomes should receive the same (relatively high) outcome payments as primary job outcomes. Such outcomes 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 set lower hurdles for entry than employers.

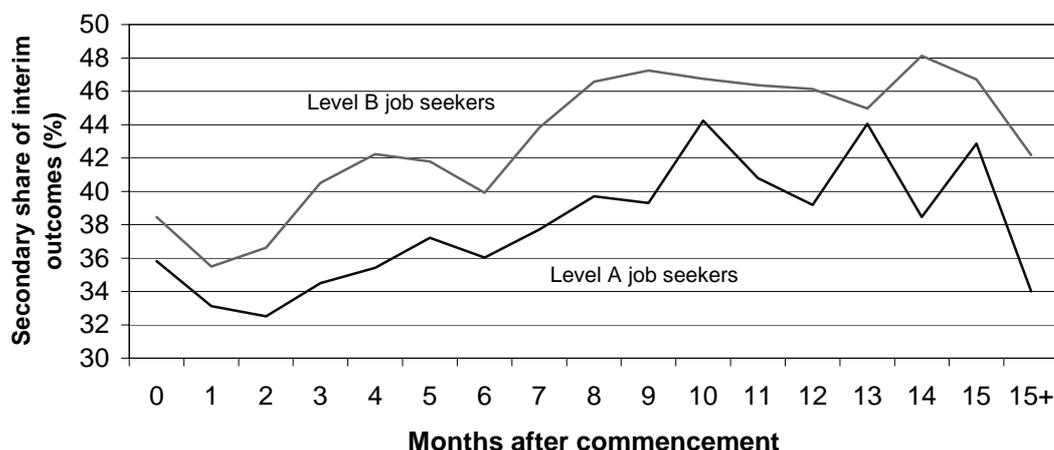
This suggests that candidates with relatively poor prospects may commence a course and then, despite failing it after the first semester, generate a substantial outcome payment for a Job Network provider.

The problem is less severe for secondary outcomes, since secondary outcome payments are not usually sufficient to ‘buy’ an outcome (although the proposed fee structure under ESC3 allows a payment for secondary outcomes equivalent to

primary ones for the extremely long-term unemployed — table 10.5). Even so, such outcomes receive equal weighting in the star ratings as primary outcomes, and this may provide the motivation for a Job Network provider to buy such outcomes, even if they are not fully compensated by the outcome payments.

There is some evidence of a capacity to strategically achieve secondary outcomes. It is notable that the share of secondary outcomes in total interim outcomes peaks at the end of IA (figure 10.2). This suggests that providers are trying to secure an outcome payment prior to losing the client. The incentives for this disappears in ESC3.

Figure 10.2 Importance of secondary outcomes over time
Level A and B job seekers



Data source: Information provided by DEWR.

There is no relationship between the primary interim outcome rate achieved by an agency and its secondary interim outcome rate, suggesting that it is rare that a interim secondary outcome subsequently leads to a job in the timeframe of IA. Indeed, unlike interim primary outcome rates, interim secondary outcome rates are *positively* correlated with local unemployment rates, suggesting that where job prospects are poor, there is a greater tendency for providers to send clients to courses. Nor do many people that achieve an interim secondary outcome get a final secondary outcome. On average, less than 30 per cent of job seekers who complete the first semester of their two semester course, go on to complete the full course.

That said, improved educational outcomes, particularly for young people that have had interrupted schooling, can improve long-term 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 two semester course and obtained the relevant qualification.

On this basis, the Commission proposed in its draft report that the government eliminate payments for interim educational outcomes (primary or secondary). In responding to the draft, some Job Network providers were concerned that, particularly in regional and remote areas, completing (and not necessarily even passing) even one half of a two semester course was important for some very disadvantaged clients — and that this was part of a long-term pathway to a job. In certain cases this may be true, but in many others it seems improbable that occasional semi-completion of courses improves long-term job prospects for most job seekers. Where it is true, it is debatable whether a jobs-oriented program like the Job Network is the appropriate intervention. Alternatives, such as a milestone program, may be more appropriate for these clients. In any case, the importance of interim secondary outcomes in remote areas was lower than non-remote areas (with around half the non-remote rate of outcomes). There was no evidence that Job Network providers with more severely disadvantaged clients made more use of secondary outcomes. The rates were again somewhat less with these clients — and significantly less in the case of Indigenous job seekers (table 10.6).

Table 10.6 Interim secondary rates

	<i>Interim secondary outcome rate</i>
	%
Remote location	4.7
Non-remote location	8.2
In the 10% percentile of the ratio of level B to total commencements	8.6
In the 90% percentile of the ratio of level B to total commencements	6.1
In the 10% percentile of the Indigenous commencement share	9.7
In the 90% percentile of the Indigenous commencement share	4.8
Average	8.1

^a Results are weighted by commencements.

Source: Based on the November 2001 performance indicator data provided by DEWR.

It should also be emphasised that the Commission's proposal would not reduce the incentives for a provider to send a client to a one semester course where that course improved the likelihood of a job within the IA period. For example, Joblink Plus noted that:

Sometimes we subsidise with TAFE to prepare a course that would suit some indigenous clients that we have in Bourke and Brewarrina, because the grape picking might be coming up or something. So we design a course that's going to give them the skills to go and get work in that fruit pick ... It doesn't need two semesters. ... It doesn't even need a certificate, although they do get one (trans., p. 18).

Such courses do not need to attract a payment in themselves because they generate job outcomes that produce outcome payments.

Overall, the Commission considers that interim educational outcome payments should be eliminated.

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 outcomes eligible for payment should be modified (box 10.6).

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 (for example, recognising that in some regions seasonal work is of limited duration, and that for Indigenous job seekers an attachment to the workplace may need to be developed in smaller steps).

Box 10.6 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 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).

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 to government from paying a higher outcome fee for longer-term outcomes is low. The government would be paying for outcomes that generally would have occurred anyway. Unfortunately, rather incomplete data are available on this question. Around 60 per cent of interim primary outcomes in IA also achieve final primary outcomes.¹² Longer-term data will be included in DEWR's third stage evaluation report.

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 than 13 weeks of work may provide little net benefit.

¹² Based on unpublished performance indicator data for the period to 30 November 2001, provided by DEWR.

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 be eligible for 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 partly reward such outcomes. The Kimberley Area Consultative Committee (sub. 15, p. 5) has suggested that it may be particularly relevant for Indigenous job seekers.

Very short job durations (of 15 hours or more over 5 days) currently attract a job placement fee under ESC2 — but this can be largely rationalised as a pragmatic way of remunerating generalised job placement services, rather than an attempt to recognise socially useful short term engagement in the labour market by disadvantaged job seekers. For ESC3, DEWR (2002a, p. 44) has partly recognised the value of intermediate periods of employment by including an additional small payment (of \$165) to be made to a job placement agency for an unemployment beneficiary who achieves a placement of at least 50 hours over 2 weeks.

Further recognition of intermediate job outcomes could be achieved by creating a new interim outcome payment category. For example, Job Network providers could be paid for job outcomes of 7 weeks duration.¹³ They would then receive a further payment if the job lasted until at least 13 weeks. The fees could be set so as to provide a strong incentive for providers to support clients to the full 13 week outcome (for example, payments for the new 7 and 13 week outcomes could be set respectively at one-third and two-thirds of the existing 13 week outcome payment).

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.

RECOMMENDATION 10.5

The Commission recommends that DEWR recognise the importance of shorter term jobs by introducing an outcome payment for a job placement that lasts seven weeks.

¹³ 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 some 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. They may also change address without notifying the provider. Where the employer's details are known, Job Network providers can approach them to obtain verification, but employers often have little interest in complying. Consequently, the use of gifts that are contingent on the receipt of completed paperwork from employers or employees are commonplace — which could be regarded as a wasteful dissipation of funds in the Job Network.

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 with the proposal, but it does have two possible limitations.

First, 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). However, arguably, there are other ways of facilitating that trust and cooperation — particularly by allowing job seekers the option of moving between providers at certain points in the cycle of assistance (chapter 8).

Second, it might be conjectured that automatic verification will pick up job outcomes that the provider was unaware of and to which they have contributed little. However, Job Network providers may still contribute to the employability of the job seeker and leave it to the job seeker to find a job. Indeed, the data shows that the majority of IA job seekers who get a primary interim outcome do not acquire the job through job matching services of the Job Network (chapter 7). In any case, the effect of payments received for outcomes that were going to occur anyway are to some extent bid away because of the influence of the star rating system — and are therefore applied to other disadvantaged job seekers.

In that sense, the major impact of automatic verification is to increase the funding of the Job Network slightly, while cutting down on the appreciable transactions costs of verification. For this reason the Commission favours an automatic verification system based on Centrelink and ATO data, if it is feasible.

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 such a cutoff period is justified.

RECOMMENDATION 10.6

The Commission recommends that an automatic system for verifying outcomes be implemented by DEWR with cooperation from Centrelink and the Australian Tax Office. If this is not feasible, the existing 28 day cut-off for verification of outcomes should 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 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 achievement of outcomes.

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.

The proposed shift to fee-for-service and Job Seeker Accounts in ESC3 can be seen as a replacement for commencement fees and does not radically alter the current situation. The projected revenue flow over time under ESC3 is somewhat higher than that under ESC2 (DEWR 2002a, p. 36). It may also be less volatile, since payments are staged to coincide with particular service delivery dates (rather than as a lump sum commencement fee) and outcome payments are no longer limited for the duration of IA. The latter change has other benefits in terms of incentives to re-refer and provide investment to job seekers — and is supported by the Commission.

The Job Network is evolving. At some stage it is conceivable that outcome fees might play a more important role than projected under ESC3. Were there to be a more radical shift towards outcome fees, then this might affect liquidity. A possible way of easing these liquidity problems would be to provide upfront payments that are contingent on achieving an outcome, with funds being refunded if an outcome

has not been achieved by the end of a given period.¹⁴ 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, indicative modeling by the Commission suggests that the introduction of contingent upfront payments does not solve the liquidity problems of moving to a fully outcomes-based payment system, especially over the business cycle (appendix F). This constitutes a further practical barrier to a much greater orientation to outcome payments.

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 simulations of the effects of the business cycle (appendix F), with the main results being:

- there are potentially severe risks for agencies that exclusively provide job placement services because their income is dependent on vacancies, which are

¹⁴ In the Active Participation Model, a provider that had to pay back their upfront fee because an outcome was not realised by the given date, could still, at some time in the future, get an outcome fee for the job seeker (because the horizon for receiving outcome payments is unlimited).

strongly procyclical. Under ESC3, DEWR has proposed that the job placement function be licensed, with open entry by any qualifying firm (DEWR 2002a, p. 43). It is expected that firms in the general recruitment industry will play an important role in placing Job Network clients. Such firms are not likely to depend very greatly on government revenue for Job Network placements. Job Network providers, which will also fulfil a placement role under ESC3, will derive the bulk of their revenue from the more intensive phases of assistance — and will be protected from cyclical shocks. It is not likely that any agency would aim to exclusively provide job placement services for the unemployed in ESC3 — the peculiarities of the contract conditions that led to this in ESC2 will have disappeared. This suggests that mechanisms, such as commencement fees or retention payments, will probably not be required to maintain a viable job placement industry for the unemployed; and

- for more intensive services — JST and CA — the effects of the business cycle appear to be relatively small — and not as extreme as in some other parts of the economy. This is because fee-for-service payments and revenue from Job Seeker Accounts 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 towards outcome fees.

Overall, the Active Participation Model offers greater scope for diversifying and reducing risks associated with cyclical demand because providers will offer the full suite of services. Other measures, such as flexible employment arrangements with staff, could also be used to reduce cyclical risks.

10.9 Additional pricing issues for JST and JM

Job Search Training

The JST component of Intensive Support under the Active Participation Model will be financed by fee-for-service. To some extent this is justified. JST is not an individually tailored service, but fairly rudimentary course work and access to facilities for all participants. By its nature, the service varies less between providers than tailor-made services for the long-term unemployed (offered in the IA/CA phases of assistance).

However, it is still important to improve the program effect of JST by encouraging Job Network providers to develop better course material and/or to use more effective pedagogy. Star ratings partly achieve this purpose. In the draft report, the

Commission also recommended a greater orientation to outcome fees. DEWR has proposed such a fee increase in ESC3 — with outcome fees for an outcome achieved prior to 12 months of unemployment rising to \$550 (compared with \$266 in ESC2). The Commission supports this proposal.

Job Matching

Under ESC2, there was a single JM fee for any given provider in an ESA, determined by competitive tendering. There were significant variations in price between providers (appendix G), reflecting the vicissitudes of the tendering process and differences in the average difficulty in placing job seekers in specific labour markets. However, all placements for a given provider were subject to the same outcome payment.

Under the proposed arrangements for ESC3, prices are to be administratively fixed, but recognise four different outcome categories, based on the disadvantage or difficulty of achieving the placement (table 10.7).

Table 10.7 Job placement fees proposed under ESC3

<i>Job seeker category</i>	<i>Placement</i>	<i>Fees</i> \$
Non-beneficiary unemployed	15 hours over 5 days	165
Unemployment beneficiary with <12 months unemployment duration	15 hours over 5 days	275
Unemployment beneficiary with >12 months unemployment duration	15 hours over 5 days	385
Longer term job placement for unemployment beneficiary ^a	50 hours over 2 weeks	165

^a The fee for longer term placement is in addition to the fee for shorter term placement.

Source: DEWR (2002a, p. 44).

It is important to recognise that the role of price variations in job placement under ESC3 is quite different from that in other parts of the Job Network. In the latter, price variations are intended to fund the costs of activities that improve the employability of more disadvantaged job seekers or their attractiveness to employers (for example, through wage subsidies or free on-the-job training). In the former, the variations in price are justified only to the extent that they make it economic for a placement agency to screen job seekers with different degrees of disadvantage. That is, in order for a placement agency to be willing to screen a certain class of disadvantaged job seeker, it is necessary that the placement fee be equal to the anticipated screening cost divided by the probability of placement. Screening costs should be roughly the same for different categories of job seeker, so that placement fees should be proportional to the inverse of the employment probabilities.

This insight has several implications. If prices are too high for disadvantaged job seekers — relative to the benchmark discussed above — then the role of placement agencies will become confused with Job Network agencies. They would, for example, try to increase the employability of job seekers and seek to entice employers with sweeteners for accepting more disadvantaged job seekers. This could undermine their credibility as disinterested screening agencies. If prices are too low relative to the benchmark, job placement agencies will discover strategies to avoid screening whole categories of disadvantaged job seekers.

Employment probabilities are clearly observable and will provide a basis for checking the adequacy of job placement fees, so as to avoid these problems.

11 Industry dynamics

Box 11.1 Key messages

The change to administrative pricing makes a tender bidding process unnecessary. The Commission considers that in the long run 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.

The move to a licensing system would be less costly than the current tender process, need not compromise service quality or geographic coverage and could, if necessary, be phased in.

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 initially be partly liberalised and ultimately abandoned. The auto referral system should 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 concerns, but these do not appear to be substantial. However, there are grounds for:

- indicating the reliability of published ratings;
- greater transparency about the model's specification and diagnostics;
- eliminating interim education outcomes from the rating and reducing the weight given to all secondary outcomes; and
- adjusting star ratings for any short-term factors that affect the performance ratings of new providers.

The Job Network is unlike most normal markets because the Government shapes so many aspects of the supply of and demand for its services. Not only does the 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 caseloads 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.

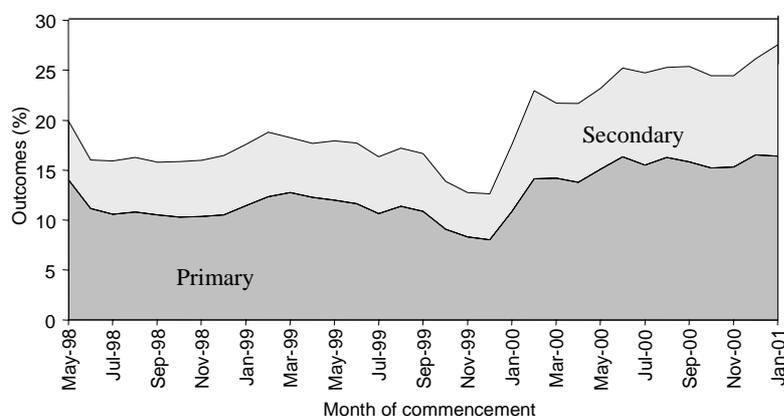
To this extent, the Job Network is referred to as a quasi-market.

11.1 Entry

For the first two tender rounds, entry was for a fixed period and was determined by successful tendering (chapter 4).

Many participants considered that the tendering process was excessively costly and disruptive (box 11.2). These costs are apparent in the disruption to outcomes that occurred during the second round tender process in 1999 (figure 11.1).

Figure 11.1 IA outcomes over time



Data source: Information supplied by DEWR.

Tendering processes are also costly for government, reflecting the substantial care in developing and evaluating tender processes — and in the use of a probity adviser. The Government has proposed that around 60 per cent of the existing capacity be rolled over under the third contract (ESC3), with the remaining share being subject to tender bidding (DEWR 2002b). The contract rollover will partly avoid the high disruption costs to job seekers of ESC2, but since many providers may still be bidding for capacity at the Employment Services Area (ESA) level, the contracting

transaction costs may not be appreciably lower than previously. As noted by WISE Employment:

... you've some good sites and you'll have some bad sites, so you'll probably get some rollover and you'll probably lose others, and so you'll have to tender to win those other ones back. Now, that means we have to do both. It's nice to say that it's going to be rollover and it will be easy for everybody but I mean you're kidding yourself ... you still have to put the same amount of effort in, whether you're going to bid for three sites or seven sites (trans., pp. 227-8).

Box 11.2 Participants' 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).

[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).

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 current tendering system has a tendency to allocate business to providers in a contrived manner and, while there are strong performance incentives in the system once providers are contracted, there would be benefits in allowing free entry and exit of providers in response to performance outcomes and commercial judgments by suppliers (Employment National sub. DR73, p. 2).

This suggests that the costs involved in a hybrid rollover/tender model mean that it too is not sustainable.

The strongest rationale for a formal tendering process is to allow scope for price competition. However, price variations for the key service, IA, have been actually quite small and not necessarily efficient (appendix G). The Commission's view is that prices should be set administratively (with scope for case-by-case price

premiums above the default based on agreed incentives). DEWR (2002a) has proposed that prices will be fixed administratively for ESC3. In that case, there are strong grounds to cease application of formal tenders as a basis for contract renewal. Although it is too late to abandon the 60 per cent rollover and tender arrangements for ESC3, tendering should be abandoned in the long run.

The most obvious alternative is licensing as the basis for entry into the industry. Licensing would be dependent on a provider meeting some minimum standards and agreeing to various contract provisions (such as a Code of Conduct, undertaking assessment of job seekers and whatever activity testing was agreed). The standards set would be similar to those established by DEWR for pre-tender qualification. Accreditation along these lines received some favourable comment by participants. For example, Salvation Army Employment Plus noted:

[Assuming licensing was] a form of accrediting organisations, where some sort of rigorous process is undertaken to assess capacity, systems, services, programs, accommodation and so on, I think that that would be a positive step forward. A tendering arrangement where those claims are made on a tender doesn't give the department any more confidence — well, gives the department actually less confidence than actually coming into an organisation and checking that it does have the staff and the premises and so on (trans., p. 272).

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 below some reasonable performance benchmark for two successive years. Subsequent re-entry by a poor performing provider would then be barred for some mandatory period and only then permitted if the provider could satisfy DEWR that its performance would be acceptable.

The Commission's view is that the longer-term licensing system should be an *open entry* model, consistent with current competition policy. This would allow any agency that met and maintained the prescribed standards to provide services at the going prices.

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 three contracts, the risk of new entry is staggered at three year intervals). Under licensing, a more efficient entrant could displace a less efficient one at any time.

However, a number of concerns were raised by providers and other participants about an open licensing system. ACOSS was concerned that:

... if you move to a system of licences in which anybody could enter the market at any time, then there would be a loss of stability (trans., p. 42).

The issue of how open licensing, combined with flexible caseloads, affects risk is discussed in section 11.3.

Employment National (sub. DR73, p. 2) expressed concern that with administrative pricing, some geographic areas might not be covered under a licensing system. The issue of geographic coverage is discussed in the next sub-section.

Another possible concern was that open licensing might lead to many more providers than at present — which would involve significant additional compliance and contracting costs for DEWR. The Commission's judgment is that any such concern is probably misplaced and that indeed an open entry model combined with flexible caseloads would be likely to lead to some consolidation in the industry and lower transaction costs for DEWR. Of course, not all providers would welcome such an outcome. There was a concern by some participants that some smaller, more specialised agencies might be disadvantaged by intensified competition (however it arises):

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. Many 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, while not unduly inflating costs.

Even so, there is uncertainty about the effects of going from a relatively prescribed industry structure to one resembling other markets. DEWR (sub. DR80, p. 12) indicated that a licensing and accreditation system has not been ruled out as a future option for allocating Job Network business, but wanted to assess the risks — particularly for service quality — that the new system might involve.

One way of testing the effects of a shift to an open licence system would be to initially issue a fixed number of licences with flexible caseloads. New entry¹ would only be permitted if an existing licence were handed back or terminated, or when an

¹ Based on calls for expressions of interest, with selection based on assessed potential performance.

increase in referrals justified additional sites. Then, over time, the quota on licences could be relaxed to test their impact on industry structure, risks and transaction costs. However, an important consideration in any transitional measure of this kind is to avoid creating incentives by providers to defer relaxing any licence quotas (as has occurred in some industries in which entry has been rationed for many years, such as taxis).

The Commission favours a move — possibly through transitional measures — to an open licensing model for the entire Job Network, to be introduced in contracts after ESC3. The lessons learned from the application of the licensing model to job placement services within ESC3 will be useful in deciding how to extend it to Job Network services in subsequent contracts.

RECOMMENDATION 11.1

The Commission recommends that, after Employment Services Contract 3, competitive tendering in the Job Network be replaced by a licensing system that:

- *ultimately permits free entry at any time to any supplier that meets DEWR's accreditation standards; and*
- *includes automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.*

Site and provider numbers by area

Accessibility of sites and the ability of job seekers to have choice in their local area are important considerations in the design of the Job Network:

... some of the key issues which influence the effectiveness of the Job Network in rural and regional areas relate to the availability of public transport (bus, train, taxi, school bus and community bus) as well as the location of the provider's office, its opening hours and opening days. The effectiveness of the Job Network is also affected by the accessibility of Centrelink (Capital Region Employment Council sub. DR69, p. 6).

Transport costs are higher in rural and regional areas (with relatively poor public transport infrastructure) and travelling times and distances are greater due to lower population densities and lack of connectedness between centres.

Under the current tender arrangements, entry into the industry is regulated by area in a way that is intended to encourage multiple provision of services and facilitate such accessibility and choice:

- there is no absolutely pre-determined number of providers or sites in a region or ESA, but in the second contract, DEWR indicated that usually a single provider

will not get more than fifty per cent of the business of a given region or more than 70 per cent in a given ESA.² Accordingly, while there are a few ESAs in which there is only one provider, the overwhelming majority has two or more; and

- tender bids that undertake to provide full coverage of an ESA are more highly rated by DEWR than those that cover parts — influencing the number and location of sites in an ESA. Full-time sites are preferred over part-time sites.

On the other hand, there is a tradeoff between realising the goal of accessibility and the viability and effectiveness of multiple Job Network sites run by multiple providers. Some participants (for example, Joblink Plus trans., pp.11-12 and box 11.3) considered that DEWR's relatively prescriptive form of tendering has led to too many sites and to inefficiencies that would not occur in a normal commercial market. In particular, there was a concern that once the fixed costs of a site were met, the ability for a small site to service job seekers well was quite low.

There is some evidence that ESAs with relatively slight demand have too many providers, with consequences for scale and quality:

- in those ESAs in which there are two IA providers, the average number of IA commencements per provider was around 600 compared with 1200 for those with three or more providers. Similarly, the average capacity of sites in ESAs in which there are two IA providers is around 170, compared with 300 for ESAs with three or more providers (notably the average size of sites and providers does not increase with provider numbers per ESA after there are three providers in an ESA). If, as seems likely, there are some economies of scale, then there is a cost from tender selection that overly encourages multiple providers in ESAs with low demand. In such ESAs, commercial considerations would often suggest only one supplier, where there are currently two; and
- star ratings (in IA) also tend to increase with the scale of Job Network providers (appendix G). It is particularly striking that providers with ratings below two stars tend to be much smaller on average than providers with higher stars.³ A generalist provider operating in a non-remote area with a capacity of 25 job seekers has an estimated 35 per cent chance of getting a rating below 2 stars,

² For the purpose of tender arrangements, DEWR defines 19 employment regions, each with a number of ESAs.

³ For example, the average capacity per site in an ESA for a one star provider in February 2002 was about 130 job seekers, whereas it was around 270 job seekers for all providers.

whereas a similar operator with a capacity of 400 job seekers has an estimated 4 per cent probability of getting such a rating.⁴

Box 11.3 Participants' views about site numbers

Dependent upon tendering decisions there can be too many providers in some areas thus providing great choice for the jobseeker but unviable sites for the provider (NESA sub. 39, p. 17).

The ridiculous situation with job Network where small centers had four or five providers made no economic or market sense and did not lead to improved customer service (Ray Blessing sub. 7, p. 2).

When we moved to the second contract tendering arrangements the big message then was geographical coverage ... people thought of this as 'bigger is better' at the provider level; coverage means lots and lots of sites. So what has happened in terms of the organisations' tendering and contracting arrangements is that there are a lot of people with very small sites. The only way to work with long-term unemployed people is to tailor a service to the individual client's needs and then you must have resources to apply to helping address those needs ... I believe that the government has been remiss in contracting organisations for small sites, because after they have paid for their infrastructure, after they have employed appropriate staff, after they have the compliance costs dealt with, then these small sites do not have money to apply for resources. This is what is causing, in my view, some of your parking problems (Leichhardt Community Youth Association trans., p. 52).

... we now have a total of *eight (8) Job Matching providers* operating within our shire which has a population of approximately 17,000 people. The main township of Innisfail has a population of approximately 8000, and on average there are only approximately 15-20 new vacancies in any given week within the district. In short, 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 ... This worked against effective Job Network Services, as providers were forced to operate with less staff and to cut costs, which inhibited their ability to respond to the needs of employers and jobseekers (Innisfail JOB Centre sub. 5, pp. 2-3).

Much is made of — or much is asserted about the benefits of having in excess of 2000 Job Network outlets, I suspect the theory being that there's more choice for employers, more choice for job seekers. We know job seekers don't exercise a lot of choice under the current arrangements. I suspect at the other extreme — take the case of a small country town that might have three or four job matching providers — they might eventually become a bit of a pestilence for employers as well, because they're all pursuing a small and finite number of the same vacancies. That, to the extent that choice goes that far, may also promote some inefficiency as well (NESA trans., p. 205).

A normal market would probably lead to consolidation of providers for many ESAs that currently have two providers — in order to achieve an average scale and viability comparable with ESAs with stronger demand. This would recognise that at

⁴ These are indicative estimates only, based on a logistic regression of those providers that were rated one star providers compared with all other providers. Relevant regressors included log (average capacity of sites for the provider), for-profit status and remote location.

some point the costs of running a site for an area with very small numbers of job seekers is too prohibitive. It may be better in many cases to have one viable and effective site that adds value for job seekers than a few sites that are rendered ineffective through sub-optimal scale.

As well, a larger central site may be able to use more flexible contact processes with more distant clients — such as through greater use of telephone and internet services and through the flexible use of peripatetic services (noting that telephone contacts between providers and job seekers are already quite routine and effective in many cases).⁵ Such a central site may also be able to better develop relationships with employers.

This suggests that if tendering continues as the process for allocating providers to ESAs, then DEWR should more often consider permitting single operators in low demand ESAs. However, a further advantage of an open licensing system, combined with better scope for choice, is that it would not require judgment by DEWR at all, but would leave decisions on the size and distribution of providers to the market. In this case, areas with low job seekers numbers would tend to attract only one provider, but get better outcomes on average. There would always be the threat of entry by others if performance slipped.

To the extent that site numbers were reduced in locations close to each other, accessibility to job seekers would not be affected. However, a concern may be that in a number of more remote ESAs, consolidation could reduce physical accessibility. However, if DEWR wished there to be a site in a location that was not commercially viable at uniform administrative prices, but where social needs were seen as particularly important, it would have to raise prices for that location. The possible need for this is recognised by DEWR (2002a, p. 22) and would also be feasible in a licensing system.

Involvement by profit and not-for-profit Job Network providers

Some participants were opposed to the presence of for-profit agencies in the provision of human services and raised 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:

⁵ Nationally, on average around 12 per cent of job seekers claim their contacts with their Job Network provider is by phone and a further 20.5 per cent claim that their contacts are split equally between telephone and face to face visits. By contrast, in remote and very remote areas, 18 per cent of job seekers claim their contacts are by phone, with a further 10 per cent claiming equal phone and face to face contacts — suggesting phone use is greater in more remote areas. However, the sample size for remote areas was small.

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;

Table 11.1 Performance measures for Job Network providers
By profit versus non-profit agencies

	<i>For profit</i>	<i>Not-for-profit</i>
	%	%
Interim outcome rate	23.8	22.4
Final outcome rate	13.9	13.2
Job matching placement rate	20.1	17.9
Secondary to primary outcome ratio	36.2	47.0
Primary interim outcomes preserved at 26 weeks	59.7	63.4
Secondary interim outcomes preserved at 26 weeks	22.1	23.8
Share of commencements that are from special disadvantaged groups ^a	42.9	40.2
Indigenous interim outcome rate	12.2	10.5
NESB interim outcome rate	20.0	18.5
Interim outcome rate for people with disabilities	14.9	14.0
Star rating for IA generalist ^b	3.3	3.2
Star rating for IA specialist ^b	3.6	4.1
Star rating for JM for an IA provider ^b	3.4	3.7
Star rating for JST for an IA provider ^b	3.8	3.2

^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), with the exception of the star ratings, which are for February 2002.

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- 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;
 - 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).

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 as noted above, the Job Network tender process typically encourages more than one provider in the relevant ESAs to maintain contemporaneous competition. This provides an additional constraint on growth that has been 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.⁶ 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

⁶ 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.

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).

... the current arrangements don't promote any positive or negative growth during the life of a contract. I don't think in the long run that's good for the market and indeed, it's not necessarily keeping providers on their mettle in terms of the extent to which they seek to attract job seekers (NESA, trans., p. 196).

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 (Kimberley Area Consultative Committee sub. 15, pp. 2–3).

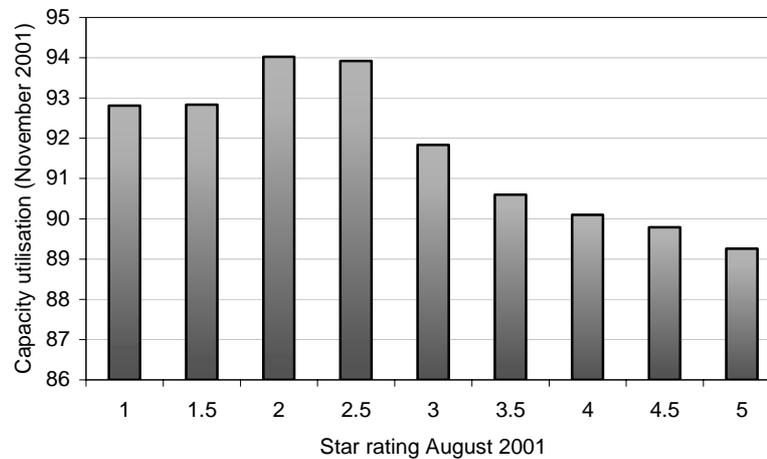
The influence of the auto-referral system is partly offset by choices made by job seekers. However, relatively few job seekers currently choose providers⁷ and in any case when they do so, mostly base their judgments on factors other than provider performance (chapter 8). Consequently, demand — whether 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.⁸ This suggests that it is informed choice that must be activated by reforms, not just choice per se (chapter 8).

⁷ Other than those that provide specialist services.

⁸ A general to specific modelling strategy was used to model the point in time capacity (PIC) of IA providers at the ESA level. The regressors of the final model were: the star ratings for generalist and mixed agencies (GSTAR) and specialist only providers (SSTAR) (where specialist providers are those that offered at least some specialty services in their ESA), the number of providers in

Figure 11.2 **Star ratings and (point in time) capacity utilisation**
Generalist 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. During consultation with providers it was claimed that the apparent decline in point-in time capacities for *all* providers (that is, specialist and mixed agencies as well as generalist agencies) might reflect the fact that high star performers are often specialist agencies, which do not benefit from referrals from the auto-referral process. It is true that average point in time capacity in specialist/mixed agencies is lower than generalist agencies, which could confuse the picture for agencies as a whole. Accordingly, the above graph relies on data on point in time capacities for generalist agencies alone to illustrate the relationship persists once specialist agencies have been removed.

Data source: Unpublished data from DEWR.

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.⁹

the ESA to measure the intensity of competition for new clients (JNPESA) and whether the agency was a specialist provider to clients from a non-English speaking background (NESB). Tobit estimation was employed 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 ($PIC = 102.3 - 1.17 \text{ GSTAR} - 2.91 \text{ SSTAR} - 1.22 \text{ JNPESA} + 8.57 \text{ NESB}$ with t statistics of 62.0, 2.5, 4.6, 6.4 and 2.8 respectively).

⁹ 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.

These results suggest that client referrals need to be directed more to better performers. A partial strategy to achieve this is to introduce 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.¹⁰ An alternative might be to use probabilities that were positively related to the star rating of the Job Network provider.¹¹

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 cent capacity. Another 20 referrals are made through the auto-referral system. Under the current 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.¹²

RECOMMENDATION 11.2

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.

While changes to the auto-referral system are desirable, greater scope for informed choice (chapter 8) and relaxation of caseload limits are likely to have more fundamental effects on the incentives for Job Network Providers to meet the needs of job seekers.

¹⁰ This indicator was suggested as a performance measure by Employment National (sub. 28, p. 6). Caseload shares could also be used, but might encourage parking.

¹¹ 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.

¹² 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. Moreover, as noted in footnote 14, the coefficient of variation in point-in-time capacities does not go down with increasing site size by as much as would be predicted, which may reflect the way the auto-referral system is biased in favour of smaller sites.

However, as noted by NESAs (trans., p. 196), there is some concern about going ‘too far and fast’ in the shift to full caseload flexibility. An immediate shift represents a large challenge for providers in developing business strategies for determining how to allocate resources to their businesses, noting that their origin and experience has typically been in bureaucratically managed markets. Caseload flexibility has uncertain impacts on industry structure, business failure rates and the costs of dealings between Job Network providers, DEWR and Centrelink. Consequently, the Commission considers that while complete caseload flexibility is likely to be an appropriate long-term goal, flexibility should be phased in over time.

This could be achieved by allowing a provider to have a margin — such as 30 per cent — above their contracted capacity if they can attract job seekers. This margin could then be increased over time, until contracted constraints on capacity were relaxed altogether. As with previous contracts, the sum of the *contracted* capacities of providers in an ESA would be equal to projected demand in that area. The effect of the allowable margins above the contracted capacities means that the sum of the total *allowable* capacities exceeds projected demand. Accordingly, another way of implementing partial caseload flexibility is simply to set contracted capacities so that their sum across an ESA exceeds projected demand.

A possible concern about liberalising caseloads (or placements in the case of job placements) is cost control for the Government. The Government has indicated that it will cap job placements in the new employment service system, but will not cap core Job Network places (DEWR 2002a, p. 29). Accordingly, for the central part of the system, caseload liberalisation is not in conflict with government budgetary control mechanisms.¹³ (Indeed, resource allocation distortions could arise if there are too many fiscal controls.)

RECOMMENDATION 11.3

The Commission recommends that in the long run there be no regulated limits on caseloads and/or the absolute number of payable outcomes for individual Job Network providers. However, in the short run:

- ***there should be scope for Job Network providers to exceed their contracted capacity by a given margin, which should be increased progressively.***

Another issue relates to future flows of job seekers into the Job Network, which affects business levels. Currently, there can be protracted delays prior to commencement in IA and JST services in the Job Network. DEWR and Centrelink

¹³ If cost controls were desired — associated with budgetary exigencies during a downturn — DEWR could control the flow of referrals by changing eligibility for CA, without having to give up liberalised caseloads.

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 substantially increased the speed of referrals to providers.

In the proposed Active Participation Model, entry to the Job Network will be at the start of a job seeker's unemployment experience (DEWR 2002a). Job seekers will then move into new phases of assistance, without any delays between referral and commencement. Accordingly, the new coordinated model addresses the problem of protracted delays after referral currently affecting JST and IA.

However, this still raises the issue of the desirable speed of the initial referral to a provider. In the new system, it is proposed that Centrelink will make an on-the-spot appointment for the job seeker to meet with the Job Network provider of their choice within two days of their registration interview. The Commission considers there are good grounds for the job seeker to make (at least an interim) choice after the information session held at Centrelink. This is because this is the point where the job seeker is most informed about their Job Network provider options and is most motivated to choose. However, it does not necessarily follow that commencement should follow immediately.

If the Government does not implement the Commission's recommendation that job seekers should be subsequently able to move between providers, their choice made at this initial registration period is a very significant one. This suggests the need for an option to alter the interim choice. One way in which this could be implemented is to immediately arrange commencement with the chosen provider for job seekers that were confident in their choice. Other job seekers could elect to have a two week window in which to alter their choice prior to commencement, but would be subject to normal activity testing during this period (to avoid any incentive to delay commencement so as to avoid active job search).

If the Government does implement the Commission's recommendation for portability between providers (chapter 8), then the proposed referral system is appropriate, as job seekers would still be able to subsequently change their initial choice.

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 (and in the

new system — fee-for-service and Job Seeker Accounts) 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 (though in ESC3 this risk is mitigated for higher performing providers by the proposed rollover). 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 change-over. So unlike most industries, there are three year periods of relatively reduced risk, punctuated by short periods of high 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. This 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 the Government relaxes capacity and supply restrictions then it increases the in-contract risks for Job Network providers. Once job seekers' choice determine caseloads, 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). ^c The weights are based on 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.

There are several strategies available to Job Network providers for managing risk were flexible caseloads to be introduced. Job Network providers would tend to diversify more (for example into training, Work for the Dole and other social programs) and to consolidate ownership and sites. As an illustration of the reduced risks associated with greater scale, the relative variation of point-in-time capacity of those IA sites with less than a contracted capacity of 20 is more than double that of those IA sites with a contracted capacity of 450 or more.¹⁴

Moreover, some of the costs of low capacity utilisation in some sites could be managed by having staff who are mobile between locations or hired on a casual basis.

A phased introduction of caseload flexibility would allow providers to discover which strategies achieve the best risk reduction and for DEWR to assess whether service continuity is adequate in a more liberalised market environment.

¹⁴ These estimates are based on the November 2001 performance indicator data. Relative variation is measured as the coefficient of variation (the standard deviation divided by the mean point in time capacity). Theoretically, the relative variation in the large sites should be around one fifth of that found in the small sites, but the fact that it isn't may reflect the operation of the automatic referral system (and its bias towards small sites).

Ultimately, 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, pp. 2, 41).

A central feature of the star rating model is that it combats incentives for providers to work most intensively with the easiest to place by giving greater weight to 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 clients (chapters 9 and 10). This feature should persist in the proposed Active Participation Model in ESC3.

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 11.4). The central issues raised by participants or by the Commission's own concerns with the model are considered in the following sections.

Box 11.4 Participants' 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 (Tasmanian Employment Advisory Council 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).

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).

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. In part, these might be the product of some subtleties in the tender process. 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) star rating of IA 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.¹⁵

Another possible source of regional differences may be that higher or lower quality providers might be concentrated in particular regions. However, there is a strong tendency for most providers, regardless of their average national rating, to perform less well in low performing regions compared with high performing regions (table 11.3).

Table 11.3 Average ESA star rating performance by specific Job Network provider groups for high, medium and low average star rating regions

Intensive Assistance, August 2001 and February 2002

	<i>February 2002 star ratings</i>			<i>August 2001 star ratings</i>		
	<i>Highest 6 regions</i>	<i>Medium 6 regions</i>	<i>Lowest 7 regions</i>	<i>Highest 6 regions</i>	<i>Medium 6 regions</i>	<i>Lowest 7 regions</i>
Provider 1	3.05	3.16	2.43	3.50	2.97	2.20
Provider 2	3.75	4.02	3.59	4.33	3.47	3.75
Provider 3	3.50	3.44	2.59	4.00	2.69	2.28
Provider 4	3.42	2.92	3.14	3.22	2.85	1.50
Provider 5	3.00	3.18	4.00	3.63	3.00	3.50
Provider 6	3.29	..	..	3.70	2.93	..
Provider 7	..	..	3.05	..	3.17	2.50
Provider 8	3.75	3.07	2.70	3.63	2.81	2.75
Provider 9	4.50	3.35	1.75	4.00	2.90	2.00
Provider 10	..	3.29	3.67	3.50	3.83	3.33
Provider 11	3.50	3.72	..	4.22	4.00	2.00
Provider 12	..	3.63	4.33	4.06	3.67	..
All other providers	3.73	3.17	2.65	3.70	3.27	2.49
All providers	3.61	3.33	2.79	3.79	3.18	2.44

^a The average star ratings of regions were calculated, ignoring specialist star ratings for agencies that also provide specialist services at the same site as generalist services (data were not weighted by commencements). The regions were then ranked in terms of star ratings. In February 2002 this was high = Western Victoria, ACT, Central North Queensland, South Western Australia, South Australia Country and Southern Queensland; medium = Melbourne, Brisbane, Hunter and North Coast, Adelaide, Eastern Victoria and Perth; low = Sydney, Western NSW, Greater Western Australia, Tasmania, Illawarra, Northern Territory and Riverina. In August 2001 this was high = Melbourne, Western Victoria, Adelaide, Brisbane, Southern Queensland and South Australia Country; medium = Perth, ACT, South Western Australia, Eastern Victoria, Sydney and Central North Queensland; low = Western NSW, Tasmania, Hunter and North Coast, Illawarra, Riverina, Northern Territory and Greater Western Australia. The average star ratings of providers with significant national groups were then calculated for each of these regional groupings.

Source: Unpublished ESA level August 2001 IA star ratings were supplied by DEWR while the February 2002 data were from the 28 February 2002 IA star ratings published by DEWR.

¹⁵ Based on information provided by DEWR.

For example, for all providers with representation in high and low performing labour market regions, the average performance was worse in the low performing regions for the August 2001 ratings. This suggests that it is likely that the star rating model has not fully taken into account some regional labour market factors that influence achievable outcomes.

Fortunately this pattern is not as strong in the (modified¹⁶) February 2002 star ratings, while the difference between high and low performing labour market regions has also declined. The variation in star ratings is now explained less by regional variations (box 11.5). These most recent results suggest that the star rating model is evolving appropriately.

Confirming that star ratings measure value added

One issue that needs further research 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. DEWR should examine this as further data become available.

Another possibility is to test whether some provider groups perform consistently well or less well over different labour market regions, since it might be expected that such groups would use at least some common approaches across their sites. Analysis of the star rating performance of the 12 major national groups suggests that after controlling for other factors (including size, prices and regional labour market), membership of a particular group has generally low predictive value for the star rating of a provider in a given ESA. However, there were two groups that were exceptions to this rule. For example, membership of the Salvation Army Job Network group — increased (the February 2002) star ratings of providers by around half a point.¹⁷ This is at least suggestive of some features of that operator, common across their sites, that leads to uniformly better results than the average.

¹⁶ Following the review of the model by Access Economics (2002).

¹⁷ Similar results were obtained using the August 2001 star ratings, despite the differences in the basis on which they were calculated.

Box 11.5 Regressions 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 February 2002 star ratings across ESAs (appendix G).¹⁸ An OLS model (weighted by the capacity of providers) revealed that *some* regions (Riverina and Sydney) had, all other things being equal, ratings around 0.5 stars lower than other areas. With the exception of Sydney, city areas in general had higher ratings (but by a margin of around 0.4 points). Southern Queensland, South Australia country and Western Victoria, South Western Australia, the Hunter had higher star ratings than the average (and sometimes by more than one star). Job Network providers that specialised in NESB and disabled clients had ratings about one star higher than the average, but otherwise specialists did not appear to get higher stars, once other variables were controlled for.

Small effects of prices on ratings were 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 for IA providers. Job Network providers with larger IA contract capacities got better star ratings than those with smaller capacities, but the effect of size diminished as providers got larger and was never large.

Other (non-OLS) regressions that took account of the ordinal nature of star ratings were also estimated — but gave qualitatively similar results.

A comparison of the February 2002 IA star ratings by region (when changes were made to the basis on which stars were calculated) with those of August 2001 show less marked regional variations. The gap between lowest and highest performing regions has narrowed, as has the general degree of variability between regions. Moreover, the regression for the August star ratings explains over 30 per cent of the variation in star ratings, whereas this is around 10 per cent for the February 2002 star ratings. The lowered explanatory power of the regressions suggests that more of the factors exogenous to the provider that systematically shape star ratings across ESAs have now been controlled for in the star rating model.

An associated question is whether a high rating in one service, such as IA, is associated with a high rating in another, such as JST and JM. This will be a function of the complementarity of these services. If they are highly complementary then it would be expected that a high rating in one service would tend to lead to a high rating on the others. IA often includes development of job search skills, in common with JST. On the other hand, successful JM depends on economical and effective

¹⁸ The results in the draft report related to preliminary regressions based on August 2001 data.

screening of job seekers and developing good rapport with employers so as to secure exclusive access to vacancies. It inevitably involves less active case management of job seekers and is therefore somewhat distinct from the approach used in IA and JST.

In fact, the evidence from the star ratings achieved by providers is that star ratings in one service provide very little guide to the star rating achieved in another. For example, based on the February 2002 ratings, for those providers that supply both JST and IA services, only 4.2 per cent of the variation in IA ratings of providers at the ESA level is explained by the variation in JST ratings (table 11.4). A similar correlation between ratings is apparent for suppliers of both JM and IA services and an even weaker one for agencies that supply both JST and JM. If it is believed that the different services are in fact highly complementary, these results suggest that star ratings include a lot of random variation that is unrelated to the value added of providers (which would be damaging to their use in assessing performance).¹⁹

The more likely conclusion is that complementarities are relatively weak, which weakens the basis for the present requirement that IA providers also provide JM services.

Table 11.4 Correlations between star ratings

	<i>Correlation coefficient</i>
Job Matching with Job Search Training	0.149
Job Matching with Intensive Assistance	0.217
Job Search Training with Intensive Assistance	0.204

^a The square of the correlation coefficient indicates the amount of the variation in each of the service's star ratings explained by the variation in the other star ratings. The correlation coefficient is only calculated where both services are supplied by the provider in that ESA.

Source: February 2002 star ratings at the ESA level.

A better indication of predicted star ratings for JM is whether a provider also supplies IA or JST services (rather than the stars that they achieve for these services when they do so). A provider that only supplies JM and JST services gets significantly lower average stars for JM than when it provides all three services (by around 0.8 stars). Such a provider also gets somewhat lower stars than when only JM is provided (by around 0.3 stars). Similarly, average JST scores are lower if the provider only supplies JST and JM rather than all three services (by around 0.4

¹⁹ It is possible that part of the explanation for the result is that JM star ratings are based on the extent to which a provider achieves forecast contract placements, which may be more related to how good the provider is at forecasting placements, than their relative value added. A bad measure of stars for JM need not have adverse implications for the differently derived measures that are used for IA and JST.

stars). These disparities in ratings probably reflect the operation of cross-subsidies between IA and the other services, rather than the presence or lack of technological complementarities. Providers of JM and JST that are unable to offer IA are relatively financially disadvantaged (as noted by Mt Gravatt Training Centre sub. 4, p. 1). (There is some empirical evidence supporting this in appendix G.)

Appropriateness of the model

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. It would also have to reach a more definitive judgment that stars measure genuine value added, rather than random variations in providers' performance.

The review of the model by Access Economics (2002) was able to examine some of these issues. It concluded that the use of the model was a 'sound, leading-edge approach to performance measurement'. However, it also noted that performance assessment could be improved by introducing some additional variables (such as urban versus non-urban location), using only whole number stars to reflect the imprecision of the estimates picture of underlying performance and using other sorts of information to appraise performance — such as qualitative performance indicators. Some of these changes were incorporated into the February 2002 ratings.

It should be emphasised that 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).

Overall, the Commission regards the star rating model as an important component of the Job Network, but one that should be subject to continuing refinement.

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.

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 by DEWR. 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 (although it is actually quite hard for job seekers to access this information — chapter 8). It is important that the star ratings published for use by job seekers are reasonably reliable indicators of performance of the actual providers that the job seekers will attend. Until the most recent publication of star ratings (for February 2002) released in April 2002, information for job seekers was only at the regional level. 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 11.5). The same divergence may also occur between different sites of different providers within an ESA. For example, in the hypothetical example in table 11.5, provider 2 is a superior provider in ESA2 and ESA 4 to provider 1, but a job seeker could not discern this from the star ratings that are only published at the regional level.

Table 11.5 **Divergence between ESA and regional star ratings**

	<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.

The reliability of ratings is mainly determined by the job seeker commencement numbers of providers. Accordingly, publication of star ratings should be determined by whether the number of commencements of an operator at the site, ESA and regional level, allows a reliable estimate of performance rather than by arbitrarily publishing at only one level of aggregation. It is conceivable that the commencement numbers of some sites are large enough for a star rating to be formulated and published at that geographic level. In other cases, where

commencements are low, regional ratings might have to be used. However, typically data should be provided at the ESA level to job seekers (as it has been for providers for some time as part of the contract management and feedback process).

At the time of the draft report, DEWR only made available star ratings to job seekers at the regional level. The Commission recommended that star ratings be published at the Employment Service Area level and at the site level where the estimates are reliable. They should also continue to cover the separate segments of service (such as CA and JST). The release by DEWR of the February 2002 star ratings at the ESA level goes a long way to better meeting the needs of job seekers for more local star ratings and should be continued in future releases of star rating information. However, there may be scope for releasing some site information for providers that have multiple sites in ESAs, so long as the commencements are sufficiently large to make these reliable.

Moreover, it is also appropriate to indicate the reliability of star rating assessments at whatever geographic level they are supplied. Does, for example, an estimate of three stars for an operator with 300 commencements in an ESA have a 95 per cent confidence interval of between 1.5 to 4.5 stars, or 2.8 to 3.2 stars?

RECOMMENDATION 11.5

The Commission recommends that DEWR:

- ***consider publication of star ratings at the site level where the estimates are sufficiently reliable at that level; and***
- ***provide some indication of the reliability of the published estimates at whatever geographic level they are supplied.***

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).

Such a step is appealing because it devolves decision making to suppliers and customers, as in normal markets. However, it also involves some risks.

First, under the existing pricing system, a low star rating agency might be attractive to a subset of job seekers and also financially rewarding for a provider. Thus, an opportunistic agency might seek to target and then park poorly job-motivated clients by developing a reputation for weak activity testing and a casual attitude to participation reports. It would then be able to secure a good return on the commencement fees, even if its outcome rate was relatively low. Under the new Active Participation Model, providers will no longer be able to derive significant rents from commencement fees because fee-for-service payments and reimbursable expenses (through the personal accounts) will replace them. Accordingly, the profits for providers will be drawn principally from outcome payments, so that recruiting low job prospect clients will not be a profitable strategy.

Second, a one star provider in a good labour market can get an income equivalent to a five star provider in a bad labour market (reflecting the fact that outcome payments are for gross outcomes). Accordingly, if star ratings were not important drivers of job seeker choice, such a one star provider might survive unless countered by external disciplines, such as licence renewal based on star ratings.

One possible approach to these risks, 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 providers through an accreditation process. The risks of moving to a model that gives greater consumer sovereignty could then be re-assessed. The design of the new Active Participation Model is far more amenable to this shift than its predecessor.

Either way, the star ratings, while useful, are probably not, by themselves, sufficient to inform 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 provider 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.

What should be measured in the star ratings?

The weighting given to secondary outcomes in assessing Intensive Assistance ratings

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). Most secondary outcomes are education rather than job outcomes.

A key concern about applying the same star weighting to education outcomes as job outcomes is that education outcomes may be 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).

The gaming by a number of providers has the capacity to bring the network into disrepute. ... More needs to be done in stripping educational outcomes both financially and statistically from providers who chose this ethically questionable path. There have been a number of sites where very large providers have essentially purchased stars. ... Secondary educational outcomes distort the star ratings (Professional Vocational Services sub. DR63, p. 1).

It also appears that secondary outcomes account for a larger proportion of total outcomes towards the end of a period of IA — which is consistent with some strategic behaviour (chapter 7).²⁰

While it may be possible to control strategic behaviour to some extent through risk monitoring by DEWR, there is the additional concern that interim secondary outcomes have a lower 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 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

²⁰ Noting that the data from which these are drawn are based on a full 12 months cycle of commencements, and therefore deals with any issues of seasonality associated with secondary outcomes.

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 full course (the most common result) will in fact assist a job seeker to achieve a sustainable employment outcome. The Commission has recommended that interim primary or secondary education outcomes should no longer be payable outcomes (chapter 10) — and clearly this should also translate to adjustments to the star rating model.

The issue remains of what weighting should be placed on final secondary outcomes. To give equal weighting to secondary outcomes compared with primary ones is inconsistent with the payment structure of the Job Network (chapter 10). It is poor design 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. In its draft report, the Commission recommended a lower weighting for final secondary outcomes, consistent with their treatment in the payment system.

Several participants argued that the weight on secondary outcomes should not be reduced because of the long-term benefits of education and training on the incomes and job quality of the most disadvantaged:

The most disadvantaged job seekers are those most in need of education and training which will assist them: break out of the cycle of low-skilled jobs punctuated by periods of unemployment; improve their prospects of sustainable employment providing a living wage and opportunities for advancement; and improve their overall lifestyles and opportunities for participation in the economic and social life of the community over the medium to long-term (Catholic Welfare sub. DR70, p. 33).

DIMIA is concerned about ascribing a lower weight in the star ratings system to secondary outcomes compared to primary outcomes. This could significantly discourage providers from placing eligible NESB job seekers in training appropriate to their needs. This will impact on cases where the client's fundamental need is to develop further English language and vocational skills (Department of Immigration and Multicultural and Indigenous Affairs sub. DR79, p. 19).

Ideally, the response to this problem is to recognise in the design of outcome payments any longer-term benefits in terms of job quality and job seeker income that are generated by education and training. However, there are likely to be pragmatic difficulties in having such a long horizon in outcome payments. Accordingly, whether secondary educational outcomes should receive a significant weight in the ratings depends on balancing circumstances where job seekers are sent to courses that do not generate significant additional or beneficial outcomes and circumstances where they beneficially alter the long-term job pathways of job seekers. Deciding which approach to choose depends on whether there are other

ways of accessing educational opportunities than secondary outcomes in the Job Network:

- there are many opportunities in the Australian education and training system for job seekers to combine work and part-time education;
- low income Australians can gain access to financial assistance (through Youth Allowance, Austudy and Abstudy) to undertake approved study; and
- the Job Network counts as a primary outcome (for both payment and stars) an educational outcome that is provided to particular job seekers (mainly youth).

In the light of these alternatives, the Commission does not see strong grounds for maintaining a significant star weighting on secondary outcomes. DEWR (sub. DR80, p. 5) has, in principle, supported this position.

However, if evidence suggested that final educational outcomes were particularly beneficial for long-term job quality and income for any particular sub-group, there could be grounds for treating such outcomes as primary ones (as presently occurs with youth in some cases). For example, this might apply to job seekers from a non-English speaking background undertaking certain literacy and language courses.

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;*
- *secondary outcomes receive a lower weight in the star ratings than primary outcomes, consistent with the payment system; and*
- *where it can be demonstrated that a particular sub-group of job seekers' long run job prospects and job quality are significantly improved by education, then such final outcomes be treated as primary ones for the purposes of the star ratings.*

Correcting star ratings for start-up effects?

Currently, star ratings ignore whether a provider has been providing Job Network provider services in previous contracts (either in that ESA or anywhere). Several providers argued that star ratings were relatively low in the first six months of a new agency (for example, Employment National sub. DR73, p. 3) — reflecting the fact that development of smoothly running systems and proper training of case managers takes time. These transitional factors suggest that the star rating of a new provider averaged over their first contract might be lower than that of an established provider

even if the predicted performance of the new provider in the subsequent contract might be better.

The Commission has been unable to analyse the extent to which such transition effects occur, but considers that DEWR should undertake such analysis. If the effects are significant, then they should be adjusted for in published star ratings and for the purposes of contract renewal (under either the present or in a licensing system).

RECOMMENDATION 11.7

The Commission recommends that star ratings should adjust for any short term factors that adversely affect the performance ratings of new providers.

The ratio of placements to contracted placements in Job Matching

A major key performance indicator for JM is the ratio of JM placements achieved to contracted (milestone) JM placements. A number of JM providers considered that this was an inappropriate measure of performance:

... Job Network contractors are being held to ransom over a milestone figure over which they have very limited control ... If, for example, two providers win contracts for the same locality (sites). One has predicted a milestone figure of 100 outcomes for job matching, while the other has estimated a milestone figure of 250. If they both achieve 95 outcomes, then one will have a five star rating, and the other a one or two star rating ... The reality is that they have performed equally in terms of outcomes achieved (Innisfail JOB Centre sub. 5, pp. 3-4).

The current performance assessment methodology favours providers with small milestone targets. It is debatable whether the success of a provider in achieving a small target should result in a rating that indicates it should be preferred in future to a large provider making large numbers of placements but with a less attractive percentage of quota filled (Employment National sub. 28, p. 7).

The problem in gauging performance in JM stems from the fact that no provider has exclusive access to any given job seeker — these are often registered with multiple providers. Consequently, there is nothing comparable to job seeker commencements (as in JST and IA) that represent the unique pool of job seekers for whom a provider is solely responsible for achieving outcomes. In JM every job seeker in an ESA is a potential customer for each Job Network provider. In that sense, absolute numbers of placements achieved by a provider would appear to be a measure of their performance.

However, this ignores the fact that in ESC2, DEWR controlled entry into JM and, through the tender process, assigned agencies a given amount of capacity in the form of milestone placements. If DEWR had ignored contracted milestone

placements in performance assessment, it would have created incentives for tenderers to over-bid for placements even if they had a poor capacity to achieve them.

A feature of the bidding process was that agencies could set a minimum placement bid, but did not need to specify a maximum. Those that did not set a maximum could be offered placements at the discretion of DEWR, depending on the ranking of the agency in price/quality terms. In the presence of overestimates by DEWR of market demand for placements, this feature could lead to serious distortions in the star ratings of agencies.²¹ The result of this is that star ratings achieved by JM providers are inversely related to the number of placements they bid for in the second contract round (appendix G).

If the Commission's proposal to liberalise caseload constraints is implemented, this appears to negate the need for the existing key performance indicator for job placement services in the star rating model. This then raises the question of what, if any, other performance indicator would be used in its place. Employment National (sub. 28, p. 6) suggested that an appropriate indicator would be job matching outcomes achieved by a provider as a percentage of all job matching outcomes achieved by Job network members in the ESA. This might penalise small effective providers that had specialised in particular types of employers or job seekers.

An alternative approach would be to publish information for job seekers about successful placements, sustained placements and placements by level of disadvantage made for each JM provider in an ESA, but not to compile such information into a star rating for the purpose of contract renewal. Instead, contract renewal for job placement providers could depend only on compliance with a code of conduct and on some measure of the quality of the screening process used by placement agencies (to ensure employers remained satisfied with the overall quality of the system).²²

In that way, market processes would largely determine which placement providers succeeded. For a given commitment of resources, a provider that achieved few placements would make poor returns relative to one that achieved many placements

²¹ To use an extreme illustration, suppose that one agency bids a minimum of 50 places and a maximum of 100 places, while another specifies a minimum of 50 places, but no maximum. DEWR estimates that there will be 10 000 placements in the area and offers 100 places to the first agency and 9900 to the second. However, demand is actually only at 2000 places. The first provider places 40 job seekers, while the second places 1950 places. The performance measure based on contracted placements suggests that the first agency is far better than the second because 40/100 is greater than 1950/9900, but the 9900 is a meaningless denominator in the context of overestimation by DEWR and the failure by the second provider to set a maximum.

²² One possibility might be the ratio of placements to interviews arranged.

— and would normally exit the market. Accordingly, exit of lower quality providers would largely be automatic — rather than through non-renewal of contracts following adverse performance ratings. A possible objection is that a job placement provider that was inefficient or which achieved few placements might survive for some time. However, unlike JST and IA, job seekers use many job placement providers for the matching function,²³ so no one provider is very important.

Under ESC3, DEWR has proposed that the total number of job placement spaces be capped at 400 000 paid places per annum (DEWR 2002a, p. 29). While the allocation of placements to providers has not yet been finalised, DEWR suggested that places would be allocated to labour market regions for a three month period. Job placement organisations would make claims for placements on a ‘first come, first served’ basis. This method is consistent with the Commission’s view that individual providers should not face capacity limits, except to the extent that these apply to the whole region. It would provide an automatic basis for assessment of performance.

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 DEWR SB 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).

The current Star Rating Model needs to be supported with a qualitative process to provide comprehensive performance data (St Laurence Community Services sub. DR72, p. 5).

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).

DEWR (2002b) has proposed that under ESC3 new business offers for high performing providers will be based on three main factors:

- compliance with the Job Network Code of Conduct, encompassing measures of

²³ This appears set to continue in the new employment services model.

fraudulent and invalid claims, complaints management, the quality of customer service;

- star ratings; and
- the quality of outcomes achieved — in the case of IA this will be measured as the proportion of interim outcomes that are primary.

These new measures only partly address the need to examine a wider range of performance criteria. Performance on the first criterion is pass or fail only and will not otherwise recognise differences in performance (such as in customer service). The effect of the third criterion could have been largely achieved by altering the weighting on interim secondary outcomes in the star rating model, and in that sense, this criterion is akin to an adaptation of the star ratings.

The Commission considers 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, 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.²⁴

Are changes needed as a result of the Active Participation Model?

The Government has announced significant changes to the Job Network, which may have implications for the optimal design of star ratings. In the new Active Participation Model (DEWR 2002a), outcome payments will vary with the duration of unemployment — and do so in a discontinuous way. Consequently, the interim outcome payment for someone unemployed for 2 years and 51 weeks will be \$3300, whereas it will be \$4400 one week later. This might encourage a deferral of outcomes just prior to the three-year threshold. Monitoring may partly alleviate this, or changing to a continuing sliding scale of outcome payments (chapter 10). Alternatively there may be grounds for giving additional weight in the star ratings to early achievement of outcomes.

²⁴ 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 students in which no one scored below 95 per cent).

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 (box 11.6) and reduced the ability of providers to adjust their business models to the demands of the system.

Box 11.6 Participants' views on transparency of the star rating model

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).

[The ratings are] absolutely not transparent, and we need as a business to be able to understand how they were arrived at (Joblink Plus, trans., p. 4).

Frankly, despite repeated efforts by DEWR to [give examples of] the concepts, without the actual process being laid out in detail, very few in the industry fully comprehend how a star rating is determined (Wesley Uniting Employment sub. DR71, p. 4).

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 ... 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).

One concern about publication of the model is whether it could be strategically used by providers. 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.

Full details of the model and its specification diagnostics should be made publicly available. The underlying data used in its estimation should also be made available to researchers who wish to test the model. Transparency will help alleviate some of the distrust of the model and allow better models to be constructed in the future. Any evaluation reports on the model should also be made public — as has occurred with the recent independent review by Access Economics (2002).

RECOMMENDATION 11.8

The Commission recommends that the full details of the star rating model be made publicly available, including periodic assessments of its technical validity.

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. This requires balancing between a non-interventionist approach (which could leave the Job Network open to roting and undermine its objectives) and too prescriptive an approach (which might circumscribe the benefits of provider flexibility and outcomes-based payments).

There is 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 Job Network round, the compliance burden placed on providers by DEWR should be reduced to the minimum compatible with a prudent risk-based strategy that ensures accountability in the expenditure of public funds and the achievement of clearly specified objective outputs and outcomes. Making Declarations of Intent public would enhance transparency and accountability and reduce the need for detailed monitoring.

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, with advice from 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. DEWR should collect and publish relevant data about its nature, extent and cost, as well as information about provider compliance with contract conditions. NESAs 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 outcome payments are contingent on the achievement of defined primary or secondary employment or education outcomes.

Conceptually, these market-based features 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 — 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 that achieves a balance between:

- a non-interventionist approach that 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 that 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).

On the other hand, several providers were concerned that the balance had shifted too far towards detailed contract monitoring and compliance. Their comments are outlined in section 12.2, following a description of the current approach to contract monitoring and compliance (section 12.1). Finally, section 12.3 presents a discussion of the issues and some recommendations. Issues relating to provider flexibility and levels of service provision to job seekers are discussed in other chapters.

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). Even so, 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. DEWR aims to ensure that programs are delivered in accordance with 'high ethical standards and the spirit intended' (sub. 43, p. 40).

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. However, the Commission notes that statistics on breaches of the Code of Conduct are not kept.

The current Code comprises six principles:

1. Ethical, respectful and fair treatment.

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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 that 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.

Monitoring goes well beyond confirming outcomes. DEWR advised that it also monitored, for example, '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, 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, ongoing 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).

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 DEWR. 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. 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).

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 12.3 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 that 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 — LGA) 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 that 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.

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

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- know in greater detail the strengths and weaknesses of the system (sub. 43, p. 80).

Chapter 14 gives some more detail about the department's Job Network performance management framework. Box 12.4 sets out its 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 contact 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. These are summarised below, while box 12.5 sets out the particular views of Catholic Welfare Australia.

Box 12.5 Catholic Welfare Australia's views on compliance

The experience and views of the increasing compliance burdens placed on Job Network providers have been highlighted by Catholic Welfare Australia Member Organisations:

- The shift towards micro management by DEWR is significant and is pushing agencies from service delivery to service development and design with associated costs.
- There is an increasing compliance burden, prescription and unilateral decision making by DEWR, with a shift from outcome focus to process focus.
- We agree strongly with the sentiments that there is an increasing input in all stages by DEWR: more form filling; hugely complicated and shifting information technology requirements; and, a seemingly endless scenario of changing contractual requirements.
- A few providers have manufactured jobs or recycled a succession of job seekers through the same job. The operative work here is 'few'. Why should all Job Network providers be penalised. DEWR has the right to withdraw contracts, so why do they not take that option with the few?
- We are over-governed. DEWR's monitoring and compliance activity should be minimised.

Source: Sub. DR70, p. 26.

Large and increasing administrative burden

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).

St Laurence Community Services (Barwon) estimated that 50 per cent of an employment consultant’s time is taken up in administrative and compliance activities (sub. DR72, p. 4).

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).

Contract variation can impose costs on providers. NESA indicated that in addition to costs arising from changing IT requirements (chapter 14), changes to contracts imposed additional compliance costs. As an indication, it estimated that for a single site small provider, based on staff costs of \$100 per hour, the total additional compliance cost could be of the order of over \$10 000 per week (sub. DR75, p. 5).

In response to the draft report, Leichhardt Community Youth Association commented that negotiations around contract variations should be with individual providers rather than industry associations as that is the basis of those contracts (sub. DR77, p. 8).

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 a proportion of the costs imposed on providers by extra IT requirements. Indeed, DEWR noted that three of the six general contract variation offers made over the current contract have included the offer of funding to compensate providers for additional activities or costs incurred (sub. DR80, p. 7).

Jobs Australia considered it necessary for the government to ‘review the form and nature of their contracts with providers to make them more balanced and commercial in nature’ (sub. DR81, p. 16).

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’. 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 nor public

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). Similarly, Professional Vocational Services stated that the Declaration of Intent is ‘not really insisted upon’ (sub. DR 63, p. 3). 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.

Mr Victor Quirk, a participant at the public hearings, called for Declarations of Intent to be made public:

They are supposed to be setting out what providers are prepared to do for their clients, and yet [they are] made ‘commercial-in-confidence’ so that no unemployed person could see [them] (trans., p. 117).

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 that 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, 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 to this chapter, there is a need to strike the right balance in the contract management system. There will always be a need for a level of compliance monitoring that can ensure that outcomes paid for are in fact delivered, and 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.

ESC3 will open a new set of compliance challenges; an example is the need to monitor expenditure from the proposed Job Seeker Account. Nevertheless, 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 that 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 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.

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 certainly 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.

In response to the draft report, DEWR, in supporting the above recommendation in principle, commented that:

It is expected that ESC3 will provide an opportunity to further examine operational design, systems and practices to ensure compliance needs are kept to those necessary to protect public expenditure and to maintain high standards of conduct and integrity (sub. DR80, p. 6).

DEWR's discussion paper for ESC3 indicates that the 'contract and performance management frameworks for Job Network will be principle based and not dominated by rules and administrative and bureaucratic requirements' (DEWR 2002a, p. 27).

The Commission considers that publication of Declarations of Intent would enhance transparency and accountability within the Job Network and reduce the monitoring burden. However, particular details whose public availability would adversely affect the competitive position of a provider should continue to be confidential.

RECOMMENDATION 12.2

The Commission recommends that all Declarations of Intent (and similar summary documents that specify services to be provided to job seekers by individual providers) should be made public, except for particular details whose publication would have a material adverse effect on the competitive position of a provider.

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.

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, it might want to improve linkages to other programs, 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, after seeking advice from 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.

RECOMMENDATION 12.3

The Commission recommends that DEWR openly negotiate all contract variations with relevant providers, after seeking advice from 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.

RECOMMENDATION 12.4

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.

In its response to the draft report, DEWR supported the thrust of the above two recommendations in principle. It commented that it seeks to apply the approach of recommendation 12.4 in existing practices (sub. DR80, p. 7).

Transparency of the administrative and compliance burden

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.

RECOMMENDATION 12.5

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.

DEWR agreed in principle with the above recommendation, but noted that 'this is a complex area ... where the definition and content of compliance information may be open to different interpretations' (sub. DR80, p. 8). It noted that details of fraud cases are published in its annual report.

13 Competitive neutrality issues

Box 13.1 Key messages

Under the National Competition Policy Agreement, the Commonwealth Government is committed to a policy of competitive neutrality. This aims to ensure that government businesses do not enjoy competitive advantages over their private sector competitors simply 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 may have affected competition in the Job Network market over the second contract period.

In its draft report, the Commission proposed to recommend 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. However, an explicit recommendation has been made redundant by the Government's May 2002 announcement that the marketable parts of Employment National would be sold by October 2002 and the remainder of the company wound up on 30 June 2003.

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.

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:

- the possible effect of Employment National, the publicly owned provider, on competition within the Job Network market (section 13.1);
- whether Job Network providers as a group are advantaged relative to other providers of employment services (section 13.2); and
- whether not-for-profit Job Network providers are advantaged or disadvantaged against for-profit providers (section 13.3).

The Commonwealth Competitive Neutrality Complaints Office has recently examined a complaint relating to the OzJobs division of Employment National and fee-for-service employment service providers — its report to the Treasurer had not been publicly released by the time of finalisation of the Job Network review. 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).

One participant, the Innisfail JOB Centre, in commenting on the first round of Job Network tendering referred to ‘our competitor (Employment National) [that] 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 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).

In its annual report for 1999-00 (Employment National 2000, p. 5), Employment National emphasised that it had advised the Government that the JM contracts would be unprofitable, but that it had been directed to accept them nevertheless:

The company and its advisers assessed ... these [JM] contracts as unprofitable. The company was subsequently directed by its shareholders to accept and execute the contracts.

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). Further, the recognition of Employment National’s JM services as CSOs would itself impose obligations of competitive neutrality: any shortfall in revenue below that which could be obtained commercially by Employment National would need to be made up either by direct funding from DEWR, or through a notional adjustment to revenue transparently recorded in an auditable manner. Neither of these conditions has been met.

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 JM from higher payments for IA activities' (sub. 28, p. 3).

In the second tender round, however, Employment National won only a very limited amount of IA services. Nevertheless, it continued in business by accepting 'loss making job match contracts' (Employment National 2000, p. 1). More than 1000 employees left the company during 1999-00, and 50 offices were closed. Restructuring expenses of almost \$80 million were incurred. The estimated future losses on the JM contract were treated as an abnormal expense in the 1999-00 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, the Government made provision for 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 2000-01. However, on 22 August 2001, \$11 million was received consequent to a share issue to the Government.

In May 2002, the Minister for Finance and Administration announced that the marketable parts of Employment National would be sold by October 2002 and the remainder of the company wound up on 30 June 2003. He noted that 'having needed government support of \$27 million in 2001-02, the loss-making

Employment National would have required ongoing support to continue operating’ (Minchin 2002, p. 1).

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 some 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, the conditions set for IA — coupling set or minimum prices with the requirement to also provide JM —distorted the JM market.

Tendering low for JM could create difficulty for tenderers that missed out on IA. In fact, several such tenderers subsequently declined JM contracts. As noted above, however, Employment National has continued to provide JM 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, it has required government support of \$27 million in 2001-02.

The Commission does not have access to lodged tenders for the second contract period and cannot, therefore, be definitive about the extent to which Employment National's continued operation at loss making prices has adversely affected competition.

- In regard to those JM placements that were not tied to JST or IA contracts, the acceptance of contracts by Employment National would have displaced other tenderers, *if any*, who were considered acceptable but were not competitive with Employment National on the basis of the combined quality/price score.
- Some tenderers for JM placements tied to JST or to IA may have been awarded those matching placements at their actual tender price. However, where tenders for those tied places were not competitive in their own right, the price for tied places was based on the average price for untied places. Here, the awarding of (untied) placements to Employment National could have either reduced, or increased, the price available to others:
 - If Employment National's tendered price was below the weighted average for the other tenderers awarded untied places, its inclusion would have reduced the average price. This would have disadvantaged those obliged to accept tied places.
 - If its tendered price was above that weighted average, its inclusion would have increased the average price, thus advantaging those obliged to accept tied places.

In terms of the competitive neutrality principles, the situation is also unclear. Indeed, the net effect of past government support for Employment National on community welfare overall is not easy to judge. The following points are relevant to these issues:

- 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. 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 affected 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 origins.

In its draft report, the Commission proposed to recommend that Employment National should not provide Job Network services at loss making prices past the conclusion of the second contract period. The May 2002 announcement that the marketable parts of Employment National would be sold and the remainder of the company wound up has made such a recommendation redundant.

The Minister also announced that all employment service areas currently serviced by Employment National will continue to receive service from alternative providers:

Job Network purchasing processes will ensure that alternative providers will be operating in all employment service areas from which EN has departed at the commencement of the next round of Job Network contracts on 1 July 2003 (Minchin 2002, p. 1).

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 employment matching 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 that 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).

Since the Commission's draft report, the Government has announced significant changes to the Job Network to operate from July 2003. These include replacing the current JM arrangements with Job Placement. Job Network members will be Job Placement organisations. Job Placement will also be open to recruitment agencies, Community Work Coordinators and other suitable organisations wishing to be licensed to deliver Job Placement services to employers. Set fees will apply.

Analysis of the 2002 situation

In analysing whether Job Network members are competitively advantaged compared with other firms providing employment services, two markets may be distinguished:

- 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 matching services are 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 the first two contract rounds. However, the provision of Job Network services has been contestable. That is, all firms and organisations have, as each contract round commenced, had the opportunity for tendering for Job Network services, should they so desire.

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 Job Network round.

Thus, any distortion in competition is likely to be experienced within the market for basic matching services. Its extent has been ameliorated by the contestability of contracts for the provision of free matching services to employers. The arrangements proposed for ESC3 should render this issue largely redundant.

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. Overall, in both cases, the provider would not make any ‘profit’ from its activities as a whole. Imposition of income tax would not change this situation.

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- 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 analyses 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’ (Costello 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, which 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.

If significant problems of transparency, accountability, monitoring and compliance continue into ESC3, the Government should give consideration to the establishment of a body independent of DEWR with the following range of functions related to the Job Network: monitoring the quality of service provision; evaluating program outcomes; examining and recommending on potential improvements; and protecting the interests of job seekers and providers in relation to DEWR and Centrelink.

DEWR, in consultation with FaCS, Centrelink, DIMIA, 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 serve two purposes: reduce the information burden on job seekers; and help agencies and providers determine the most appropriate assistance for each individual.

If the full potential of Indigenous Employment Centres is to be realised, coordination problems between CDEPs, IECs and the Job Network need to be addressed and overcome.

The scope for provider discretion about making breaching notification reports should be clearly defined and written into provider contracts.

Other issues discussed in this chapter include: 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, and between providers and government. They contain a number of

recommendations for improvement. This chapter examines the Job Network from another perspective — the allocation of responsibilities 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 education and training.

First, however, the chapter briefly reviews criteria relevant to evaluating alternative allocations of responsibility.

14.1 Criteria for evaluating allocations of responsibility

Evaluating possible reallocations of responsibility within the Job Network 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 that 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.

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 JM, JST, 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;
- pricing arrangements;
- 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 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.

The reference asks the Commission to examine and comment on the role of ‘training providers utilised by Commonwealth funded employment service providers’. However, no participants commented specifically on this topic. In general, the Commission considers that the existing arrangements are appropriate — that is, Job Network providers accept responsibility under the terms of their contracts for the services provided to job seekers, but can make use of sub-contractors to deliver training and other services subject to approval by 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, including training, as permitted and 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 Job Network

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.

Further, given DEWR's role as the purchasing agent of Job Network services for the Government, it is appropriate for DEWR to take the final responsibility for selecting providers and negotiating contracts. Provider selection and contract negotiation is not an appropriate role for Ministers or other members of Parliament.

However, DEWR's role in tendering and contracting has extended far beyond policy advice and final decision making to functions 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 in the first half of 2003 — might be more simple than its predecessors. This is because approximately 60 per cent of available business nationally will be offered to the best performing Job Network members through an Invitation to Treat process. (The intention to offer renewed business at the ESA (ie an area) level rather than the provider level, however, could still require many providers to submit tenders for business in some ESAs.) 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 rounds should itself be contracted out, if such a process were to remain in place. This would be consistent with the process of market testing currently being undertaken by government agencies (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 money, 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. The Commission considers that 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.

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 in time, the magnitude of the contract rollover process could be significantly reduced. However, there will remain elements that could be amenable to market testing and contracting out if that would offer better value for money at acceptable risk.

Referral of job seekers to providers

While chapter 9 has analysed the role of the JSCI as a measure for targeting assistance, this still leaves the issues of the appropriate institutional framework for profiling job seekers. A central issue is whether initial implementation of the JSCI could be improved by involving parties other than Centrelink. Similarly, should re-application include third parties? 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).

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>.

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 and in implementing other assessment instruments. Centrelink also has no financial incentives to distort assessment, as might occur were Job Network providers to administer the 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).

Certainly, the role of a gateway organisation such as Centrelink in the application of the JSCI is reinforced by the fact that its use extends beyond the Job Network.

Job Network providers have incentives under current arrangements 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.

Similar incentives will exist in ESC3 as the JSCI will be used as a screening tool for early entry into CA.

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. There could therefore be value in a periodic reassessment of disadvantage undertaken by the job seeker's case manager. Indeed, such reassessment will be possible in ESC3 — at any time after three months participation in the Job Network, the provider will be able to enter updated information into DEWR's database and the JSCI score will be automatically recalculated (DEWR 2002a, p. 15).

Obviously, this procedure will need careful monitoring to prevent perceived or actual conflicts of interest. Computer-based monitoring — along the lines used by the Health Commission to appraise inappropriate GP clinical practices — would be a useful tool for DEWR and/or Centrelink to detect gross inappropriate re-categorisation of job seekers.

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. However, for reasons discussed below in relation to breaching, it appears best to minimise the role of the Job Network provider in compliance. Catholic Welfare Australia

considered that ‘good social welfare practice and cost-effective referral methods ... would see Centrelink taking more responsibility in ensuring job seekers attend initial interviews with Job Network providers’ (sub. DR70, p. 24).

A streamlined referral process was piloted in several Centrelink offices in November and December 2001 and January 2002. This was 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. Streamlined referral processes will apply in ESC3.

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, in the terminology used by some participants, to an ‘independent regulator’?

As is apparent from box 14.3, some of these auditing, monitoring and evaluation activities are those of a type that 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 the market testing of those Job Network auditing, monitoring and evaluation services for which it retains responsibility.

An ‘independent Job Network agency’?

The second issue relates to whether ultimate responsibility for some functions should be undertaken by an agency that is independent of DEWR.

From one perspective, there should be little rationale for such a body. Given the budget constraints imposed by the Government, it could be presumed that DEWR would want to obtain the best possible outcomes for job seekers from the Job Network. This would involve keeping administrative and compliance costs as low

as possible to enable maximum funding to be spent on the job seekers themselves. Indeed, this is one of the very rationales underlying the purchaser-provider Job Network arrangements. Yet, as discussed in chapters 5 and 12 and below, there appears to have been some lack of transparency and accountability in aspects of the Job Network; and there has been a steady escalation of the administrative and compliance burdens. For example, many contract variations have been forced on providers and largely unanticipated IT costs have been imposed, only some of which have been compensated by DEWR. Job seekers and providers alike have expressed concern about the seemingly unquestionable ‘power’ of DEWR and expressed some degree of distrust. Indeed, some providers were reluctant to provide submissions to this inquiry because they feared the consequences for them in forthcoming contract rounds. These fears may be baseless, but they underline the atmosphere of distrust. It is in this context that the question of the value of a Job Network agency independent of DEWR arises.

Although the Commission invited participants to comment on the issue, relatively few did so, either before or after the draft report was issued. Those who did comment, however, had a range of views on the functions that an independent body should be responsible for, together with a range of supporting reasons.

Views

The Queensland Government supported the establishment of an independent monitoring authority:

... an independent regulator separate to the department and equipped with the necessary statutory charter and powers will not only improve performance of the Job Network, but bolster public confidence in it (sub. DR76, p. 16).

It considered the body should be responsible for: quality of service; performance; providing independent advice to government on the resourcing levels necessary to assist job seekers; providing transparency; and receiving and investigating complaints (sub. DR76, p. 16).

The OECD report (2001, p. 25) into the Job Network suggested that a separate agency 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 an 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). Blind Citizens Australia gave in principle support to an independent regulator as the organisation is ‘a strong supporter of service user representation on bodies that have the authority to improve standards of services’ (sub. DR62, p. 7).

A large 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).

Jobs Australia also supported establishment of an independent authority ‘to operate as a consumer advisor and advocate for people referred to the Job Network’ (sub. DR81, p. 6).

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.

Functions

The possible roles for such an independent body, if established, include those related to monitoring and assessment of the success or otherwise of the arrangements, and protecting the interests of job seekers and providers (in regard to both DEWR and Centrelink). Thus, it could be concerned with: measuring the quality of service provision; evaluating program outcomes; providing advice about possible improvements; and dealing with complaints from job seekers and from providers. Many current responsibilities, such as policy advice, pricing arrangements (chapter 10), provider selection and contract compliance would remain with DEWR.

Benefits

There would be several benefits from the establishment of such an independent body. It would address issues of transparency and accountability, and ameliorate any problems of power imbalance and distrust between the Job Network players and DEWR.

An agency with responsibility for a major government program such as the Job Network has a strong 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 particular interest groups. Such adverse incentives also work against the objective of maximum transparency. An independent body would be more likely to bring a more balanced view to monitoring, reporting and transparency than the funding agency.

Further, an independent body could reduce some of the current problems arising from the power imbalance between DEWR, Job Network providers and job seekers. Job seekers may be reluctant to complain to their Job Network provider, to Centrelink or to DEWR about aspects of the Job Network that are unsatisfactory from their point of view for fear of retribution. Such fears may also bias results from surveys of job seeker opinion and Job Network experiences. 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).

Similarly, Job Network providers may be reluctant to complain to DEWR about aspects of its behaviour. As noted in chapter 12 and below, many providers have expressed concern about the increasing compliance burden, changing and costly IT requirements and the succession of contract variations imposed on them. Given DEWR’s position as the exclusive purchaser of Job Network services, with its responsibility for renewal or awarding of business in each round, many providers could be understandably reluctant to ‘cause a fuss’, especially if they lack confidence in DEWR’s contract probity arrangements.

Costs

The establishment of an independent agency could increase compliance costs as Job Network providers would have an additional government body to deal with.

Establishing a separate independent regulator could also be expected to increase overall administrative cost because there would be some inescapable additions to overheads. The net addition to costs could be minimised by keeping the body small through a transfer of appropriate existing staff from DEWR, thus avoiding the duplication of responsibility by the independent body. It may be possible to head the agency with a part-time chairperson to minimise costs and reinforce independence.

Alternative approaches

Adoption of the Commission's recommendations, particularly those of chapter 5 relating to transparency and accountability, and those of chapter 12 relating to compliance and monitoring, would ameliorate the existing problems perceived by some participants. Another or additional approach would be to increase the role of existing monitoring bodies such as the ANAO or the Ombudsman.

Neither of these approaches would necessarily fully address the existing issue of power imbalance nor engender increased public confidence as well as an independent Job Network specific body might do.

A separate independent Job Network agency

However, establishing a separate agency 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). Even a Job Network specific body with a restricted role, without any responsibility for contracting or contract management, would face some incentive problems and possibly be subject to 'capture'.

This suggests that careful consideration would need to be given to the form in which any independent body were to be established. Desirably, it should be completely independent of DEWR and report directly to the responsible Minister, as well as publicly. Appointing as its chairperson someone completely independent of past and present stakeholders in the Job Network would be of considerable value. The Commission considers such a body should not include representatives of specific interests such as job seekers or Job Network providers — this would inhibit independence and the use of the executive power such a body would need. For this reason, an expansion of the role of NESAs and/or the establishment of a publicly

funded Employment Services Consumers Association (as suggested by Mr Victor Quirk, sub. DR68, p. 8) would not serve the purpose.

The body, if established, should be given clear, unambiguous responsibilities and powers. For example, its functions and powers could relate to ensuring quality of service provision, acting as an ‘ombudsman’ for complaints from job seekers and providers, evaluating program outcomes and examining potential improvements. It could also take responsibility for ensuring that the Commission’s recommendations about transparency, accountability, monitoring and compliance (chapters 5 and 12) were implemented, if these were accepted by the Government.

Conclusion

The benefits and costs of establishing an independent Job Network agency are difficult to weigh up, especially in view of the inherent uncertainty of how such an agency would operate in practice. Further, the justification for the agency should diminish over the medium term as the framework of the Job Network settles down and its substantial reliance on tender and contract arrangements declines.

Given these factors, the Commission considers that a better approach is for the Government to adopt the Commission’s recommendations relating to transparency, accountability, monitoring and compliance. This should help to address the issues perceived by participants. However, if significant problems do continue into ESC3, the Government should give consideration to the establishment of a body independent of DEWR with the following range of functions related to the Job Network: monitoring the quality of service provision; evaluating program outcomes; examining and recommending on potential improvements; and protecting the interests of job seekers and providers in relation to DEWR and Centrelink.

RECOMMENDATION 14.1

The Commission recommends that if significant problems of transparency, accountability and power imbalance between DEWR and providers continue into Employment Services Contract 3, the Government give consideration to the establishment of an independent Job Network agency.

Information technology

Information technology — hardware, software and communication charges — are a major cost centre for Job Network providers. NESAs provided indicative figures for the IT costs related to the set-up and entry of a provider to the market totalling some

\$7100 per computer (sub. DR75, p. 4). As well, there are the ongoing costs of software, training, maintenance and communication charges.

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 that operate in many locations. In the past, these have been able to link in to those of DEWR.

DEWR developed and implemented through 2001 an 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:

- 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 a 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 that 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).

It indicated that the *additional* IT compliance costs, on top of those expected when contracts were initially signed, associated with DEWR's system changes are in the range of \$0.5 million to \$0.7 million, for each provider, large or small (sub. DR75, p. 4).

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. Work Directions Australia considered that a 'one-size-fits-all approach through mandated technologies should be avoided' (sub. DR54, p. 2).

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 rounds continue. Alternatively, it could be agreed that major changes would always be preceded by a reasonable period of notice to providers — for example, two years.

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

Under the current contract, Job Network providers, large and small, are required to comply with the Information Privacy Principles, which have been in force since 1988 (box 14.4).

Changes to privacy legislation, which came into effect on 21 December 2001, implemented National Privacy Principles for all medium and large businesses and some small business. However, in some respects, these principles are not as strict as those under the Information Privacy Principles. Given current contract conditions, therefore, the standards or requirements for dealing with personal information collected by Job Network providers have not been toughened.

A current 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’.) Under the proposed ESC3 arrangements, referral to Job Placement agencies could still impose information provision burdens on job seekers.

Box 14.4 Information Privacy Principles

Commonwealth (and ACT) government agencies must comply with 11 Information Privacy Principles set out in section 14 of the *Privacy Act 1988*. Job Network providers are also required to comply with these principles by their current contracts.

The principles cover:

- the manner and purpose of collection of personal information;
- solicitation of personal information from individual concerned;
- solicitation of personal information generally;
- storage and security of personal information;
- information relating to records kept by record-keeper;
- access to records containing personal information;
- alteration of records containing personal information;
- record-keeper to check accuracy etc of personal information before use;
- personal information to be used only for relevant purposes;
- limits on use of personal information; and
- limits on disclosure of personal information.

As well, these agencies must comply with tax file number guidelines (section 17 of the Privacy Act) and the spent convictions scheme (Crimes Act).

Although the principles are designed to protect privacy, they do not prevent disclosure of personal information entirely. Information shall not be disclosed unless:

- the individual concerned is reasonably likely to be aware that information of that kind is usually passed on;
- the individual concerned has consented to the disclosure;
- it is necessary to prevent a serious and imminent threat to life or health;
- disclosure is required or authorised by or under law; or
- it is reasonably necessary for the enforcement of the criminal law, a law imposing a pecuniary penalty or for the protection of public revenue.

Source: Web site of the Office of the Federal Privacy Commissioner at www.privacy.gov.au.

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). Mr Victor Quirk noted that many providers 'require the same job seeker to repeatedly provide a fresh dossier for every job application made through their agency' (sub. DR68, p. 4).

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.

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). Catholic Welfare Australia stated that 'the lack of use of past information learned about job seekers contributes to inefficiencies and wasteful repetition in the assessment process' (sub. DR70, p. 23). 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).

Work Directions Australia commented that providers needed to be able to hold information locally to manage the relationship with the job seeker (sub. DR54, p. 1).

The extent of such an information problem is likely to be reduced under ESC3 as it is proposed that each job seeker deal only with a single Job Network member in their current unemployment episode. Even if privacy regulations were to prevent that provider from retaining recorded information about the job seeker between each episode of participation, some information would be retained through the knowledge of the provider's staff. However, as discussed in chapter 8, the Commission has concerns about the implications of the proposals for job seeker choice. They 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, a single provider does not solve the issue of making relevant information revealed during the job seeker's contact with the Job Network available to other programs (or deal with the loss of information that occurs when case managers leave).

The Commission considers that a solution should be developed to allow relevant personal information to be shared between Centrelink and Job Network providers and, where appropriate, 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 (in any past episode of unemployment).

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. The Department of Immigration and Multicultural and Indigenous Affairs suggested that DIMIA information could be included where relevant (sub. DR79, p. 20). One participant, Mr Phillip Pettet suggested that job seekers themselves could input information into the database at the provider’s office or on the network at home (trans., p. 124–5). 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 FaCS and Centrelink, with DIMIA, with the industry through NESAs and with the Privacy Commissioner.

Centrelink indicated that it was developing a ‘Customer Account’ to consolidate information on individuals that is currently held on a number of different databases (sub. DR82, p. 1). It considered that ‘eventually, it may be possible to share some of this data with other service providers, particularly those services to whom Centrelink refers its customers’ (sub. DR82, p. 3). This account could form a basis on which to build a more complete personal case history of each job seeker.

RECOMMENDATION 14.2

The Commission recommends that DEWR, in consultation with FaCS, Centrelink, the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA), the National Employment Services Association and the Privacy Commissioner, develop a protocol for the storage and sharing of relevant personal information on job seekers between DEWR, FaCS, Centrelink, DIMIA and Job Network providers, and between Job Network providers themselves.

It would be desirable for each job seeker to be made aware of the case for increased sharing of their personal information with specified agencies and to be asked to give permission for the personal case history to be compiled. This could be sought by Centrelink, other agencies and/or Job Network providers at initial interviews. As well, job seekers should be given access to those case histories so as to be aware of their content and to ensure accuracy.

A strong case can be made that, given that it would be for the benefit of the job seeker, a personal case history should be compiled even if an individual job seeker were to refuse to give such permission. This could be considered under Part VI of the Privacy Act, which gives the Privacy Commissioner power to make determinations for exemptions in the public interest. Alternatively, specific legislation could be enacted.

Involvement of providers in 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). Although 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).

While noting the value of good client relationships, the Commission considers that Job Network providers are a legitimate and valuable source of information about the compliance of job seekers with their obligations. Nevertheless, there are some issues to monitor or address.

First, there has been considerable variability among providers in the ratios of reported non-compliance to the customer base (chapter 6). Second, about 54 per cent of breaching notification reports from Job Network members and Community

Work Coordinators have not resulted in penalties by Centrelink. Third, 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 to this last issue, including training of Job Network members or billing them for recommended breaches that are not imposed or are revoked.

The Government has recently announced a number of changes to the breaching rules (Vanstone 2002). These changes were in response to an internal review by Centrelink of breaching practices and guidelines and followed another review under the Chair of Professor Dennis Pearce (Pearce et al). The changes reduce the penalty for non-attendance at interviews as well as vesting Centrelink with greater discretion about whether to impose penalties.

The announced changes, however, do not appear to address the issues identified by participants relating to the role of Job Network providers in the breaching process. There clearly is such a role for providers, especially under the forthcoming ESC3, because providers are in a good position to monitor over time the participation of each job seeker against the requirements imposed by the Government. However, the necessary relationship of trust between the job seeker and the provider can be undermined if the job seeker fails to understand the requirements imposed on providers or believes that the provider is treating them unfairly.

An important issue relates to the degree of discretion that should be allowed Job Network providers in reporting breaches. Existing contracts require all breaches to be reported to Centrelink, with that agency having the discretion about whether to impose a penalty or not. However, the variations in reporting rates (examined in chapter 6) as well as anecdotal evidence clearly show that different providers adopt differing interpretations of those contract requirements. To some extent, whether a job seeker is reported or not depends on the 'luck of the draw'. This issue could become more acute in ESC3 as its more process oriented nature offers more triggers for breaching reports.

The problem could be addressed in at least two ways: clearly explaining breaching requirements to job seekers and strictly enforcing existing contract provisions; or amending those provisions to allow providers to exercise discretion in defined circumstances.

The first approach would have the advantage of distancing Job Network providers from the breaching process, as the job seeker is encouraged to believe that reporting is a non-discretionary obligation imposed on providers by Centrelink. This is less likely to damage trust between job seekers and case managers when breaches are notified.

However, given the evidence presented in chapter 6, a formalistic approach to breaching would dramatically increase the number of breaching notifications, particularly in ESC3. Even if these were ultimately overturned by Centrelink, they would cause significant distress to job seekers because of the uncertainty of the process. They would also impose a substantial additional administrative workload on Centrelink officers — although to some extent this would just be cost shifting from providers.

Moreover, the underlying basis for case management in the Job Network — and for continuity of assistance under the Active Participation Model — is that case managers can tailor assistance to individual job seekers based on familiarity with their characteristics, case history and needs. Such case managers have informational advantages over Centrelink in deciding whether a potentially breachable behaviour should be acted upon. For example, if a particular job seeker has demonstrated through many other actions that they are serious about getting a job, an unclear excuse for missing an interview with their provider would probably be overlooked.

Accordingly, there are advantages in allowing providers to exercise the discretion not to apply a breaching notification in certain circumstances.

However, the Commission considers that the current large variations in reporting rates are unsatisfactory and that the scope for provider discretion should be more clearly defined and written into contracts for ESC3. Examination of the reasons currently used by providers for not reporting and by Centrelink for not imposing penalties could guide the codification process.

RECOMMENDATION 14.3

The Commission recommends that the scope for provider discretion about making breaching notification reports should be clearly defined and written into provider contracts for Employment Services Contract 3.

It would assist transparency if data about variations in provider notification rates and Centrelink's responses to those reports were published from time to time. Individual provider names would not need to be included in this data.

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 [to become an administrative breach];
- 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, Vanstone 2002.

Disseminating best practice

The competitive model for the provision of Job Network services might reduce the opportunity for the dissemination of best practice. The previous CES, or current large providers, can readily identify sites or branches of high performance, analyse the reasons why, and then encourage other branches to adopt similar practices. However, some participants considered that those that compete against each other will be reluctant to weaken their market position through such information sharing.

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 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 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).

Dr Richard Curtain proposed an 'Innovations Fund' for the Job Network. It would be aimed at encouraging the diffusion of good practice and also of encouraging the development and pilot testing of new strategies that go beyond existing arrangements (sub. DR55, p. 6). Dr Curtain noted that service providers, such as

those in the Job Network, had difficulty in accessing assistance under the current guidelines for R&D programs such as R&D Start (sub. DR55, p. 9).

The Commission notes that a number of recent initiatives have been aimed at enhancing best practice. For example, studies, such as that reported in box 14.6, can help to improve the performance Job Network members.

NESA itself holds conferences, industry seminars and special interest group meetings. The Partnership Program introduced as a joint initiative of DEWR, Centrelink and NESA also helps. And DEWR has implemented (in January 2002) a new National Contract Management Framework across all contracted employment services, which places 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 NESA 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. The Commission notes that the Adult Migrant English Program (chapter 15) makes specific provision for research funding. Given the size of expenditure in the Job Network, the Commission considers there would be value in adopting a similar arrangement for the Job Network.

RECOMMENDATION 14.4

The Commission recommends that government funding be provided to establish in the Job Network a continuing research arrangement, similar to that currently used in relation to the Adult Migrant English Program.

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 per manager 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.

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).

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>.

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).

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).

Similarly, the Capital Region Employment Council — the ACC for the ACT and surrounding regions in NSW — provided information about regional issues. In particular it commented on: the high level of Indigenous unemployment in the Capital Region as well as elsewhere; the limited availability of public transport for job seekers needing to attend Job Network providers; problems of accessibility of Centrelink; and the absence of Job Network providers in particular shires. A particular issue noted was the differences in the regional structures of organisations such as DEWR, Centrelink and FaCS: “‘regional structures’ tend to be chosen more for administrative convenience than to optimise service to clients’ (sub. DR69, p. 2).

The Commission has taken account of the views of the ACCs in relevant sections of this report.

Indigenous employment

Whereas the application of the Job Network to Indigenous participants is dealt with in chapter 9 and appendix C, this section concerns the interrelating roles of the Job

Network, the Community Development Employment Projects (CDEP) program (box 14.8) and the 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 that assist the individual in acquiring skills that benefit the community, develop business enterprises and/or lead to unsubsidised employment'.

CDEP is administered by ATSIC through its Regional Councils. Funding for 2002-03 is budgeted at some \$484 million. About two thirds of this is effectively funded by the income support payments that 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>; ATSIC 2001, pp. 155–7.

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 that have a viable labour market, Indigenous unemployed people should receive greater help to find employment rather than remain in a CDEP. The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) was concerned that:

... defining CDEP as an off-benefit outcome ‘may encourage the long-term detachment of Indigenous people from labour markets with good job opportunities in urban and regional centres. It also exacerbates the inability of many CDEPs to facilitate movement into mainstream employment (sub. DR79, pp. 6–7).

The establishment of IECs, announced as part of AWT, is aimed at assisting Indigenous people to move into paid employment (box 14.9). DEWR commented that ‘through IECs Indigenous people will be encouraged into mainstream Job Network services and in particular Intensive Assistance’ (sub. 43, p. 64).

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.

Although ATSIIC 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).

In response to the draft report, DIMIA indicated that the issue was ongoing:

... facilitating effective partnerships between IECs and Job Network members has been challenging and further investigations and action are required to ensure links are workable and productive (sub. DR79, p. 6).

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

The material in this and the remaining two sections of this chapter needs to be read in consideration of the proposals for ESC3 in relation to complementary employment and training programs. The intention is to foster more flexible and better linkages between a range of programs (box 14.10).

How this intention will work out in practice remains to be seen — however, some of the issues discussed below could be resolved or ameliorated.

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 14.11).

Box 14.10 DEWR's list of examples of complementary employment and training programs

- New Enterprise Incentive Scheme
- Work for the Dole
- Community Work placement
- Rehabilitation and disability employment services
- Job Placement Employment and Training
- Language, literacy and numeracy programs
- English for migrants programs
- Transition to Work
- New Apprenticeships Access Programme
- Green Corps
- Job Pathways Programme
- Career Counselling
- Other Commonwealth, State and Territory employment and training programs

Source: DEWR 2002a, p. 8.

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.

DIMIA drew attention to the interface between its Adult Migrant English Program (AMEP), the Job Network and DEST's Language, Literacy and Numeracy Program (LLNP). It commented on the lack of incentive for Job Network providers to refer NESB clients to English language tuition, 'even though improving English language skills may be integral to a tailored plan of assistance' (sub. DR79, p. 11). It considered there should be opportunities for concurrent participation in English language tuition with other Job Network activities (sub. DR79, p. 14). It also considered that re-direction from IA should include a payment to Job Network providers for re-referral to the AMEP or to LLNP (sub. DR79, p. 18). As discussed in chapter 9, however, the Commission considers that exit payments to providers would not be necessary under ESC3.

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Box 14.11 Other programs and participation in the Job Network

Program	Restrictions
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 that 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).

Wesley Uniting Employment suggested that simultaneous participation in the Personal Support Program (FaCS) and the Transition to Work program (DEWR) would enable participants to access funding to enter education and training (sub. DR71, p. 4).

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.
 - 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.

It is often desirable for a person to participate in more than one program at a time. For example, job seekers in IA often participate in education and training programs offered through TAFE. On the other hand, simultaneous participation in programs may sometimes be counterproductive for a job seeker or wasteful of government funding. The Commission has no information to suggest that current restrictions are not generally appropriate.

State and Territory programs

Some State and Territory Governments operate labour market assistance programs that potentially interact with or overlap those offered in the Job Network. As indicated by the following descriptions of some of these programs, they generally appear to be relatively small scale. 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).

Information provided directly by the different jurisdictions and gathered from relevant websites revealed active labour market support programs are being provided by Victoria, Queensland, Western Australia and South Australia.

Victoria

The Community Business Employment Program aims to place about 10 000 persons per annum into employment. Total funding per year of about \$9 million is allocated to community organisations and private sector agencies to assist unemployed

Victorians who fall outside the main focus of Federal programs. They include long-term and short-term unemployed people, young people, mature aged people and people from non-English speaking backgrounds who are not in receipt of JST or IA.

Another program, the Community Jobs Program, assists about 2300 people per year through subsidising employment with community organisations, local government and other government agencies. Projects are designed to provide a combination of work experience and skill development, linked to the skill needs of the local labour market. The type of projects sought are anticipated to employ a minimum of 12 participants for up to 16 weeks. Maximum grants are made on the basis of \$510 per participant per week. Total funding is about \$17 million per year. The program targets Victorian jobseekers aged 15 and above who have been unemployed for at least 6 months in the last 12 months, or unemployed and deemed to be disadvantaged and 'at risk' of long-term unemployment.

Queensland

Queensland has several relevant programs under the umbrella of the *Breaking the Unemployment Cycle Initiative*:

- **Community Jobs Plan.** This funds community and public sector organisations to employ long-term unemployed people, and those at risk of long-term unemployment, for periods of three to six months on a range of public works, community and environmental projects. There is an emphasis on participants gaining training, competencies and work skills in activities that will lead to employment opportunities relevant to local employer needs. This plan has a notional allocation of between \$23–26 million each year, with an average job cost of \$11 600.
- **Community Employment Assistance Program.** Community and public sector organisations are funded up to a maximum of \$60 000 to assist long-term unemployed people, and those at risk of long-term unemployment, find work. The assistance provided may include literacy and numeracy assistance, living skills, vocational training, work experience, job search and job placement assistance. There is a notional annual budget of \$3.37 million with an average assistance cost of \$1300.
- **Experience Pays.** This is a three year program, commenced in 2001-02, designed to assist 450 job seekers aged 45 and over per annum to find work for a period of twelve months. It provides a wage subsidy of \$4000 per person, with funding of \$5.4 million over the three years.
- **Back to Work.** Job seekers over 45 years of age, who have been unemployed for three months or more, are eligible for this three year program introduced in

2000-01. The program provides job search training and training in information technology in order to increase the chances of obtaining employment. It assists 1000 persons per annum with a cost of \$1.5 million over three years.

- Get Set for Work Program. This assists unemployed early school leavers, aged 15 to 24 years, in communities experiencing high youth unemployment. It has two components: grants of up to \$100 000 to community organisations and local councils to deliver a structured program of intensive employment and training assistance; and a wage subsidy of up to \$4000 paid to employers that employ participants from the program. It is a one-off program for 2001-02, with a budget of \$5 million, including \$2 million for the wage subsidies. Around 500 persons are to be assisted.

As well, the Worker Assistance Program — which does not come under the same umbrella as the programs described above — can offer assistance similar to that through the Job Network. It is an early intervention labour market program aimed at assisting workers displaced, or about to be displaced, due to large scale or regional retrenchments, to make the transition to alternative employment. Activations are on a case by case basis, with funding of up to about \$5 million annually if necessary. Individuals can receive up to \$5000.

The Queensland Government claims that its programs have been designed, and are delivered, to complement and not duplicate Commonwealth programs (sub. DR76, p. 3). For this reason, several of the programs will not accept persons who are on Job Network IA and/or JST. Those people are, however, eligible to be employed on projects funded through the Community Jobs Plan. IA clients are accepted into the Get Set for Work program, although the IA provider must meet the subsidy cost.

Western Australia

Through Joblinks the WA Government provides a number of forms of education, employment and training assistance. These include about 50 community based projects that assist job seekers into employment, education or training, by providing advice, resume preparation, interview skills, work experience and job placement assistance. Profit from Experience, a program for mature age job seekers, also operates through the Joblink arrangement. In total, some 36 000 people were assisted by the State's employment strategies in 2000-01, at an average cost of about \$600 per person.

South Australia

In its 2001-02 Employment Statement, the South Australia Government provided details of a wide range of employment programs. Two of these, in particular, provide assistance of the Job Network type:

- The Mature Age Incentive Scheme provides payments to employers of eligible persons aged 40 years and over. The target group is unemployed or retrenched people. The maximum subsidy is \$2000 and is in addition to any other grants or incentives available through the Commonwealth Government. As at 31 March 2001, there had been 153 employment outcomes.
- Under the Community Employment Assistance Program, which commenced in March 2001, grants and incentives are available to assist vulnerable unemployed people who experience barriers to employment. It targets long-term unemployed people, Indigenous South Australians, mature aged people, migrants, people with a disability, people who are rurally isolated and families experiencing intergenerational unemployment. Tenders were invited from interested parties and 25 projects were approved to commence in May and June 2001.

Do programs overlap?

In its draft report, the Commission invited 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.

Although there are a few state programs where overlap with the Job Network is possible — Victoria's Community Jobs Program, Western Australia's Joblinks and South Australia's Community Employment Assistance Program, for example — they are relatively small scale. 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).

In addition, the arrangements for Job Network seek to avoid a situation where an organisation is paid twice to provide the same type of service to a job seeker. For instance, DEWR indicated that Job Network contracts preclude payment of fees where there is 'double funding' (sub. 43, p. 37).

Mutual obligation

All unemployment beneficiaries must continuously undertake job search activity — the activity test. The level of required activity varies depending on the extent of part

time work, if any. As well, it is sometimes reduced when the job seeker is on IA — although the Commission proposes that this should not be the case in future.

In addition, Mutual Obligation (MO) applies to job seekers aged from 18 to 24 who have been on New Start or Youth Allowance for 6 months or more and to job seekers aged 25 to 34 on New Start Allowance for 12 months or more. Under MO, these job seekers must undertake an activity in addition to job search, with the requirement usually discharged over a six month period. There is a menu of about 15 approved activities. These include: part time or voluntary work; education and training activities; Work for the Dole; participation in JST or IA; participation in other Commonwealth programs such as the Jobs Pathway Program or the Job Placement, Employment and Training Program; participation in CDEP projects; or service in the Australian Defence Force Reserve. Sometimes the job seeker may have a choice of MO activity, but sometimes not — for example, when required to participate in IA.

No state or territory program is directly covered in the allowable menu of MO activities, although it is possible in some cases that participation in such a program could be covered by the generic activities of part time work, voluntary work, part time study, or literacy and numeracy training. The intention in ESC3 to improve linkages with complementary employment and training programs may have some implications for the menu of MO activities.

Linkages with education and training

In the draft report, the Commission invited participants to comment on relevant 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 included:

- The balance between payments for employment outcomes and payments for education and training outcomes.
- The range of allowable education and training outcomes.
- The possibility of payment to Job Network providers for referring job seekers to New Apprenticeships.
- The desirability of direct referral of job seekers most likely to benefit from greater education and training to appropriate training institutions directly from Centrelink.
- Expansion of the role of the new Personal Advisers, operating in Centrelink from September 2002, to school leavers and other young people.

-
- The integration of the Job Network more into youth support strategies generally, as proposed by the 2001 *footprints to the future* report.

Such questions are important because 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 ACER study by 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.

Indeed, those whose highest educational attainment is Year 10 or below make up the largest proportion of the unemployed classified by attainment (ABS cat. no. 6222.0, March 2002). Further, that proportion generally increases as duration of unemployment increases. For instance, of those unemployed for 2 years or more, about 51 per cent have their highest educational attainment as year 10 or below, compared to 26 per cent in the 1 and under 2 years category.

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 at an early age. Further, to build their capacity and confidence to be employed, there needs to be sufficient resourcing and skilling of teachers.

In its submissions, 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).

Its submission in response to the draft report provided a more detailed analysis of the youth labour market, school to work transitions and the interactions between young people and the Job Network. It stated that 'the experience of some young

people is that their unemployment and their level of disadvantage is likely to be extended while they are clients of [Job Network]' (sub. DR78, p. 3):

Job Network ... does not build into its design, the relevant international and national research factors influencing school to work transitions. It offers no specialist youth service, it requires no minimum service standards of its providers, it favours no evidence-based programs, service models and interventions, it expects no particular competencies from its staff. (sub. DR78, p. 3).

In fact, there are only half a dozen or so specialist IA youth providers in the second round. In contrast, as at July 2001, nearly 40 per cent of unemployed persons were aged between 15 and 24 years (ABS cat. no. 6222.0, March 2002), of which about 30 per cent had been unemployed for more than 6 months

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 8 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 years and 5.5 per cent for those aged 45 years 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 *footprints to the future* report recommended that Job Network services and youth support strategies be more effectively integrated. In response, the Government announced around 18 ‘innovative pilots that 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. The Melbourne City Mission (MCM) reported that a collaboration trial in Maribyrnong, Victoria, was progressing — the trial, a separate initiative from those arising from the *footprints* report, is aimed at developing multiple gateways to relevant services for young people (trans., p. 240). MCM considered that so far the trial had been ‘challenging, creative and exciting’ (sub. DR65, attachment, p. 8).

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).

Some participants commented on the New Apprenticeship arrangements in relation to the Job Network. ACCI, for instance, stated its concern about the ‘lack of

promotion of New Apprenticeships to job seekers from Job Network providers' (sub. 40, p. 4). A possible part explanation for this was provided by Group Training Australia, which stated that Job Network Members receive no payment for referring a job seeker to a Group Training Company under a New Apprenticeship (sub. DR51, attachment, p. 4). In contrast, the Victorian Employers' Chamber of Commerce and Industry stated that 'faced with the disappearance of wage subsidies, employers have embraced the New Apprenticeship system in large numbers as a means of achieving wage subsidisation' (sub. 11, p. 3). Similarly, Dr Richard Curtain considered that the New Apprenticeship scheme has 'acted more as a labour market program (ie wage subsidy) than as a skill formation system' (sub. DR55, p. 2).

However, the proposed arrangements for ESC3, including improved linkages with complementary employment and training programs, should benefit job seekers by referring them to programs most appropriate for their needs.

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 to consider are: payments based on outcomes; competition that rewards good performers with more business; and choice for 'consumers'.

Of the six illustrative programs discussed in this chapter, only two currently 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.

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 them 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. There is scope for greater use of 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 source particular services from providers other than Centrelink if they judge that offers better value for money at acceptable risk.

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'.

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 labour market and social welfare programs.

This chapter considers the scope for applying the following distinguishing features of the (original) 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 that in striving for outcomes, service providers should have some freedom to vary the provided service to meet the individual needs of each ‘customer’.
- 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. If the quality of outcome can be assessed *ex ante* some competition might be based on price.
- 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. Indeed, ESC3 will move further away from some of these market-based features of the purchaser-provider model.

15.1 Some current program examples

This section assesses the extent to which some or all of the features of the Job Network model have already been applied in a number of Australian labour market and social welfare programs.

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 DEWR 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. Brochures supplied to Centrelink by providers are given to job seekers to help them in this choice.

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).

FaCS considered that the PSP program 'design is similar in many ways to the Job Network [ESC2] model' (sub. 42, p. 8). The main difference would appear to be the smaller proportion of funding in PSP that will be linked to defined outcomes. There is also no price competition in the purchase of provider services by FaCS (different from the ESC2 model of the Job Network, but in common with the proposed ESC3 model).

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 the 70 permanent service centres of 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 option of the job seeker not choosing 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 that 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 on 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 of provider, 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 focused on process, rather than outcomes. 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. Research and development is supported by the AMEP Research Centre.

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, to deliver tuition according to a competency-based curriculum framework.

Summary

Of the six programs briefly outlined above, only two base any part of payment to the provider on defined outcomes and only one (AMEP) involves price competition between providers. 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 particular features of the (original) 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, Salvation Army Employment Plus considered that it is 'essential to ensure that deprived geographical areas and 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 that 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 the outcomes 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; and
- 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 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 that may justify consideration of the introduction of contestability in provision. There are current trials in both these areas.

15.3 Scope for extending the 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 model.

- *Some 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 and quality is not verifiable ex ante, 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 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 that reflect program goals comprehensively and avoid unintended consequences. Indeed, even the Job Network contracts one and two included constraints on the prices that could be bid and accepted. The element of price contestability will be reduced in the forthcoming Job Network contract three, with prices to 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 payments might be based on outcomes, even if 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, or for using incentive contracts that allow higher prices for demonstrated higher levels of performance (chapter 10); 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 purchaser-provider 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.

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: basing a proportion of payments 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 that 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 model discussed above.

This section of the report gives some more detailed consideration to Centrelink. It 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 7 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) that Centrelink aims to meet (those for March 2002 are set out in box 15.3).

Box 15.3 Centrelink performance including DEWR imposed tolerance levels — March 2002

<i>KPI</i>	<i>Benchmark</i>	<i>Latest</i> <i>(March</i> <i>2002)</i>	<i>KPI met</i> <i>within</i> <i>tolerance</i> <i>level</i>	<i>Tolerance level</i>
	<i>(Tol Lev)</i>			
1 Stakeholder Satisfaction				
A. Job Seeker satisfaction	80% (76%)	79%	Yes	5% of benchmark
B. Service Provider Satisfaction	80% (76%)	86%	Yes	5% of benchmark
2 Job Seeker Registration, Classification and Assessment				
A. JSCIs completed within 14 days of first contact	90% (87.75%)	89%	Yes	2.5% of benchmark
B. % of Job Seekers with JSCI applied correctly (QA by independent consultant)	95% (92.63%)	N/A	N/A	2.5% of benchmark
C. % Job Seekers enrolled within 28 days of registration	95% (92.63%)	96%	Yes	2.5% of benchmark
3 Indigenous Share of IA commencements	7.0% (6.65%)	8.1%	Yes	5% of benchmark
4 Participation Requirements				
% of participation reports actioned within 15 working days	90% (87.75%)	83%	No	5% of benchmark

Source: Centrelink.

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).

One participant, Mr Wolfgang Mueller, considered that Centrelink is 'so different and so successful, because it is what citizen[s] expect government to be: one main contact for many different services and payments of different departments, a true one-stop-shop' (sub. DR66, p. 3).

Essentially, Centrelink offers an integrated approach to addressing the economic and social needs of individuals and families. In doing so, it 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, for example, arranging income support and providing 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.

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 'privatisation' 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 would no longer provide the services 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).

It appears, however, that DEWR was unwilling to pay Centrelink for those services.

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). As noted below, an initial step has now been taken in this direction.

Centrelink expressed ‘disappointment’ about its performance against some of the KPIs during 2000-01 (Centrelink 2001a, p. 65). Centrelink noted that its (then) 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.

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.

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 that 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.

Performance based payment to Centrelink

Many desired outcomes are subject to quantitative specification. For example, the accuracy of JSCI evaluation and the commencement rate of job seekers with the providers to which they are referred should be amenable to quantitative measurement. Catholic Welfare Australia considered that these could be the subject of KPIs on which payment to Centrelink was based (sub. DR70, p. 25).

However, 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 incorporating 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.

For these reasons, 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.

DEWR noted that in the 2000-01 Business Partnership Arrangement with Centrelink some performance pay was linked to a number of KPIs:

For a give KPI, Centrelink was rewarded for exceeding the designated performance benchmark and penalised when performance fell below the benchmark (sub. DR80, p. 8).

Given the nature of the services provided by Centrelink in regard to the Job Network, it should be possible to develop an appropriate set of required outcomes and outputs and express them as quantitative KPIs. A recent ANAO report (ANAO 2002, p. 12) suggested that one performance indicator could relate to how effectively information is being delivered to job seekers by Centrelink.

The Commission considers that some, if not all, payment to Centrelink for these Job Network services should be based on the achievement of those KPIs. This would prevent them from being 'something of a toothless tiger' (sub. 43, p. 78).

For performance-based payment 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.

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).

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. Further, some services are restricted to a government agency because of issues such as privacy or accountability.

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 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.

Whether Centrelink has a significant cost and risk advantage over other providers (for those particular services that do not need to remain with a government agency for non-cost reasons) can only be established through a process of competition. 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 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.

RECOMMENDATION 15.3

The Commission recommends that DEWR and other government agencies obtain services from providers other than Centrelink, if they judge that offers better value for money at acceptable risk.

In supplementary information provided to the Commission, DEWR indicated that:

.... there are no services which are 'locked to Centrelink' although clearly decisions to withdraw services from Centrelink and use alternative providers would need to carefully consider potential impacts on services purchased by other agencies such as FaCS and DEST eg through coordination comments in Cabinet Submissions, or other mechanisms if outside the budget process.

The current BPA provides for six months prior written notice if DEWR chooses to use service providers other than Centrelink.

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 and/or its staff held informal discussions with a range of organisations (53 in total —section A.1) and held public hearings after the draft report (section A.2). A total of 82 submissions were received (section A.3) — 32 of these were received subsequent to finalisation of the draft report. Six ‘Value Creation Workshops’ were also held (section A.4). The Commission is grateful to all those who have participated in the inquiry.

A draft report was released in March 2002. Submissions commenting on the draft were invited and public hearings were held.

All public documents, including the issues papers, the draft report, submissions and transcripts of public hearings, were 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

Capital Region Employment Council

Centacare

Centrelink (Canberra, Darwin, Footscray, Palmerston, Port Augusta, Redfern)

Chapman, Bruce

Communicare

Company Solutions

Complete Personnel

Curtin Business School, Curtin University of Technology

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
Jobfind Centre
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 Participants in the public hearings

Sydney, 8 April 2002

Joblink Plus
Australian Council of Social Service
Leichhardt Community Youth Association
Wesley Uniting Employment

Newcastle, 9 April 2002

Job Find Centres Australia
Vicki Robin Craig
Raymond Hampson
Washington Rumeru
Kevin Norman
Rose Ronne
Samaritans Foundation
Victor Quirk
David Humphries
Phil Pettet
Colin Whelan
Jim Meek
Suzanne Hudson
Reg Wadwell
Steven Bailey

Melbourne, 10 April 2002

National Employment Services Association
Jobs Australia
Wise Employment
Melbourne City Mission
Salvation Army Employment Plus
WorkPlacement

A.3 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
Blackburn, Kevin	DR60
Blessing, Ray	7
Blind Citizens Australia	14, DR62
Brabet, David	DR67
Bristol, Professor Meredith	50
Capital Region Employment Council	DR69
Catholic Welfare Australia	DR70
Centrelink	45, DR82
Collins, Tom	48
Commisso, Rosa	1
Company Solutions (Aust)	17
Curtain, Dr Richard	DR55
Department of Education, Training and Youth Affairs	22
Department of Employment and Workplace Relations	43, DR80
Department of Family and Community Services	42
Department of Immigration and Multicultural and Indigenous Affairs	DR79
Employment National	28, DR53, DR73
Goddard, Dr Richard	2
Group Training Australia	DR51
Hill, Brett	DR59
Hudson, Suzanne	DR56
Indo-Chinese Employment Services	29

Participant	Submission no.
Innisfail JOB Centre	5
JOB <i>futures</i>	30
Job Net Tasmania	16
Johnson, Dr Howard	49
Jobs Australia	D81
Kassim, Soraya	23
Kimberley Area Consultative Committee	15
Leichhardt Community Youth Association	DR77
Meek, James	DR57
Melbourne Citymission	DR65
Mission Australia	44
Mt Gravatt Training Centre	4
Mueller, Wolfgang	DR66
Multicultural Development Association Inc and the Multicultural Employment Advocacy Network (Qld)	34
National Employment Services Association	39, DR75
National Seniors Association	10
Northern Territory Area Consultative Committee	36
Office of the Public Advocate	26
Pettet, Phillip E.	DR58, DR61
Professional Vocational Services	DR63
Queensland Government	DR76
Quest Solutions	38
Quirk, Victor	DR68
Recruitment & Consulting Services Association	46
St Laurence Community Services (Barwon)	DR72
Salvation Army Employment Plus	35
Sarina Russo Job Access	21, 33
Shaw, Merryn	DR52
Tangentyere Job Shop	13
Tasmanian Employment Advisory Council	31

Participant	Submission no.
Tully, Allan	47
Un(der)employed People's Movement Against Poverty	3
UnitingCare Australia	12, DR74
Victorian Employers' Chamber of Commerce and Industry	11
Wesley Uniting Employment	9, DR71
Wheatbelt Area Consultative Committee	6
WISE Employment – certain employees	24
Work Directions Australia	DR54
Workco	20
WorkPlacement	19, DR78
Your Employment Solutions	DR64

A.4 'Value Creation Workshops'

During November and December 2001, the Commission held six workshops with job seekers around Australia. These 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, as well as the Value Creation Group and Centrelink for their contribution.

The results of the workshops are discussed in chapter 6 and appendix B.

A.5 Research team

The following staff assisted in the preparation of this report:

Ralph Lattimore	Assistant Commissioner
John Williams	Inquiry Research Manager
Ross Wilson	Inquiry Research Manager
Jim Roberts	Inquiry Research Manager
Norm Gingell	Research Manager
Dominique Lowe	Research Economist
Salim Mazouz	Research Economist
James Mills	Research Economist
David Gilbert	Research Economist
Lynette Williams	Administrative Support Officer

B Value Creation Workshops

The Commission was able to benefit from six workshops that were held by Centrelink's Value Creation Team in different locations around Australia during November and December 2001. They involved a total of 100 job seekers in a number of jobless categories. The workshops 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 were 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 as well as getting a feeling for satisfaction levels.

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.
 - 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 are presented in a consolidated report, prepared by the Value Creation Team, which is available from the Commission. On 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;
- 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.

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).

The Department of Immigration and Multicultural and Indigenous Affairs (sub. DR79, pp. 4–5) commented:

Simple national comparisons of Indigenous and non-Indigenous unemployment rates and outcomes from the Job Network can be misleading. The geographic distribution of the Indigenous population is substantially different from the non-Indigenous population. Whereas around 2% of the non-Indigenous population live in remote and very remote locations, 26% of Australia's Indigenous peoples live in these locations. Similarly, whereas 82% of non-Indigenous Australians live in highly accessible locations, where the most job opportunities exist, only 44% of Indigenous Australians live in these urban centres.

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.

The difficulties in identifying the factors influencing the employment and labour force participation of Indigenous Australians have been identified in research conducted by the Centre for Aboriginal Economic Policy Research (CAEPR) at the ANU. Gray and Hunter (1999) found, among other things, that¹:

... region of residence has no effect upon the probability of employment of indigenous males and females. In contrast, region of residence is an important determinant of the probability of employment for non-indigenous males and females; and

An increase in the proportion of a cohort with a university degree has no statistically significant effect upon the probability of employment for indigenous cohorts (p. iv).

They commented that:

The results clearly demonstrate that a large part of indigenous employment disadvantage is not simply due to lack of educational attainment and the level of labour demand in the regions where indigenous Australians live but is also due to unobserved differences such as schooling quality, assimilation, discrimination and other attitudes (p. v)

This is not to say that better data sets (Gray and Hunter commented on the lack of a representative longitudinal survey of the Indigenous population) would not provide more nuanced results, but it does highlight both the difficulty in identifying factors influencing Indigenous involvement in the workforce and the need for good data. Without such data and analysis, it is more difficult to target policy action to where it is likely to be most effective.

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 per cent 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

¹ Gray and Hunter undertook cohort analysis of the probability of employment and participation in the labour force for indigenous and non-indigenous males and females using data from the 1986, 1991 and 1996 Censuses.

Employment Program. Indigenous job seekers participating in CDEP are counted as off-benefit outcomes (sub. 43, p. 50).²

Indigenous Employment Policy

Assistance for Indigenous job seekers is provided via a number of programs. In July 1999, the Government introduced an Indigenous Employment Policy comprising of three elements — Job Network, The Indigenous Employment Program (comprising a number of projects) and the Indigenous Small Business Fund. The elements of the Indigenous Employment Program are:

- Corporate Leaders for Indigenous Employment Project, where CEOs of major corporations seek to provide more employment opportunities for indigenous Australians within their organisations (700 job opportunities identified to date);
- Wage Assistance Programme, involving a \$4400 incentive over 26 weeks, (2228 placements in 2000-01);
- Structured Training and Employment Project (STEP), which provides financial assistance to businesses which offer structured training (3934 placements in 2000-01);
- National Indigenous Cadetship Project (NCIP), supports companies sponsoring indigenous tertiary students as cadets (74 cadetships approved in 2000-01);
- Community Development and Employment Projects (CDEP) (\$437 million in 2000-01, with 32 600 participants at June 2001); and
- Voluntary Service to Indigenous Communities, which matches skilled volunteers with the needs of Aboriginal and Torres Strait Islander communities.

The Indigenous Small Business Fund, which assists indigenous people to learn about business, develop business skills and expand their business, has funding of \$2 million per annum, with 47 projects approved in 2000-01.

Under the Job Network, 29 333 identified indigenous job seeker placements were made in 2000-01.

² The Community Development Employment Projects (CDEP) absorb 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).

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;
- 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 into 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 do not 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's 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 was 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 participants' 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.

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.

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).³ 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

³ 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.

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.

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.

Similar concerns about the practical difficulties in establishing effective partnerships between IECs and Job Network members were also noted by the

Department of Immigration and Multicultural and Indigenous Affairs (sub. DR 79, p. 6).

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:

$$R^A = U^A + \sum_{i=1}^5 \phi_i^A(z^A) \cdot p_i^A - z^A \quad \text{and} \quad R^B = U^B + \sum_{i=1}^5 \phi_i^B(z^B) \cdot p_i^B - z^B$$

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:

$$\tilde{R}^A = U^A + \sum_{i=1}^5 a_i^A \cdot p_i^A - z^A \quad \text{and} \quad \tilde{R}^B = U^B + \sum_{i=1}^5 a_i^B \cdot p_i^B - z^B$$

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 $\alpha \tilde{R}^A + (1 - \alpha) \tilde{R}^B = \$1\,961$, 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:

$$\frac{\partial R_A}{\partial z^A} = \sum_{i=1}^5 b_i^A \cdot p_i^A - 1 > 0 \text{ and } \frac{\partial R_B}{\partial z^B} = \sum_{i=1}^5 b_i^B \cdot p_i^B - 1 > 0$$

The information on which the b parameters can be estimated is scant. 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 scant 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:

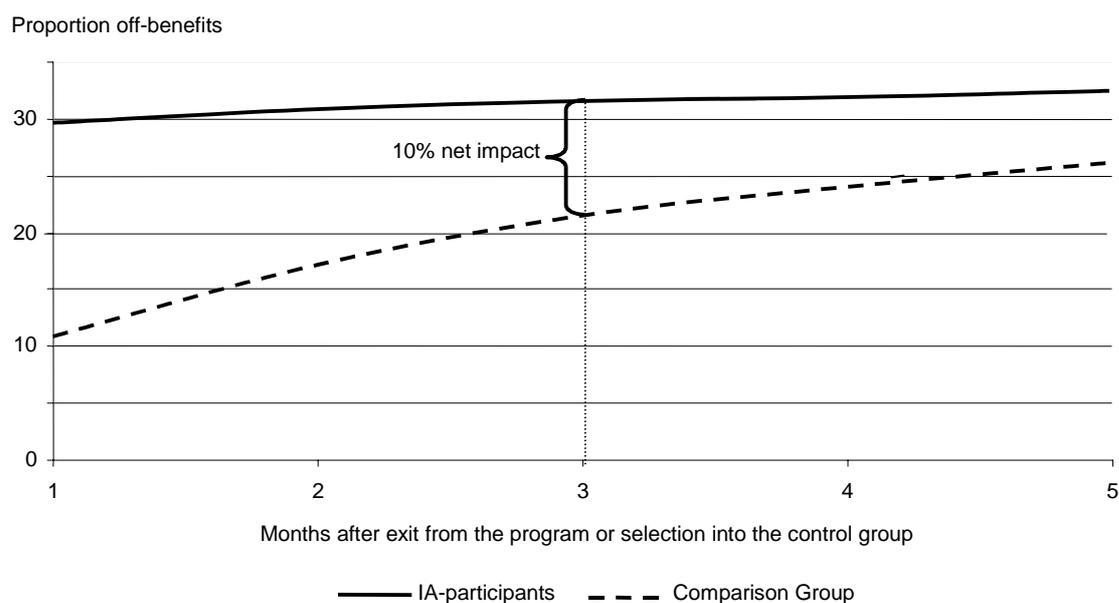
1. exits from the IA program during one month are selected as a cross-sectional sample of IA participants;
2. a matched control group is selected on the basis of age, gender and duration of unemployment (where duration of unemployment is matched taking the period that IA participants spent in unemployment 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

-
- 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.

E.3 The time bias

One distinctive feature of the results reproduced in figure E.1 is that the gross outcomes recorded in the first month for IA participants is very high. The

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.

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).

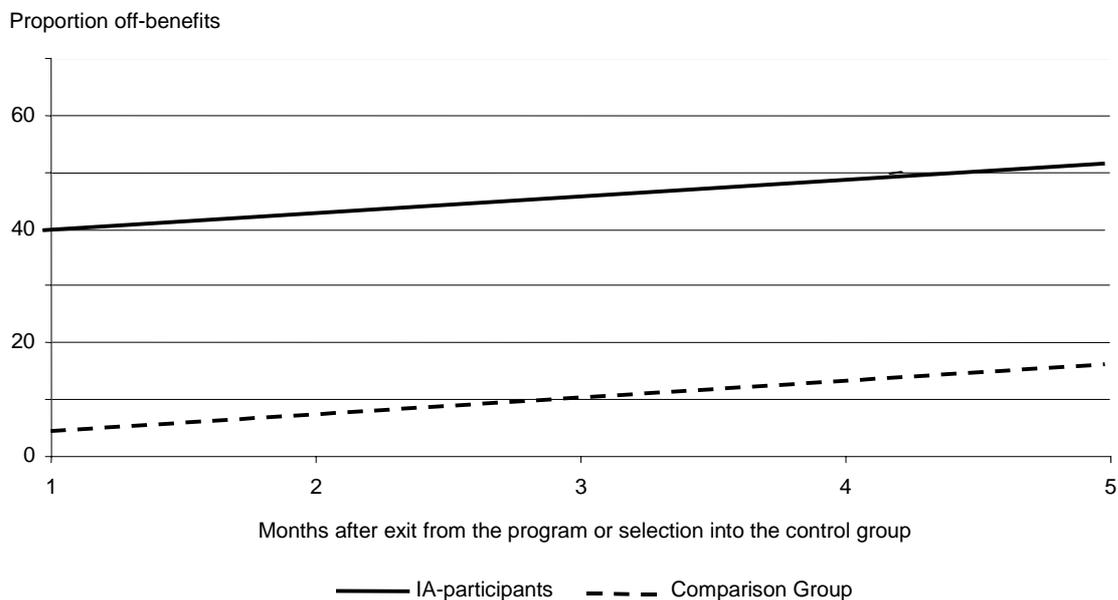
Under these assumptions, if a group of IA participants commencing in the same month were to be followed for a year — 36 per cent (12 months multiplied by 3 per cent) would be observed to have found employment. Thus, in the absence of seasonal variations and other sample biases, one would expect 36 per 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.4 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.

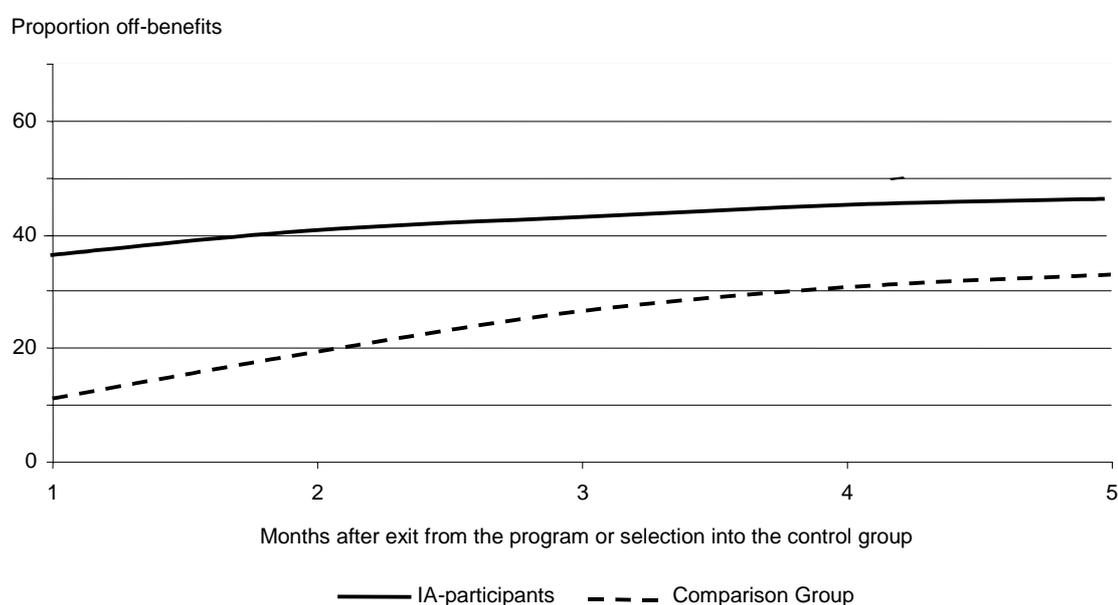
In recognition of this declining average probability of finding employment, DEWR's PPM methodology is careful to select control groups on the basis of unemployment duration. However, DEWR's methodology overlooks the fact that,

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 (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.5 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

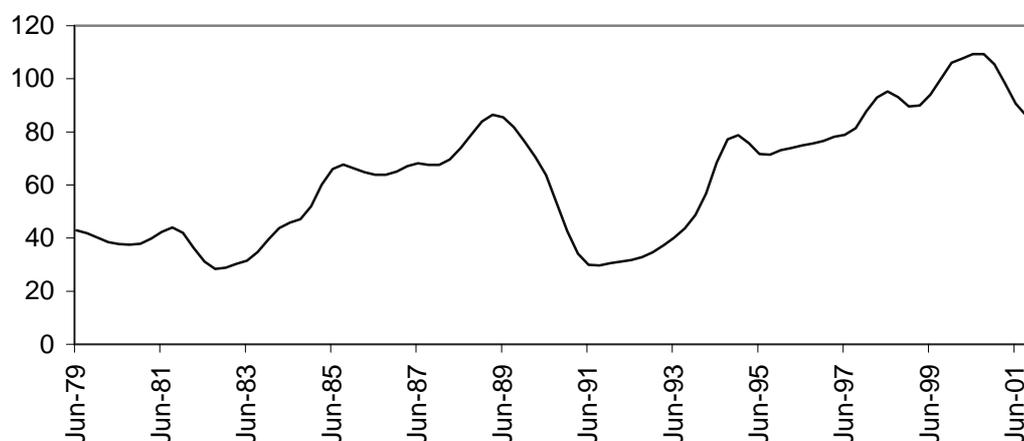
This appendix looks briefly at the likely impact that changes in the business cycle could have on the flow of business to Intensive Assistance providers, and at the likely impact of the changes proposed for the third contract. The Commission has not been able to model the effects of the proposed arrangements in the time available, but key changes are identified and their likely impact is discussed.

Job Matching providers

Under the existing second contract arrangements, 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 its 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**
thousand 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.

Proposed third contract arrangements

Under the proposed third contract arrangements the single Job Matching fee is replaced by multiple fees based on the duration of unemployment of the job seeker with a bonus payment for jobs with more hours worked per week (table F.1).

Table F.1 Job Matching fees: second contract round and proposed fees for third contract

	<i>\$ per client</i>
	for 15 hours over 5 days
<i>Second contract</i>	
average outcome fee	362
<i>Third contract (proposed)</i>	
'non-eligible' job seekers ^a	165
eligible job seekers less than 12 month unemployed ^b	275
eligible job seekers more than 12 months unemployed ^c	385
bonus payment for eligible job seekers (50 hours over 2 weeks)	165
Estimated average for third contract ^d	309

^a Unemployed job seekers not on eligible government income support and not otherwise eligible for Job Network services. ^b Eligible short-term unemployed job seeker (less than 12 month unemployed). ^c Eligible long-term unemployed job seeker (more than 12 months unemployed) or at high risk of long-term unemployment (immediate eligibility for Customised Assistance). ^d Based on 400 000 paid outcomes in a year, 30 per cent of which are for 'non-eligible' job seekers, 55 per cent being for short-term unemployed, and 15 per cent for long-term unemployed (based on 165 000 Customised support clients achieving the same level of employment outcomes (38.6 per cent) as in IA). Forty four per cent of eligible job seekers are assumed to earn the bonus payment (based on 44 per cent of job matching placements being full time from 'DEWRSB 2001h, Job Matching: A Stepping Stone to a Better Future?', p. 16)

Source: DEWR 2002a, and Commission estimates.

The Commission estimates that, on average, the level of Job Matching fees will be slightly lower than that applying in the second contract. The most significant determinant of this is the estimate of the share of job seeker placements that will earn the bonus for employment of 50 hours over 2 weeks.

It is unlikely that the proposed fee structure will result in any significant change in the flow of revenues over the business cycle for Job Matching agencies.

Intensive Assistance providers

Under the existing second contract arrangements, 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 dependent 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 be difficult to get an outcome payment for these clients. The extent to which this is a problem depends on:

¹ Some 35 per cent 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.

-
- 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 per cent 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.2.

Table F.2 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 per cent of commencements are level A and 32.5 per cent 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.3).

Table F.3 Assumed delay in receipt of commencement and outcome payments

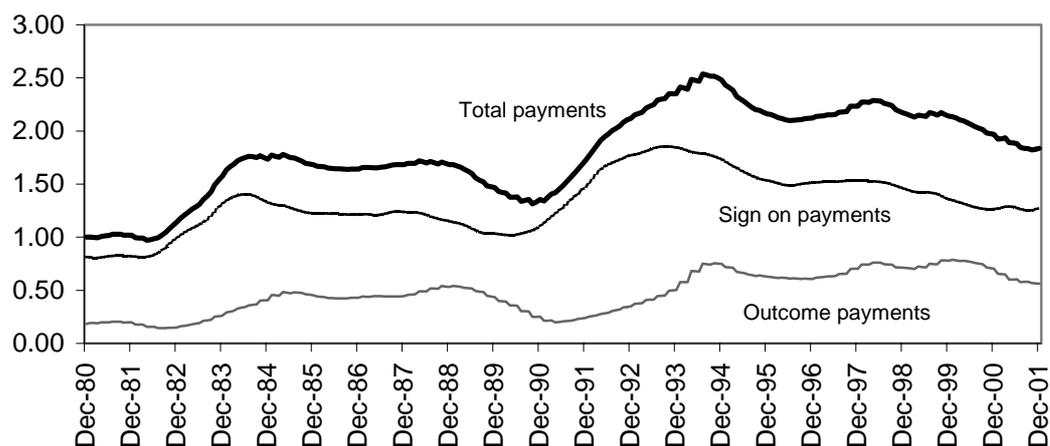
	<i>Delay in months</i>
Commencement	0
Early job matching	3
Interim primary	6
Interim secondary	6
Final primary	9
Final secondary	9

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



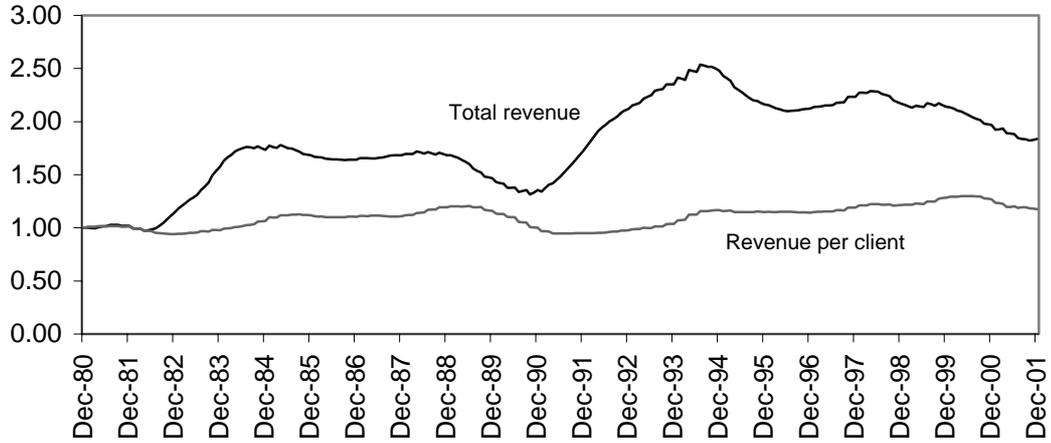
Data source: Commission estimates.

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.

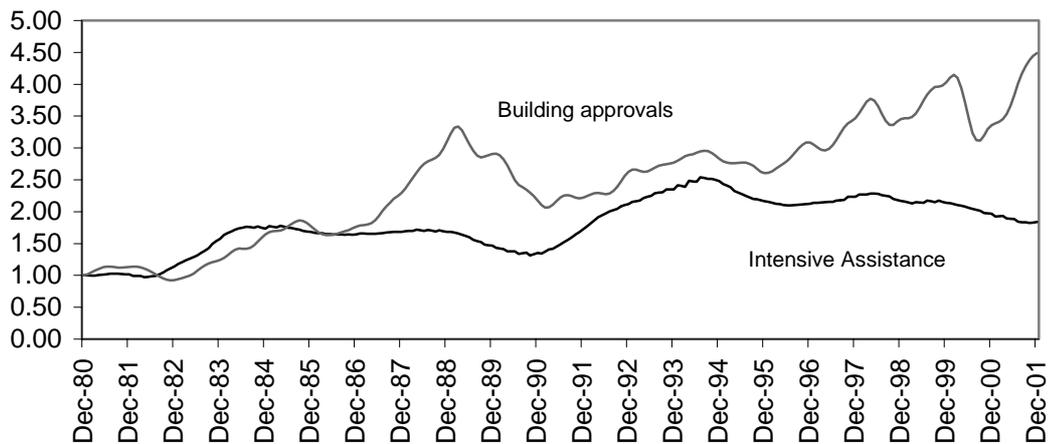
Figure F.3 Estimated variability in gross revenues and revenues per client
Index



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 the draft report, 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.4). 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.4 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

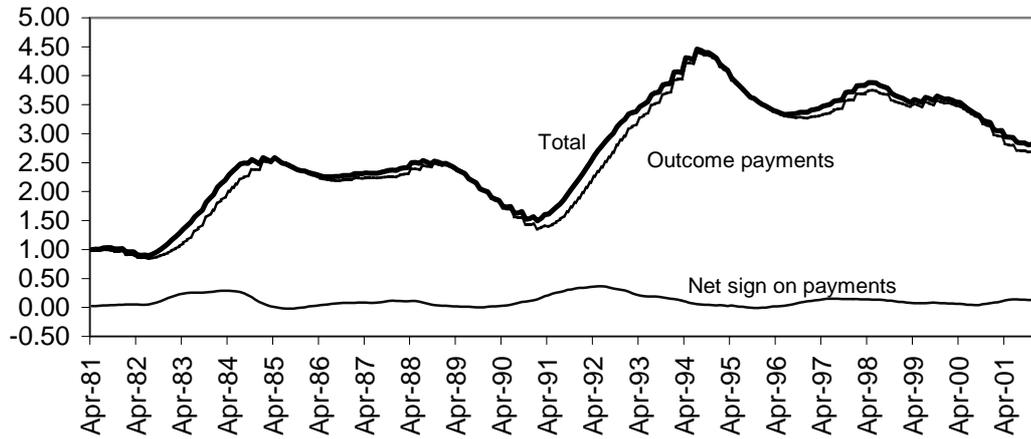
^a For weighting purposes, 67.5 per cent of commencements are level A and 32.5 per cent of commencements are level B. ^b The rate of repayment was determined by the level of interim primary and interim secondary outcomes.

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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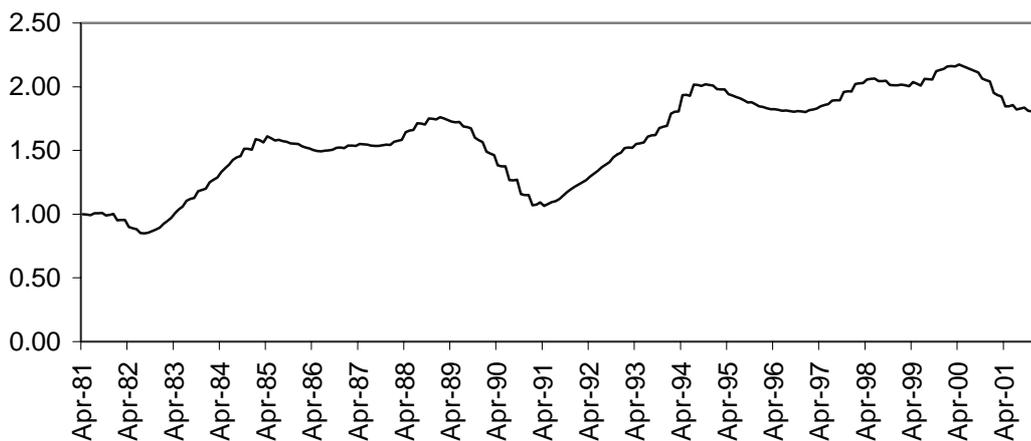


Data source: Commission estimates.

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

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Data source: Commission estimates.

Proposed third contract arrangements

The key changes between the second contract round and the proposed third contract arrangements are the replacement of commencement fees with a schedule of fee for service, and the introduction of outcome fees based on the length of time that a job seeker is unemployed.

The fee for service structure, however, will be similar in effect to the pre-existing commencement fees (table F.5 and figure F.7). Fees for service are ‘front loaded’ that is, most are available immediately the job seeker begins Intensive Support (the equivalent of JST stage under the second contract) and when they begin Customised Assistance (the IA stage under the second contract). The total of the fees is broadly similar to the original commencement fees, and the timing of receipts is also similar. It is thus unlikely to represent a significant change to the flow of funds to Job Network providers over the business cycle.

Table F.5 A comparison of commencement fees under the second contract and estimated service fees and job seeker accounts proposed for the third contract
(dollars per client per month)

<i>Month</i>	<i>Second contract commencement fees</i>	<i>Proposed third contract service fees</i>	<i>Notes on proposed third contract service fees</i>
	\$	\$	
1		52.5	New referral interview, 45 minutes
2			
3			
4	JST fee: 500 (est average)	671.0	JST fee of \$660, plus \$11 job seeker account ^a
5		81.7	5 month review of 70 minutes
6			
7		29.2	7 month review of 25 minutes
8			
9		29.2	9 month review of 25 minutes
10			
11		29.2	11 month review of 25 minutes
12			

(cont)

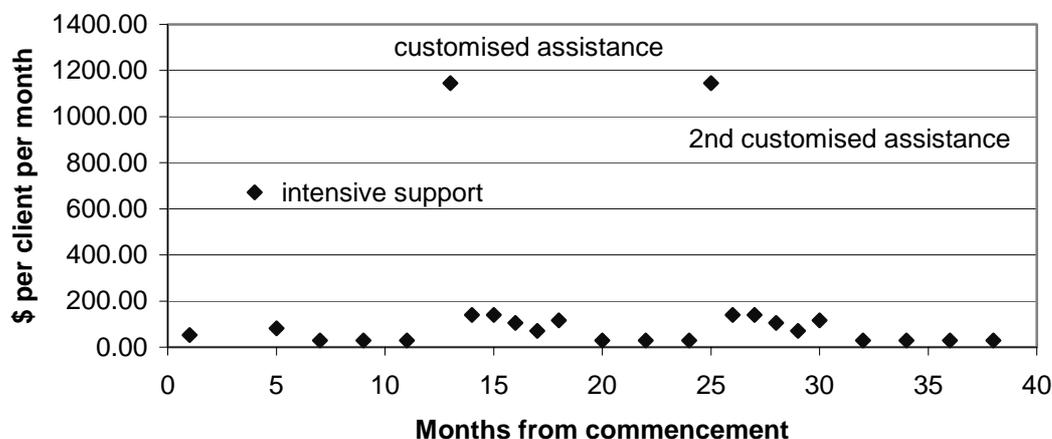
Table F.5 (continued)

13	Level A:1069 Level B: 2107 Av: 1406	1145.0	Customised assistance first month review of 3 hours, plus \$935 job seeker account
14		140.0	Customised assistance month 2 interview of 2 hours
15		140.0	Customised assistance month 3 interview of 2 hours
16		105.0	Customised assistance month 4 interview of 1.5 hours
17		70.0	Customised assistance month 5 interview of 1 hour
18		116.7	Customised assistance month 6 interview of 1 hour 40 minutes
19			
20		29.2	Job search support interview of 25 minutes (every month or every two months)
21			
22		29.2	Job search support interview of 25 minutes
23			
24		29.2	Job search support interview of 25 minutes
25		1145.0	Customised assistance first month review of 3 hours, plus \$935 job seeker account ^b
26		140.0	Customised assistance month 2 interview of 2 hours
27		140.0	Customised assistance month 3 interview of 2 hours
28		105.0	Customised assistance month 4 interview of 1.5 hours
29		70.0	Customised assistance month 5 interview of 1 hour
30	Level A: 1069	116.7	Customised assistance month 6 interview of 1 hour 40 minutes
31		29.2	Job search support interview of 25 minutes.
32			
33	Level B: 2107	29.2	Job search support interview of 25 minutes
34			
35		29.2	Job search support interview of 25 minutes
36			
37		29.2	Job search support interview of 25 minutes
38			
39		29.2	Job search support interview of 25 minutes (at least every two months after 38 months unemployed)

^a The budget of \$10 million per annum set aside for the \$11 per client account indicates some 900 000 eligible participants over a 12 month period. The JST fee of \$660, is expected to apply only to some 110 000 participants over a year. In addition, 69 000 mature aged and indigenous job seekers will have access to Training Account funds of up to \$800 each, introduced under AWT (budgeted to average \$267 per eligible client). ^b On the basis of information on numbers and budgets provided to date, the Commission estimates that only 37 per cent of job seekers who remain unemployed for 24 months will be accepted into a second round of Customised Assistance.

Source: DEWR 2002a, and Commission estimates.

Figure F.7 Estimated schedule of service fees and job seeker accounts under the proposed third contract



Data source: DEWR 2002a.

One important factor in the new arrangements is the reduced number of job seekers expected to be included in Customised Assistance (165 000) compared to the number of job seekers involved in IA (276 600) in a year. Table F.6 looks at the range of job seeker accounts proposed for the third contract round and at the numbers of job seekers identified in each category where this can be obtained from information available so far, or estimated from that information.

Table F.6 Estimated numbers of job seekers involved in each type of job seeker account

Account type	Estimated annual cost ^a	Third contract numbers	Second contract numbers
	\$ million		
\$11 at intensive support	10.0	909,000 ^c	
\$935 at customised assistance	140.0	165 000 ^a	276,600 ^e
>\$800 for mature aged and indigenous (AWT) – average \$267 ea.	18.4	69,000 ^d	
<i>Total job seeker accounts</i>	168.4		
\$660 JST fee (at intensive support)	72.6 ^b	110,000 ^a	74,800 ^f

^a Information supplied by DEWR. ^b Estimated on fee rate and expected numbers. ^c Estimated on annual budget and per client rate. ^d AWT Fact Sheet reported 69 000 mature age and indigenous job seekers (an estimated average of \$267 each). ^e Number of job seekers participating in IA in 2000-2001. ^f Number of job seekers participating in JST for 2000-2001.

Source: Information supplied by DEWR and Commission estimates.

This information has two implications. First, as the same number of job seekers are expected to reach the four month mark and be eligible for both the \$11 job seeker account and the \$660 JST fee, the lower expected number to be eligible for the JST fee implies an, as yet, unspecified rationing mechanism for JST eligibility.

Second, if only 165 000 job seekers are to be included in Customised Assistance compared to the previous 276 600 in IA, this has an implication for the expected level at which job seekers who are still unemployed after 24 months will be accepted into a second round of Customised Assistance, as this appears to be an area where involvement is not automatic.

The Commission estimates that, to retain the 165 000 job seekers in Customised Assistance, almost two thirds of those who are unemployed after 24 months would not be eligible for a second round of such support.

This is estimated as follows:

- 276 600 job seekers participated in IA in 2000-01;
- about half of those participating in IA are repeat participants, thus 138 300 participants will be ‘first timers’ in a year and automatically eligible for Customised Assistance;
- this number will change as an estimated 30 000 job seekers who were unemployed for 12 months and were not included in IA, will now be automatically included under the new arrangement. However, the tightening of JSCI qualifications for immediate referral to Customised Assistance is expected to reduce the rate of immediate referral from 35 per cent to 10 per cent. On the basis that half of those no longer immediately referred get jobs before they are automatically included after 12 months, some 48 000 less job seekers will enter Customised Assistance;
- thus, an estimated 120 300 ‘first timers’ will participate in Customised Assistance, leaving 44 700 ‘second timers’ to be accepted to fill the estimated 165 000 total. However past experience shows that there are likely to be as many second timers as first timers potentially eligible for Customised Assistance, implying that only 37 per cent will be accepted.

Outcome fees

The most significant changes to the outcome fees are:

- the introduction of high fees for job seekers who are unemployed for longer; and
- the ability to obtain outcome fees after a period of Customised Assistance has ended.

Table F.7 presents the schedule of outcome fees in both the second contract round and proposed for the third.

Table F.7 Rate at which outcome payments are achieved and the level of payments

	<i>Second contract payment for outcome</i>				<i>Third contract proposed payment for outcome</i>				
	<i>JST</i>	<i>Intensive Assistance</i>			<i>3-12 month</i>	<i>13 to 24 month</i>	<i>25 to 36 month</i>	<i>37 month or more</i>	<i>Average of 13 month or more^b</i>
		<i>A</i>	<i>B</i>	<i>IA average^a</i>					
	\$	\$	\$	\$	\$	\$	\$	\$	
Interim primary	266	2495	4915	3282	550	1650	3300	4400	2465-3236
Final primary ^c		1064	2128	1410		850	1650	2200	1249-1626
Interim secondary		536	536	536		550	550	4400	
Final secondary ^c		536	536	536		550	550	2200	

^a For weighting purposes, 67.5 per cent of commencements are level A and 32.5 per cent of commencements are level B. ^b The higher estimate is based on the distribution of clients in IA by duration of unemployment (Table F.8). The lower estimate is adjusted for the expectation that the more long term unemployed are less likely to achieve an eligible outcome. ^c Final payments are in addition to the interim payment.

Source: Appendix E.

Table F.8 Distribution of clients by duration on income support

<i>Duration</i>	<i>Job Network eligible</i>	<i>JST Commencements</i>	<i>IA Commencements</i>
	%	%	%
Less than 6 months	30.4	43.7	24.8
6-12 months	18.3	30.7	11.2
12-24 months	15.2	18.4	20.8
24-36 months	11.8	4.0	15.4
3-5 years	15.2	2.4	16.5
5 years or more	9.0	0.5	11.0
<i>Total</i>	100.0	100.0	100.0

Source: DEWRSB 2001a, p.25.

The new outcome fee structure may have an impact on the flow of funds to Job Network members over the business cycle that differs from that under the second contract. This is because the average duration of unemployment of job seekers tends to increase in times of recession and decrease in times of an upturn. This implies that at the end of a period of recession, a greater pool of more long-term

unemployed clients has developed, and as jobs begin to be found, it would be expected that the outcome fees would, on average, be higher as well as a greater number of fees being achieved as the economy picks up.

Job Search Training providers

Under the existing second contract arrangements, 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 per cent) of the available payments for that group, and 80 per cent 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. This effect is unlikely to change under the third contract arrangements.

G Competitive pricing

As noted in chapters 3 and 10, prices for Job Network services in ESC2 are determined by competitive bidding, with floor prices in the case of IA (but with JM and JST prices unconstrained). This appendix examines some empirical aspects of such pricing:

- the extent to which prices tend to cluster together;
- the determinants of different prices;
- the relationship between higher prices and the performance of Job Network providers; and
- the degree to which payments for outcomes leads to large disparities in incomes of Job Network providers that achieve similar ‘value added’ when adjusted for labour market conditions and client characteristics.

G.1 Price clustering

As noted by a number of participants, in many cases prices for IA contracts in the second tender round were at the floor price set by DEWR, with many other prices relatively close to the floor. Accordingly, the average price was higher than the minimum price — for both level A and B clients to IA — by less than 10 per cent (table G.1). This does not mean that some providers did not get high prices in some areas or specialties — but rather that most prices graduated towards the floor (as predicted in chapter 3).

A floor price was not set for those services whose nature was relatively clearly specified by DEWR (JM and JST). In these services the average price is significantly higher than the minimum price, while price variation is relatively greater than IA (table G.1). In these cases, the distribution of prices is also far more symmetric about the mean (figure G.1). The comparison of the distributions of JM and JST prices with IA suggests strongly that, were floor prices to be relaxed for IA, average prices would fall substantially — with potentially adverse implications for service levels.

Table G.1 Dispersion in prices in different Job Network services

Second contract

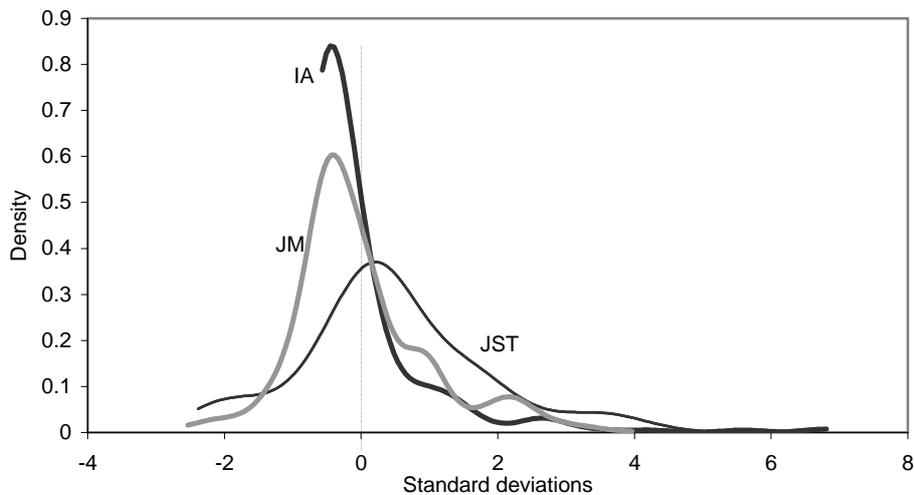
	<i>Relative variation^a</i>	<i>% difference between the average and minimum price</i>
	%	%
Intensive Assistance		
Upfront fee level A	16.5	9.7
Upfront fee level B	10.3	6.6
Job Matching fee	18.6	89.4
Job Search Training fee	27.6	99.7
NEIS fee	23.1	43.0

^a The measure is the coefficient of variation (the standard deviation of prices divided by the average price). This enables variation in prices to be compared across services.

Source: Based on data supplied by DEWR.

Figure G.1 Distributions of prices in the Job Network

Second contract



^a So as not to reveal the actual level of prices, prices were standardised (ie of the form $(p_i - \mu)/\sigma$). The distribution for IA relates to upfront payments for level A clients (the distribution of upfront payments for level B clients is almost identical and is not shown for this reason). It is clear that distributions for JST and JM are relatively symmetric around the mean price, whereas setting a floor price has truncated the distribution of prices that would otherwise be expected for IA.

Data source: Based on data provided by DEWR.

G.2 The determinants of different prices

Intensive Assistance

In theory, prices will depend on the average costs of services in differing regions or for different types of clients and on the extent of local competition. It may also reflect judgments by DEWR of the relative quality of different providers. Quality is given a 75 per cent weight in assessments of the competitive tenders — although it is difficult to objectively measure.

Prices for most specialist IA providers tended to be significantly higher than for generalists. For example, all other things being equal, interim primary outcome prices for level B clients for specialist Indigenous providers were on average one standard deviation higher than generalist providers (around 10 per cent above the floor price) — though there was still significant variation in the prices for Indigenous services. Unlike other specialist agencies, youth specialist agencies appeared to receive rather less than generalist agencies.

There were some statistically significant regional differences, but with the exception of Western NSW and Northern Territory, these were not economically significant, suggesting that regional cost differences are muffled by the floor price.¹

Larger capacity agencies tend to have moderately lower prices than smaller agencies — consistent with limited economies of scale — though these economies appear to be exhausted above caseload capacities of around 1000 clients.

There is some evidence that prices were lower the greater the number of separate Job Network providers in an ESA — potentially picking up the pressure of competitive tendering on prices. However, this effect disappears when regional dummies are included in the model — so it may simply pick up the fact that those regions for which prices are higher for other reasons (such as costs), tend also to have weaker competition. Either way, at best the effect is small (in a model in which regional dummies are removed and replaced by the competition variable, an ESA with 10 providers has prices around 4 per cent lower than an ESA with 2 providers).

Agencies with charitable status receive a price premium, but the premium is small and bordering on conventional statistical significance.

Other variables, such as a remote location, a major city location, urbanisation more generally, the size of the chain to which an agency was connected (measured as

¹ Which is substantiated by the differences between OLS and Tobit coefficient sizes (table G.2).

number of separate ESAs in which the provider had at least one site) and whether an agency provides mixed specialised and generalist services are not statistically significant determinants of prices — though these factors may be thought to be correlated with underlying costs. High unemployment rates are negatively correlated with prices — probably reflecting the fact that high rates at least ensure a steady stream of commencement fee income — but the effect is not statistically or economically significant.

The model results for level A IA prices were qualitatively similar.

Table G.2 Regression of the above floor price for an interim primary outcome for level B in Intensive Assistance^a

Second contract

	OLS		Tobit	
	<i>coefficient</i>	<i>t statistic</i>	<i>coefficient</i>	<i>t statistic</i>
Constant	3838	(4.1)	4308	(5.1)
<i>Regional dummies</i>				
Perth region	-253	(4.1)	-368	(2.9)
Tasmania	-181	(6.9)	-908	(3.0)
Western NSW region	605	(3.7)	743	(5.6)
Adelaide region	-104	(2.7)	-154	(1.3)
Melbourne region	-123	(3.2)	-299	(3.0)
Northern Territory	553	(1.9)	565	(2.6)
<i>Specialist dummies</i>				
Youth specialist agency	-378	(4.1)	-589	(2.1)
Indigenous specialist	506	(2.7)	610	(4.0)
Disabled specialist	426	(2.1)	585	(3.2)
NESB specialist	323	(6.5)	653	(4.0)
<i>Other agency characteristics</i>				
Agency with deductible grant status	65	(1.9)	120	(1.9)
Log(capacity)	-1145	(3.7)	-1344	(4.5)
Log(capacity) squared	89	(3.5)	102	(3.9)

^a The dependent variable is the difference between the interim primary outcome fee and the floor price. The results are unweighted and are based on 523 observations. The OLS R^2 was 0.36 (ie the model explains 36 per cent of the variation of prices). The t statistics have been amended using White's correction for heteroscedasticity. Tobit estimates were also generated because ordinary least squares estimates can be biased when prices have a floor that is binding for some observations. The log likelihood was -2446.

Source: The data on prices and provider characteristics were supplied by DEWR. Providers that run generalist and specialist services from the same site were regarded as separate observations for the purposes of estimation.

Other services

Similar models to that above were estimated for JM and JST (except that the issue of specialisation does not arise). Most of the explanatory power of the models stem from regional dummies and from a strong competition effect.

There is some overlap with the results for the regional dummies for IA — at least in terms of the ranking of the coefficients. Prices for JM, JST and IA services tend to be lower in Western Victoria, Adelaide and Melbourne and higher in Western NSW, Greater Western Australia, the Illawarra region and the Northern Territory. In general, prices in capital cities tend to be lower than elsewhere, while prices in remote areas are higher than the average.

However, inconsistent results emerge for many regions across the prices of the different services. For example, agencies in Tasmania and the ACT tend to have low relative prices for IA services, but intermediate prices for JST and JM services. This suggests that the regional dummies are probably picking up peculiarities in the dynamics of competition locally rather than systematic regional cost differences alone (since it does not seem plausible that costs could be low for IA but relatively high for JST). Given that there are 19 regions, there is also a risk that some dummies pick up chance regional variations.

The existence of strong competition effects for JST² and JM, but not IA, probably reflects the influence of the price floor in the latter, which obscures the effects of increased competition on price.

JM fees were higher (by around 6 per cent) for those JM providers that also offered IA. This probably reflects the fact that some providers with weaker prospects for picking up an IA contract heavily discounted their JM prices in an effort to make their overall package of services look more attractive in the 2nd tender. Many lost their IA bid and were left with low JM prices.

² In a simplified model of prices based on the number of different providers within an ESA (the competition intensity variable) and dummy variables for remoteness and capital city location (to capture broad regional differences), for every additional provider within an ESA, prices fall by 3.6 per cent for JST and by 0.8 per cent for JM. These results are highly statistically significant. In contrast, no statistically or economically significant effect is apparent for IA interim primary outcome payments.

G.3 The effects of higher prices on performance

Intensive Assistance

The tendering process allows DEWR to pay higher prices for higher quality providers to the extent that such providers are willing to risk quoting a high price. The implicit assumption underlying any willingness by DEWR to pay for quality is that a higher quality provider should achieve better outcomes. Statistical analysis suggested that higher prices were associated with a modestly higher relative performance by IA providers — as measured by their star ratings (table G.3).

Table G.3 **Predicting star ratings for February 2002^a**
Intensive Assistance providers

Variable	Coefficient	t statistic
Constant	1.98	(4.3)
<i>Regional dummies</i>		
Central North Queensland	0.81	(3.9)
Hunter region	0.44	(2.4)
Riverina region	-0.62	(2.2)
South Australian country	0.72	(2.4)
Southern Queensland	0.64	(3.8)
South Western Australia	0.82	(3.7)
Sydney	-0.49	(4.6)
Western Victoria	1.12	(6.7)
<i>Other characteristics of the provider</i>		
Capital city location	0.44	(3.0)
Disabled specialist	0.87	(2.2)
NESB specialist	1.28	(6.8)
Difference between actual and predicted price from a price model ^b	0.00044	(2.4)
Log (capacity)	0.15	(2.0)

^a The regression is based on 519 observations and is weighted by the capacity of the provider. The standard errors were adjusted using White's correction for heteroscedasticity. ^b Higher prices paid to a provider may reflect the combined influences of higher costs, chance and a premium for quality. It would be predicted that any higher price stemming from higher costs would not have any influence on performance. Accordingly, to examine the effects of higher prices on performance ideally the influence of costs on prices should be removed. Unfortunately, costs are not directly observable. However, some factors that may be associated with costs — such as the remoteness of the region or special characteristics of a Job Network provider's clients — are observable. A first stage regression was estimated for the average premium on the floor price for interim primary outcomes, defined as: $P = (IOFPA - 2514)/2 + (IOFPB - 4952)/2$ where IOFPA and IOFPB are the prices for interim primary outcomes for level A and B clients respectively. Then the predictions and residuals from this regression was included in the star rating regression, with the residual interpreted as the price premium that was not related to systematic differences in the operating environments of the providers. It was found that the predicted price from the regression was not significant (and was omitted) in accordance with theory, but that the residual was.

Source: Data obtained from DEWR. Providers that run generalist and specialist services from the same site were regarded as separate observations for the purposes of estimation.

The results suggest that a \$1000 average price premium above the floor yields about 0.4 additional stars — though this estimate is imprecise. This would translate to around 2.4 percentage points in additional employment outcomes.³

However, it is likely that this significantly overstates the impact of higher prices on performance. This is because past performance assessments — which are not in the model⁴ — are likely to be useful in predicting future star ratings, and simultaneously also affect the price that a provider may bid in the tender — leading to omitted variable bias.⁵ Indeed, it is possible that the significance of price is entirely spurious. Either way, price effects on performance are likely to be small.

Moreover, many Job Network providers with higher prices got poorer outcomes than those with lower prices. Price variations (by themselves) explained very little of the variation in star ratings.

Job Matching

The Commission also undertook similar analysis for JM — for which no floor price exists. This allows more scope for price changes to affect quality. However, the main interest in looking at JM star ratings was to see whether:

- there was any apparent sign of cross-subsidisation from IA; and
- the performance measure used for JM — which related to placements achieved to placements bid — had any obvious inadequacies.

A regression model for JM stars was estimated (using the February 2002 star ratings and based at the ESA level). Regressors included the JM fee, JM contracted placements, whether the Job Network provider also supplied IA services and regional dummies. The results suggested that:

- For every extra \$100 for the JM fee (representing a 25 per cent increase in the average fee), the star rating increased by around 0.18 points.⁶ In a simple two

³ This was calculated by noting that the difference in the underlying employment outcome rate between a one star and a five star performer was on average 21.9 percentage points or an average of 5.5 percentage points per star (which, multiplied by 0.44, gives 2.4).

⁴ They are not in the model because the data are not available. Star ratings for the first contract were developed, but they were based on a more ad hoc methodology than the current star rating model — and were not released publicly.

⁵ Monte Carlo simulations of models with credible parameter values and error structures suggested that the price coefficient was likely to be biased by somewhere between a multiplicative factor of 2 to 10.

⁶ The coefficient was highly statistically significant, but the estimate is subject to the same qualifications as discussed for the comparable IA results.

variable regression, JM fees explained around 5 per cent only of the variation in star ratings, and as in the case of the IA results, many Job Network providers with lower fees actually outperformed those with higher fees.

- Additional JM contracted placements are associated with a significant reduction in star ratings. For every extra 10 000 contracted placements the star rating fell by 1.2 points (noting that some Job Network providers had in excess of 10 000 places, while many others had less than 200). This suggests flaws in the star rating measure used for appraising performance in JM (an issue further analysed in chapter 11).
- A JM provider that also supplied IA services had a significantly higher star rating (by more than 0.7 points) than those that did not. Providers that also supplied IA tended to have higher JM fees and lower contracted JM placements, but this is not the explanation for the apparent IA effect. The magnitude of the IA effect does not accord with the effects expected from variations in price or contract capacities between IA and non-IA providers, and in any case, these effects are separately controlled for in the regression. The most likely interpretation of the IA effect is that funding for IA is much higher than for JM, and enables IA providers to cross-subsidise its provision.

G.4 Income distribution among Job Network providers

Variations in total income for IA providers mainly depends on the scale of the provider (as measured by the number of commencements).⁷ However, once the scale of the enterprise is controlled for, the most important determinant of variations in income per commencement is explained by variations in gross outcome rates (which explains 81 per cent of the variation), with price variations a less important factor.⁸

However, while gross outcome rates (and to a lesser extent, prices) are correlated with star rating assessments, deviations in star ratings explain only around 30 per cent of the variation in income per commencement (table G.4). Statistically, there is no difference in the income per commencement of a 1, 2, 2.5 or 3 star provider. As shown in figure G.2, there is even a considerable overlap of the income distributions of providers achieving one star and five star ratings.

⁷ Around 93.5 per cent of income variations are explained by variations in commencements, holding prices and outcome rates constant (at their mean levels).

⁸ Variations in prices explain 44 per cent of the variation in income per commencement, holding outcome rates constant at their average levels. These figures do not sum to 100 per cent because of covariance.

Consequently, while the ability of a provider to secure contract renewals depend on their star ratings, their economic prosperity during a contract period is relatively weakly dependent on these ratings.

Table G.4 Relationship between income per commencement and star ratings of providers

Variable	Model 1		Model 2	
	Coefficient	t statistics	Coefficient	t statistics
Constant	1648	(26.4)	2818	(18.6)
Star rating	160.5	(8.1)	..	
Stars=1	..		-784	(4.1)
Stars=1.5	..		-910	(5.9)
Stars=2	..		-797	(5.0)
Stars=2.5	..		-764	(4.9)
Stars=3	..		-714	(4.6)
Stars=3.5	..		-648	(4.2)
Stars=4	..		-569	(3.7)
Stars=4.5	..		-523	(3.4)
R ²	0.20		0.29	

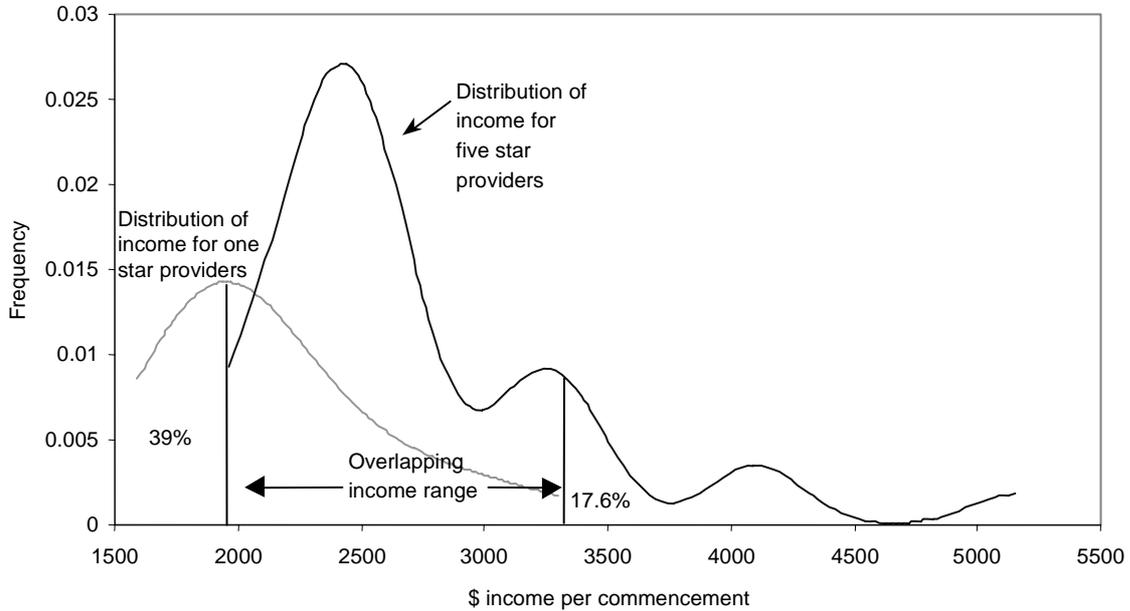
^a Based on regressions of the income per commencement by the star rating (model 1) or by dummies for each of the star rating possibilities (model 2). It is based on 491 observations and uses White's adjustment for heteroscedasticity to correct the standard errors. Results are weighted by commencements. Income is derived as:

$$\begin{aligned}
 \text{Income} = & \text{ufa} \times \text{acomm} + \text{ufb} \times \text{bcomm} + (\text{acomm} \times \text{iofpa} + \text{bcomm} \times \text{iofpb}) \times \text{intprim} \\
 & + (\text{acomm} \times \text{iofsa} + \text{bcomm} \times \text{iofsb}) \times \text{intsec} + (\text{acomm} \times \text{fofpa} + \text{bcomm} \times \text{fofpb}) \times \text{finprim} \\
 & + (\text{acomm} \times \text{fofsa} + \text{bcomm} \times \text{fofsb}) \times \text{finsec}
 \end{aligned}$$

where ufa,iofpa,iofsa,fofpa and fofsa are the upfront fee, interim primary outcome fee, interim secondary outcome fee, final primary outcome fee and final secondary outcome fee for an A level IA client respectively. The variables ufb,iofpb,iofsb,fofpb and fofsb are the corresponding prices for level B IA clients. Acomm and bcomm are the commencements for level A and level B clients. Intprim, intsec,finprim and finsec are interim primary, interim secondary,final primary and secondary final outcome rates respectively. In deriving the income estimate it is assumed that level B clients have 75 per cent of the outcome rates achieved by level A clients (as the data obtained did not separate outcome rates by IA level). This will not be true, but is unlikely to change the qualitative results to any significant degree.

Source: Derived from data provided by DEWR.

Figure G.2 Distributions of Intensive Assistance income per commencement for one and five star providers
 Second contract



a These densities were estimated non-parametrically. Income per commencement is defined as in table G.4 above. The stars relate to August 2001. Results are unweighted. The 39 per cent refers to the percentage of one star providers that have income per commencement below the minimum attained by five star providers. The 17.6 per cent refers to the percentage of five star providers that have income per commencement above the maximum attained by one star providers.

Data source: Derived from data provided by DEWR.

H Wage subsidies

Some participants have argued that wage subsidies are an effective way of improving the prospects for unemployed people. A typical expression of this view comes from ACOSS:

One strategy that worked well in Australia over the past few decades was to subsidise the wages for long-term unemployed people ... Official evaluations of the impact of JobStart on the future job prospects of long-term unemployed people were consistently favourable ... outcomes were superior to those of practically all other labour market programs (ACOSS 2002, pp. 36–37).

UnitingCare Australia also argued:

Because the 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).

Participants' views (box H.1) are 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.

Some advocates of wage subsidies argue that, while they were effective under Working Nation, they have not been used extensively under the Job Network, in part because the payments to providers are too low (though in fact this is not clear — chapter 10). Funding arrangements under Job Network do allow for use of wage subsidies as the provider sees fit, and funds to be made available under the proposed Job Seeker Account may also be used for this purpose. However, it is not known to what extent wage subsidies are being used at present.

Greater emphasis on wage subsidies — such as prescribing their use or substantially increasing outcome payments — would need to be supported by evidence that they are effective. But insufficient is known about, for example, whether subsidised employment outcomes are sustained after the wage subsidy ends, or whether the provision of wage subsidies to some job seekers displaces some workers who would have obtained jobs without that assistance.

Box H.1 Participants' views on 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 in the labour market (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 are available 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. UnitingCare Australia said:

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 (sub. 12, p. 7).

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 (sub. 12, p. 6).

Others such as the Australian Chamber of Commerce and Industry (ACCI), the Victorian Employers Chamber of Commerce and Industry (VECCI) and Australian Business Limited have supported their use (subs. 40, 11 and 37).

ACCI acknowledges that there are some employers who see a role for incentives to employ long term unemployed people (eg. 'Jobstart') and would like to see this type of arrangement returned. ... ACCI supports a balanced approach to the issue of incentives and subsidies (sub. 40, p. 8).

VECCI believes that one of the microeconomic changes that accompanied the establishment of the Job Network (ie. the abolition of employer 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).

The remainder of this appendix briefly considers some evidence on the effectiveness of wage subsidies.

- First, the effect of wage subsidies on participants' employability is discussed.
- The second section looks at indications of their effect on employment.
- The third section deals with whether increased employment of participants occurs through the displacement of other people, and the possible effect of this.
- The final section reports some conclusions and draws lessons for program design.

Effects on the employability of disadvantaged job seekers

Subsidised work experience may overcome job seekers' loss of skills and motivation associated with long-term unemployment (Martin and Grubb 2001, p. 21). It can also overcome prejudices by employers about the employability of the long-term unemployed.

The extent to which wage subsidies can work in this way will depend on the reasons why the long-term unemployed have low levels of employability. There may be a distinction between those who have lost skills through long-term unemployment and those who had few skills to begin with. There is evidence that some long-term unemployed people have other characteristics which reduce their employability. ACOSS said that:

We don't doubt that a significant proportion of long-term jobless people have major personal and social barriers to employment. That is especially so at this point in the business cycle, where the people who have been left behind include a higher proportion of that group as distinct from, say, one or two years out from a recession (trans., p. 26).

If previously-held skills have been eroded because of the duration of unemployment, work experience underpinned by wage subsidies may help some people regain their skills and increase their productivity and employability. If, however, the job seeker has never had the necessary skills, or if they have other characteristics unrelated to unemployment duration that reduce their employability, then wage subsidies are likely to be less effective.

Evidence from the literature is mixed. Richardson (1998) found that subsidies to unemployed Australian youth extended short duration jobs, and that there were large and significant effects on subsequent employability, much of which arose from retention of the previously subsidised jobs. Bell (et al. 1999) found that when characteristics such as skill and worker quality are taken into account, the negative effect on employability of duration in unemployment is reduced. If subsidised work

experience cannot overcome any adverse personal characteristics, then work experience alone might not improve disadvantaged job seekers' productivity to a level where employers would pay them the unsubsidised wage. Bell et al. (1999) found that increased productivity for participants in the UK wage subsidy program was likely to be small, and participants were unlikely to remain in unsubsidised employment unless their productivity was only slightly below the offered wage when they entered the program.¹

Another perspective is that it is the stigma of being long-term unemployed, rather than reduced productivity, that makes it difficult to find employment.² Because employers cannot observe productivity at the selection stage, they rely on 'signals'. Long-term unemployment is likely to signal to the employer that the job seeker has a high risk of low productivity. A wage subsidy would give some employers the financial incentive to take the risk of employing such a job seeker. Where participants have no other problem apart from the time in unemployment, they are more likely to remain in unsubsidised employment after the subsidy ends.

The eligibility criteria of a wage subsidy program can also signal participants' productivity to employers. If participants are chosen on criteria other than the probability of being able to hold an unsubsidised job, then having a wage subsidy could act as a negative signal to employers. For example, under JobStart, eligibility was based on the duration in unemployment, or the risk of becoming long-term unemployed.³ This would not send positive signals to employers about the job seeker's productivity. On the other hand, if Job Network providers decide who gets a wage subsidy on the probability of them remaining in unsubsidised employment, this would act as a positive signal. However, this would require outcome payments to be made only when the job seeker secures an unsubsidised job for a reasonable period after the cessation of the subsidy (chapter 10).

¹ Other studies include Calmfors (1994) and Heckman et al. (1999).

² Burtless (1985) found that job seekers given vouchers identifying them to employers as eligible for a generous wage subsidy were significantly less likely to find employment than were those without vouchers. Burtless speculated that the voucher had a stigmatising effect and provided a screening device for employers to use (p. 105). Employers appeared to interpret the voucher as implying 'damaged goods' (p. 113). The OECD's 1995 Jobs Study also noted that wage subsidies targeted to a specific group may stigmatise members of that group as being poor employment prospects (www1.oecd.org/sge/min/chp3_act.htm). Katz (1996) also found that wage subsidies that are highly targeted appear to have low utilisation rates and may stigmatise the target group.

³ The JobStart program varied the level of the subsidy according to the participant's level of disadvantage. The rate of the subsidy increased the less likely the person was to be employed. At the extreme, there was a small program of 100 per cent wage subsidies for people with disabilities during 1996-97.

The above discussion suggests that a key determinant of outcomes will be whether the unemployed person would be:

1. employable without a wage subsidy if they can overcome signalling problems;
2. employable only after subsidised work experience; or
3. unemployable after subsidised work experience.

Targeting subsidies at those most likely to remain in unsubsidised employment (1 and 2 above) would direct resources away from the most disadvantaged job seekers (3). However, a broader selection criteria (such as that under JobStart) would result in all wage subsidy participants signalling low productivity to employers. There is thus a tension between targeting subsidies at disadvantaged job seekers and sending positive signals to employers.⁴

To what extent do wage subsidies increase employment outcomes?

There is a large literature on the effectiveness of wage subsidies. Many studies undertaken on their effectiveness in improving employment for the targeted group show small increases in employment levels. For example, Katz (1996) found that:

Wage subsidies to employers to hire disadvantaged workers appear to modestly raise the demand for labor for those workers.

Evidence from overseas studies is difficult to interpret in the context of Australian labour market arrangements and welfare payment regimes. The effectiveness of wage subsidies will depend in part on institutional arrangements and program design. The Australian literature is relatively sparse, but indicates substantial methodological problems that must be taken into account.

Some advocates of wage subsidies support their argument with reference to post-program monitoring (PPM) figures for the JobStart program, which, from 1993-4 to 1995-6, provided approximately 290 000 long-term unemployed people with subsidised work experience. About 50 per cent of the participants were in unsubsidised employment three months after the subsidy ended (DEWRSB 2001b, p. 28).

However, gross outcome measures ignore the possibility that some participants may have found a job without the subsidy. To measure the net outcome of JobStart by

⁴ For such reasons, ACOSS argued that a better response to help those who would not be helped by a wage subsidy alone is to integrate subsidised work experience with training, but acknowledged this would be expensive (ACOSS 2002).

allowing for this ‘deadweight effect’, DEETYA compared outcomes for participants with a control group that had been unemployed for the same length of time at the end of the subsidy period (see chapter 5 and appendix E for the general methodology). The labour market status of both groups was compared over the months after the subsidy ended. This indicated that wage subsidy recipients were 28 per cent more likely to be in unsubsidised employment three months after the subsidy ended (DEETYA 1997, p. 4).

While this provides some evidence that wage subsidies can be effective in improving the prospects of long-term unemployed job seekers, there are several methodological problems that cast doubt on the reliability of this estimate.

Because the PPM survey is mailed to participants about three months after the program finishes, it is less likely for those who are employed to respond. DEWR estimates this *response rate bias* understates net impacts by 2 to 3 per cent.

But other biases overstate the net impact of the JobStart program.

- Control group studies need to compare people who are the same in terms of employability, with the only difference being the wage subsidy. But there was a *selection bias* in the JobStart program as participants had unobserved characteristics affecting employability that the control group did not have. DEETYA said:

... unobserved characteristics of motivation and skill levels could explain some part of the net impact found for JobStart. At the time of commencing JobStart placements, clients are assessed by employers as being potentially ‘job ready’, reflecting judgements as to appropriate levels of motivation and work related skills. In comparison, other unemployed people may be less well prepared for work (1997, p. 4).

- There is a *benefit waiting bias* because wage subsidy participants have to wait six weeks to receive benefits after working (DEETYA 1997, p. 10). If a wage subsidy participant loses their job after the end of the program, this negative result will not show up in the outcomes for six weeks. In contrast, if a control group person finds a job, they will move off benefits immediately.⁵ This asymmetry in moving on and off benefits will bias upwards the net impact of the program.
- As outlined in appendix E, time spent in the program is not classified as time spent looking for work. If the control group had the same search time, its total exits to employment would be considerably higher. Stromback and Dockery (2000) estimated this would increase the employment rate for the control group

⁵ This bias does not affect the employment net impacts, which relate to employment status, not benefit status.

by a factor of 3 and would reduce the average net impact to minus 5 per cent (p. 24).

Because of the latter two biases in particular, the net impact of the program would be expected to decline over time. Figure H.1 shows that the control group's employment increases over time relative to the program group. The net impact is considerably lower at 12 months than at three months. This is consistent with the control group needing more time to find employment, rather than the superior employability of program participants. The decreasing net impact over the twelve months after the subsidy ends also raises the issue of the appropriate horizon over which to evaluate wage subsidies.

The long-run impact of wage subsidies is important in determining their effectiveness. If wage subsidies only create jobs that last for a few months after the subsidy ends, then their benefits are reduced relative to a program that creates sustained employment. Figure H.1 shows that the longer-run effects are lower than the shorter-run effects that are often relied on to support wage subsidies.

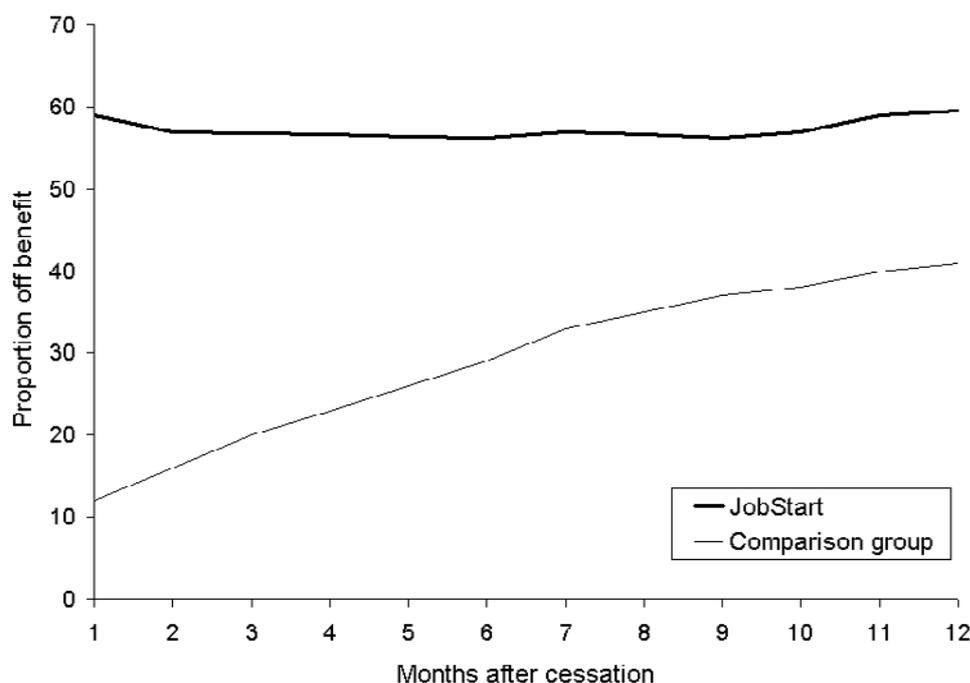
A study of JobStart by Stromback Dockery and Ying (1998) using SEUP⁶ data attempted to control for some of the biases outlined above. Using models to explain the probability of being in unsubsidised employment three months after a program, they found that wage subsidies improve employability by about 20 per cent (in contrast to the 28 per cent found by DEETYA's control group studies). In a later study, Stromback and Dockery (2000) using SEUP found that wage subsidies had a negative effect over the period September 1994 to August 1995, whereas for September 1995 to May 1997 the effect was positive. The inconsistency of the coefficients over time implies that there is some form of model misspecification, or that the model is picking up changes in the design of JobStart. Indeed, the parameters of the program were changed significantly during the SEUP reference period. For example:

- payment levels were changed;
- people unemployed for between 26-52 weeks who were previously ineligible were made eligible for the subsidy; and
- a bonus payment of \$500 was introduced for employers to keep a Job Compact participant in unsubsidised employment three months after the end of the subsidy — in effect, employment was no longer 'unsubsidised'.

⁶ The ABS longitudinal Survey of Employment and Unemployment Patterns, which collected information on job seekers, labour market program participants and a population reference group in 1995, 1996 and 1997.

Such changes in the program parameters could explain why Stromback and Dockery (2000) obtained negative results in two periods but positive outcomes in other periods.

Figure H.1 JobStart participants & non-participants
Proportions off benefits



Data source: DEETYA 1997, p. 11.

The above discussion highlights that there are methodological problems in the control group studies that overestimate the impact of wage subsidies. They also ignore displacement effects.

Do wage subsidies lead to displacement of others?

Even if accurate estimates were made of the improved employability of participants, evaluations also need to take account of the possibility that subsidised workers may be gaining jobs at the expense of unsubsidised people (displacement).

Defined broadly, displacement is the reduction in employment caused by the wage subsidy. More specifically, it can be.

- intra-firm: when unsubsidised workers lose their job or have their hours reduced;
- inter-firm: when firms employing unsubsidised workers reduce their workforce as they lose market share to firms employing subsidised workers; or

-
- inter-temporal: when employment is reduced in future periods as production is bought forward to take advantage of the subsidy.

An Australian attempt to measure displacement formed part of the 1994 *Survey of JobStart Employers* (DEET 1994). This asked employers what decisions they would have made without the subsidy. Employers claimed that:

... 11.5% of vacancies were ... in addition to other staff and would not have been filled without the JOBSTART subsidy (pp. 1–2).⁷

The report also noted that:

... findings from most studies indicate that only about 15 to 20 per cent of positions funded by wage subsidies result in permanent positions (DEET 1989, p. 10; Stretton and Chapman 1990, p. 36) (p. 27).

There have been a number of overseas studies attempting to measure displacement more broadly. The results are somewhat equivocal (box H.2). Hotz and Scholz (2000, p. 34) noted that, while displacement effects are a serious concern with targeted wage subsidies:

... we are not aware of recent studies that assess the quantitative magnitude of these effects.

Chapple, in a study of displacement effects of active labour market programs generally, concluded that:

... displacement is an under-analysed issue within the literature on active labour market policies. ... This has been remarked on by a number of commentators, including Calmfors (1994) and Krueger and Forsland (1994). ‘Generally’, as NERA (1995, p. 3) puts it, ‘there is considerable interest in measuring [wage subsidy] scheme deadweight, but virtually none in displacement’ (1999, p. 44).

Displacement effects on equity

Nevertheless, wage subsidies could improve social welfare and efficiency even if they create few additional jobs. ACOSS said:

We know that wage subsidies aren’t going to generate large numbers of additional jobs. We know that there will be displacement, but we are supportive of the displacement of short-term jobless people or people who choose to move from one job to another by people who would otherwise not stand much of a chance of breaking back into the labour market. We think that is both equitable and, in the long run, efficient to do so (trans., p. 35).

⁷ The report sees this as a conservative estimate and canvasses other methods for calculating ‘additionality’ (DEET 1994, pp. 27–31).

Box H.2 Some attempts to measure displacement

The major approaches used to estimate displacement are questionnaires sent to employers, or econometric models.

Questionnaires involve asking employers what decisions they would have made without the subsidy. They cannot measure all forms displacement and could be unreliable because employers may have an incentive to overplay the benefits of subsidies that are beneficial to them. However, Kenyon (1994) judged that, without an survey of employers, the net employment effects will never be known (p. 294).

'Micro' studies use econometric models to estimate labour demand functions. For example, Forslund and Krueger (1994), attempted to measure the displacement associated with public relief work in Sweden by estimating a labour demand function of the following form:

$$E = \beta_1 + \beta_2PW + \beta_3W + \beta_4X$$

where E is employment, PW is the number of public relief workers, W is average real wage and X is a vector of cyclical demand measures. Displacement is measured by the size of the coefficient β_2 . Estimations using different data sets obtain a range from 36 to 69% and -91 to 226%. These results suggest that the model is not robust and in any case, the specification ignores some important modelling issues.

The problem with micro studies is that they cannot capture all forms of displacement. Layard et al. (1991), using OECD cross country data for 1983 to 1988, found that active labour market policies (not just wage subsidies) have a negative and significant effect on the unemployment rate. However, when Forslund and Krueger (1994) estimated a similar model using data for the same period, the coefficient was found to be negative, but for 1993 the ALMP variable changed sign and was significant. The inconsistent coefficient indicates that there is a problem with this type of model and that the estimates on the effectiveness of ALMPs is unreliable.

The National Economic Research Associates, in an overview of 17 wage subsidy programs in 10 OECD countries, found that the majority of studies do not attempt to measure displacement, but instead focus on deadweight effects (which they report as typically over 50 per cent). However, it reported that a time series study using German data found that there is a 25 per cent probability that changes in unemployment were the result of wage subsidies, and a Dutch time series study which found that about 15 to 30 per cent of the gross job creation were additional jobs (NERA 1995, discussed in Chapple 1999, section 3.3).

Zetterburg (1995) reports studies using Swedish time series data which found that wage subsidy programs have neither a positive nor a negative effect on equilibrium unemployment (ie 100% displacement) (cited in Chapple 1999, p. 31).

There were few empirical studies measuring inter-temporal displacement. Creigh (1986) using Australian data found that for public job creation schemes 53 per cent of jobs were brought forward.

Phelps (1994; 2000, p. 85) found wage subsidies to be a more effective response than alternative policies, and saw them as helping to raise ‘economic inclusion’, that is:

... the opportunity of working-age people to obtain rewarding work in the formal economy and to earn enough in such jobs to be self-sufficient (p. 2).

Nevertheless, the effect of wage subsidies on equity is not straightforward. Consideration needs to be given to the benefits of getting a disadvantaged person a subsidised job and the adverse effects on people who are displaced.

There could be positive welfare effects from helping a highly disadvantaged job seeker obtain subsidised work experience. That person may subsequently overcome some of the personal and social problems associated with unemployment. The extent to which this occurs will in part depend on how long the work lasts,⁸ whether it provides a stepping stone to better or other employment and whether the person’s personal and social disadvantage is ameliorated by a period of employment.

There could also be negative welfare effects generated by displacing people in order to get a highly disadvantaged person a job. It is likely that the displaced person will have a low level of skills, and could well be unemployed (albeit perhaps to a lesser degree) themselves. That person may be left longer in the unemployment queue and become more disadvantaged as a consequence. As Piggott and Chapman (1995, p. 314) point out, it is possible for the effect to be negative:

... it is possible for wage subsidy schemes not only to do no good, but to actually cause harm, in the sense of increasing unemployment. This can occur when subsidized but relatively unproductive targeted workers displace more productive workers, who then lose their labour skills from higher unemployment duration as a consequence of [program-induced] unemployment.

More broadly, some US research has looked at the effects on the earnings of low-skilled people who were displaced from employment for a variety of reasons. While difficult to interpret in Australian circumstances because of, for example, different wage setting and welfare arrangements, the research shows:

Earnings losses from displacement are quite large and persistent;⁹ estimates range from 10 to 25 percent several years after the displacement. The effect on the growth of wage, as well as wage levels can be important, too. Another effect of higher turnover

⁸ For example, when the JobStart program was changed in 1994, requiring employers to keep participants employed (unsubsidised) for 3 months after the subsidy ended, the take-up of the subsidy fell from an average of 15 000 per month to around 9000.

⁹ Fallick 1996.

probability is reduced training, which results in flatter earnings.¹⁰ The effect of being laid off can also stigmatize a worker as a ‘lemon’¹¹ (Lane 1999).

The net welfare effects of wage subsidy programs must depend heavily on what happens to the people who are displaced, for which information is not available. Consequently, it is difficult to say unequivocally that the welfare effects of displacement are positive.¹²

Displacement effect on efficiency

Finding work for the most disadvantaged job seekers could have positive effects on the effective labour supply. But some UK evidence suggests that wage subsidies have only a marginal impact on a participant’s productivity, indicating they might not be effective in increasing the effective labour supply (Bell et al. 1999). Moreover, the people who are displaced could lose skills and suffer reduced employability. To the extent that this occurs, there could be little change in effective labour supply.

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 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.

Concluding comments

While studies appear to show that wage subsidies can create a large number of jobs, they ignore the possibility that the participant could have found a job without the subsidy, or that another person would have filled the job without the subsidy. These deadweight and displacement effects are crucial in determining the effectiveness of wage subsidies, yet the available measures only provide rough approximations for these effects. The only Australian attempt to measure displacement, the *Survey of*

¹⁰ Royalty 1996.

¹¹ Gibbons and Katz 1991.

¹² Due to the problems in measuring displacement, a number of researchers have suggested unemployment inflow and outflow studies be conducted, together with randomised control group studies as briefly discussed in chapter 5.

JobStart Employers (1994), found the net employment impact was quite low, around 10 per cent. Advocates of wage subsidies recognise this low net impact and base their argument on the apparent positive welfare effects of ‘churning’. However, the net benefits of ‘churning’ are also difficult to determine as they depend in large part on the status of who is displaced, and the effects of displacement on them.

This suggests that:

- a targeted wage subsidy program should not be implemented without first obtaining better information on its likely effects (and the new Job Seeker Account reporting arrangements will help to some extent);
- if such a program were to be implemented, then a more effective evaluation program should be incorporated into its design. One possibility is that an experiment could be undertaken using a randomised control group study to evaluate their effectiveness.

I Incentives for re-assessing special needs

Currently, providers have limited capacity to refer job seekers to other programs. However, they are permitted to seek re-assessment of a job seeker whose subsequently revealed needs makes them ill-suited to IA, though the incentives to do so are mixed. These incentives will be affected by changes in referral options mooted in the Active Participation Model in ESC3, but it is still worth examining the current arrangements because they provide a salutary illustration of the perverse effects that can unintentionally be exerted through subtle aspects of the design of the Job Network. This is especially so since the treatment of special needs assessments has not been finalised in the Active Participation Model.

Incentives for providers to seek re-assessments are currently affected by the requirement to pay Centrelink a charge (\$532) for such a re-assessment.¹ 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 I.1). 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 (chapter 9).

Changes under *Australians Working Together* allow for Job Network providers to undertake assessments of job seekers in the first month of registration in IA, and at that time 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). In chapter 9, the Commission recommends that Job Network

¹ This is distinct from a review of classification for which there is no charge (DEWRSB 1999, p. 126).

providers have a more generally available option for re-referral that would apply at any time — which would include re-assessments of special needs.

Box I.1 Charges for re-assessment

Under the current system, 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, which has not been the case). 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.

J Job seeker satisfaction surveys

The Department of Employment and Workplace Relations (and its predecessors) have implemented a series of surveys to shed light on the perceptions of program participants and their satisfaction with Job Network programs. This is important, since there is a danger that elements of service that are relevant, but not specified as outcomes, suffer in an outcome based system.

The Commission has obtained data and methodology reports for DEWRSB's 1999 Survey of Job Seeker Perceptions about the Job Network and from its 2001 Survey of Job Network Participants. Additionally, the Commission obtained the data from DEWRSB's 2000 Survey of Activities and Attitudes of Intensive Assistance Participants.

Satisfaction surveys are difficult to design, implement and interpret. Thus, it is important to have a transparent and well documented methodology, subject to public scrutiny. With the material provided to it and in the time available, the Commission has identified a number of methodological and interpretational issues.

General problems with the interpretation of satisfaction surveys

Satisfaction surveys are sensitive to variations in the context and wording of survey questions. It is thus difficult to interpret satisfaction figures other than in relation to comparable services using consistent survey methodologies. Indeed, it is common for satisfaction surveys to reveal satisfaction levels of around 80 per cent, irrespective of the topic. Therefore, trend information is likely to be the most useful form of information to be gained from satisfaction type questions. Even with trend information, however, caution needs to be exercised in interpreting results. For example, anecdotal evidence (and evidence about compliance effects) suggests that some job seekers would prefer their Job Network providers to leave them alone. Such job seekers could express satisfaction with a provider even if little or no service was provided, and dissatisfaction if there was active intervention. Indeed, in the 2001 survey, satisfaction is inversely related to the star ratings of providers.

Non response bias

The data could be subject to non response bias, as some people refused to complete or terminated the interview.¹

Furthermore, the surveys were telephone surveys, so that some people could not be contacted because they did not have access to a phone, their phone number was incorrect or they had moved. A bias may have resulted to the extent that the population of job seekers who could not be reached by phone (for example Indigenous or homeless people) is different to the population that could.

Further, a substantial proportion of the contacted sample was dropped due to language problems (9 per cent of the interviewed sample in the 2001 survey and 6 percent in the 1999 survey). Although both surveys used translators to obtain some representation of people with English difficulties, these fall short of the refused sample (less than one third in the 2001 survey and less than a quarter in the 1999 survey). This is of concern because neither survey adjusts for such under-representation in its survey weights. Indeed, none of the surveys weights according to disadvantage type. The 2001 survey weights only according to star ratings and program type and the 2000 survey only according to IA duration.

A solution to these problems may be to merge the results of special group surveys, such as the survey of Indigenous job seekers' experiences of employment services (2000), with the general job seeker population surveys. This could be achieved by purging the general surveys of groups for which the biases are likely to be large and substituting the weighted results of specialised surveys.

Recall problems

Satisfaction surveys can be affected by recall problems in that some people do not recall having received the service in question. This problem is particularly apparent in the 1999 survey. Despite the fact that the sample was chosen on the basis of accurate administrative data and despite repeated prompting, according to the methodology report for the 1999 survey over 4200 respondents (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, an inability to recall receiving service may be related to the intensity of their experience. Yet over 2000 of those who could not recall having any contact with the Job Network were on IA (11 015 IA

¹ This was about 23 per cent in the 2001 survey. The 1999 methodology report only identifies refusals, not terminations, and these make up about 2.5 per cent of those interviewed.

clients were successfully contacted). If the reason is that they were parked or that they found a job early on by themselves, a positive bias may be the result. 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.

The 2001 methodology report, in contrast, reports only 3 per cent of participants as having had no contact with the Job Network. However, the 2001 methodology report identifies 23 per cent as having refused or terminated participation in the survey compared with under 3 per cent refusals in the 1999 survey (terminations not recorded).²

A question confirming participation in the relevant programs was asked of participants, with about 7 per cent of IA and JST participants saying they had not received the relevant assistance.³ Surprisingly, some of these participants still answered questions about the quality of service, for example, 44 per cent of IA participants who said they did not receive IA still answered the question of overall satisfaction with their Job Network provider.

Potential bias arising from screening instrument

In addition to those that could not recall having contact with the Job Network, over one sixth of the interviewed sample were refused in a screener used in the 1999 survey. If a job seeker gave 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?’ they were excluded from participation in the 1999 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 about reported service levels. A similar screener was not employed in the 2001 survey, and this may partly explain the high number of terminations reported above.

Inconsistencies across surveys and with other information sources

Results are often difficult to reconcile across the different surveys and with other sources of information. For example, DEWRSB’s 2000 Survey of Indigenous Job

² Terminations may have included participants who could not recall having had contact and thus did not proceed with the interview.

³ The JM question asked whether a respondent was registered as looking for work with a provider — 32 per cent said they were not registered.

Seekers' Experiences of Employment Services found that about 64 per cent were satisfied or very satisfied with their Intensive Assistance provider. In contrast, corresponding figures were 82 per cent and 90 per cent in the 1999 and 2001 surveys respectively.

Another example of inconsistency is the significant divergence between survey estimates and administrative data of the percentage of job seekers who choose their Job Network provider (which are documented in chapter 8).

Finally, the nature and interpretability of data across different surveys can be affected significantly by changes to the survey design. This can make comparisons across surveys difficult. A good example of this is the frequency of visits data (table J.1). As mentioned in chapter 6, one reason for the discrepancies in frequency of visits may be that the questions in the 2000 and 2001 related to frequency of contact with the case manager, not frequency of visit to the Job Network agency as in 1999. Given the changes to the wording of the questions and that some contacts with case managers are conducted by phone and mail, comparisons can be difficult.⁴

Second, a new contract round began in February 2000, and the contractual requirements regarding frequency of visits was tightened affecting the frequency of contact, as well as its interpretation.

Table J.1 Frequency of visit/contact

<i>Frequency grouping</i>	1999	2000	2001
	%	%	%
More than once a week	12	6	13
Once a week	15	14	21
Once a fortnight	24	32	37
Total fortnightly or more	51	51	72
Once a month	16	31	19
Once every two months or less	7	7	4
Once or twice only	23	8	3
Total Once a month or less	46	46	26
don't know / can't say	3	2	1

Source: 1999, 2000 and 2001 surveys.

⁴ The 2001 survey has a follow up question asking how the contacts were mainly made. The possible answers were: telephone (11%), mail (1%), in person (67%) and equally telephone and in person (21%). If some respondents who claimed that their contacts were mainly by telephone or by mail did not actually have contact in person, the difference between the 1999 and 2001 survey results may be substantially smaller. By the same logic however, the differences between the 2000 and 1999 surveys would be larger.

Sensitivity to changes in definition of variables

Some variables are given in highly aggregated form in the surveys. For example JSCI scores are given as FLEX 1, 2 or 3 in the 1999 survey and IA duration is given as short, medium and long in the 2000 survey, although the actual duration and scores are much more detailed. The difficulty arising from this is that the way in which the data is categorised can affect the significance of such variables.

For example, when the JSCI score is categorised into 24 – 32 (IA – A) and 33+ (IA – B) and a logistic regression is applied to the question of which factors are related to how frequently job seekers had contact with their provider (including JSCI score, gender, age, unemployment duration, IA-duration, education level and a regional factor), no factor emerges as significant, not even JSCI score. However, when the JSCI score is repartitioned into 24 – 26, 27 – 29, 30 – 33 and 33+, the JSCI score emerges as significant for the lowest of those scores. Indeed, at the 95 per cent confidence level, a job seekers with average characteristics and a JSCI score of 24 – 26 is between 8 and 40 percentage points more likely to meet fortnightly or more than their counterpart with scores of more than 26.

Also, the interpretation of results is sensitive to how variables are grouped and aggregated. For example, DEWR 2001a (p. 63) describes a decline in ‘pro-active job search’ as duration in IA rises. The underlying elements of this variable were answers to a series of questions asked in the 2000 survey, namely whether in the previous 7 days the job seeker had:

- ‘rung or visited an employer’;
- ‘advertised for work wanted’;
- ‘attended a job interview’;
- ‘prepared or updated a resume’;
- ‘prepared and sent a job application’; and
- ‘prepared for an interview’.

The Commission performed a series of logistic regressions to establish which of the following variables were significant for each of the above factors: IA duration; unemployment duration; a regional indicator; age; and JSCI score.

The only variable for which IA duration was significant was the answer to the question: ‘In the past 7 days, did you ring or visit an employer to discuss job vacancies or drop off a resume?’. For all other factors IA duration was not

significant.⁵ Yet, if job seekers who answered yes to at least one of the questions that make up ‘pro-active job search’ are grouped together, then IA duration is significant (together with JSCI score). One may be tempted to interpret the results as indicating that the pro-activity of job seekers is declining as IA duration rises. However, it is not pro-active job search that declines with IA duration, but rather the extent to which job seekers ring or visit employers to discuss job vacancies and the extent to which job seekers drop off resumes. Given that IA duration was not a significant factor in how often job seekers prepared and sent a job application, it is more likely that the lack of direct contact with employers reflects unobservable disadvantage factors that are not picked up in cross sectional data. In order to draw conclusions about changes to the nature and extent of assistance with unemployment or IA duration, longitudinal data would be required.

⁵ For ‘advertised for work wanted’, *unemployment duration* and *JSCI score* were significant; for ‘prepared or updated resume’, *education level* and *JSCI score* were significant and for ‘prepared and sent a job application’, *regional indicator*, *unemployment duration* and *education level* were significant.

K Forthcoming policy changes to Job Network

In the May 2002 Federal budget, the Government announced significant changes to arrangements for the funding and operation of the Job Network. More detailed information about these possible changes to be made in the third contract round (ESC3) was provided in a discussion paper (DEWR 2002a) released on 27 May — five working days prior to the completion of the Commission’s review.

The changes have been designed to build on the *Australians Working Together* package introduced in the 2001-02 Budget (Abbott 2002). The Government described the new arrangements as representing ‘an active participation model’ (DEWR 2002a).

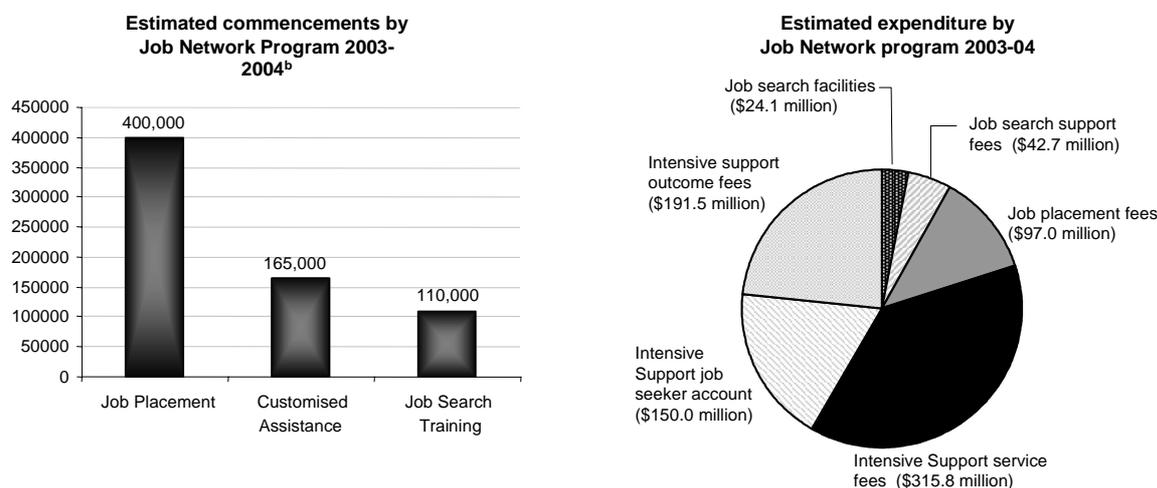
The key features are as follows.

- Centrelink will remain the ‘gateway’ to employment services. All eligible job seekers will immediately be referred to one Job Network provider, with whom they will remain.
- The Job Network member will provide services and maintain regular contact with the job seeker throughout their entire period of unemployment, consistent with a Service Guarantee to job seekers.
- All eligible job seekers will begin with *Job Search Support*, and move to increasing levels of *Intensive Support* as their duration of unemployment increases.
 - Intensive Support may be provided initially in the form of job search training, with more customised assistance provided as the duration of unemployment increases.
 - However, job seekers who face severe barriers to employment will have immediate entry to customised assistance under Intensive Support.
- Commencement fees will be eliminated and fees for certain services introduced. Outcome fees will remain.
- Job Network providers will be able to refer job seekers to a wide range of complementary employment and training programs where this may help in improving job prospects and addressing employment barriers.

- Mutual obligation activities will be an early and ongoing part of activities for some job seekers, first required after six months of unemployment.
- A Job Seeker Account will be available for the purchase of services to help job seekers.
- A new group of service providers — Job Placement organisations — will be funded to canvass employers for vacancies and refer suitable job seekers.

The estimated budget for the Job Network in the first year of ESC3 is over \$800 million dollars (figure K.1), with the bulk of funds being used for the Intensive Support phase of assistance (which also includes customised assistance). Details of the final arrangements will be settled after consultation with the industry.

Figure K.1 **Proposed expenditure and participation under ESC3^a**



^a Excludes NEIS and Training Credits under AWA for Indigenous and mature age job seekers. ^b Estimated job placements are recorded for job placement services.

Data source: Information supplied by DEWR.

K.1 Proposed changes to institutional arrangements

A single job network provider

Every job seeker will be referred by Centrelink to a single Job Network member when they first become unemployed and claim benefits. Job seekers will be free to choose which Job Network member will assist them and the referral will occur on-the-spot. A broad timeline for Job Network participation is provided in box K.1.

Box K.1 **The new arrangements: a summary timeline for participants**

At day one

Job seekers will register with Centrelink, which will apply the JSCI to assist in pinpointing the most suitable services for the job seeker. Those assessed as being at very high risk of long term unemployment will be immediately in customised assistance. Those with severe or multiple employment barriers may be assessed for referral to Personal Support Program or a disability service.

Job seekers will specify the Job Network provider of their choice, and Centrelink will make an on-the-spot appointment for them to see the provider within two days to begin Job Search Support. The provider will show them how to search for job vacancies, prepare a resumé, record their profile on JobSearch, and will provide access to job search facilities and, if needed, arrange for interpreter services.

Job Search Support will continue throughout the job seeker's period of unemployment.

At 3 months

If the job seeker has not found work within the first three months of job search, their Job Network member will arrange for them to participate in *Intensive Support*. Job Search Support will continue, but other services will begin to be provided.

Three weeks of intensive *Job Search Training* will typically be the first form of assistance provided under the Intensive Support program. The job seeker will be given training in job search techniques, prepare a Job Search Plan, revise their Preparing for Work Agreement and participate with a group of job seekers in highly focused job search activity. Their vocational profile and resumé will be updated on the JobSearch database.

At 5 months

After five months unemployment, the provider will call in the job seeker to review and perhaps refocus job search efforts and, where appropriate, arrange for participation in a mutual obligation activity.

The provider will be required to maintain regular contact (every two months) with job seekers as they participate in their mutual obligation activity.

From 7 to 12 months: Mutual obligation activity

Mutual obligation activities will be closely linked to Intensive Support. From July 2002, most job seekers will be required to undertake a mutual obligation activity for six out of every 12 months they are receiving income support. Job seekers are required to actively look for work while undertaking these activities. Intensive support will continue during this period.

(continued next page)

Box K.1 (Continued)

At 7 months

The provider will again review and update the job seeker's job search plan. If they have not commenced a mutual obligation activity, the provider will refer them to a Community Work Coordinator for placement.

At 13 months

If job seekers are not successful in gaining employment after 12 months, they will participate in *Intensive Support customised assistance*. This will include an intensive six-month work preparation program tailored to the needs of the job seeker and job opportunities available, and may include training, work experience, counselling and other services as part of a work preparation plan.

Job seekers will actively participate in activities specified in their Job Search Plan, and in a work preparation activity for about three days a week for at least the first three months of assistance. They will be contacted at least fortnightly by their provider for the second three months, to review progress and provide assistance.

At 19 months

Those who have not found work after 18 months will, at the end of their period of customised assistance, undertake a further six month period of mutual obligation.

From 25 months

Stronger incentives will apply to encourage Job Network members to work closely with job seekers who are unemployed for more than 24 months. Providers will undertake a further detailed assessment of progress against their Job Search Plans.

- Where reasonable job prospects exist for a job seeker, he or she will commence another six month period of Intensive Support customised assistance.
- Where reasonable job prospects do not exist, for example in job scarce locations, the provider may refer the job seeker to complementary employment and training programs where this may be of benefit.
- On completion of Intensive Support customised assistance, providers would again link job seekers with a Community Work Coordinator where they had chosen Work for the Dole as their mutual obligation activity.

From 37 months and longer

Intensive Support services will be continued for job seekers unemployed for more than 36 months. Ongoing contact will be maintained, and incentives to place such job seekers will increase. They will continue to have access to Job Search Support services.

For most job seekers this will mean job search advice and immediate personal help to lodge a resumé on the Australian JobSearch database for daily matching against available vacancies. This is expected to occur within two days of the Centrelink

interview. Job seekers will be notified of job matches by email, through a telephone message bank service or through a local call.

The Job Network member will then work on a continuing basis with the job seeker to help them find a job. As the duration of unemployment increases, the level of assistance provided will be increased. Once people have been unemployed for 12 months they will be given customised assistance from their Job Network member — those with severe need will commence customised assistance earlier.

Revised services from the Job Network

Job Network provider services will comprise the following.

Job Search Support

Job seekers will be provided with job search facilities and have their resumé placed on the Australian JobSearch database to allow daily matching of job seekers to available jobs.

Intensive Support

This will provide assistance of increasing intensity to eligible job seekers. Providers will have greater incentives to help the most disadvantaged job seekers find work.

Intensive Support services will begin for all eligible job seekers after three months' unemployment, starting with job search training. All job seekers who have been on benefits for 12 months will receive customised assistance.

Those job seekers identified by Centrelink as being at very high risk of long-term unemployment (as measured by a revised JSCI) will be referred to customised assistance in Intensive Support immediately. Centrelink may also refer such clients to related programs to address particular barriers to employment, such as a disability, language, literacy or numeracy problems, drug addiction or homelessness. Job Network providers will also have greater flexibility to refer job seekers to such programs, either directly or through Centrelink.

Intensive support will include help with finding a mutual obligation activity if needed, and will continue while job seekers participate in such activities, to encourage active job searching.

Specialist providers

Specialist providers will continue to be a feature of the Job Network. Most will be expected to deliver full Job Placement (see below) and Job Network services to the client group they are contracted to serve. However, if unable to provide a complete service, specialist organisations may be contracted to work as a specialist partner of full service providers.

A Job Seeker Account

Job Network providers will be able to draw from a Job Seeker Account, which will comprise a quarantined pool of funds to provide assistance with such things as fares, interpreter services, counselling, wage assistance and training. Unused funds cannot be retained as profit by the Job Network member.

As a job seeker commences Intensive Support an amount of \$11 (GST inclusive) will be credited to the Job Network member's nominal Job Seeker Account. As a job seeker moves into Intensive Support customised assistance, \$935 (GST inclusive) will be credited to the account.

There will be no overall cap on the assistance which a provider can purchase for any one job seeker.

The Job Seeker Account will operate in addition to funds available under Training Accounts for mature aged and Indigenous job seekers announced in 2001 under *Australians Working Together*.

A Service Guarantee

Job Network providers will be required to give a Service Guarantee to job seekers, covering the type and frequency of services they can expect. More contacts between providers and job seekers are specified. Sanctions may be applied where the guarantee is not honoured.

New players: Job Placement providers

New Job Placement organisations will canvass employers for vacancies and refer suitable job seekers. Entry will be open, but organisations are required to be licensed. They will be dedicated to servicing employers' recruitment needs. They will expand delivery of job matching services into the broader recruitment service industry, increasing the number of job vacancies available on the Australian

JobSearch database. Improvements to the database are intended to enable quicker contact between employers and prospective candidates assisted by Job Placement organisations.

Job placement organisations will include Job Network providers, but others will come from recruitment agencies, Community Work Coordinators and other suitable organisations.

All job seekers, not just those on unemployment benefits, will be eligible for Job Placement services.

More touchscreens

Job Network members will be required to provide touch screens and associated job search facilities on their premises for use by job seekers.

Centrelink will continue to provide access to job search facilities such as the Job Search touch screens.

New fee arrangements

A new fee structure is being proposed, subject to industry consultation. Broadly, fees will be designed to provide greater incentives to find employment for hard-to-place clients.

Job Placement fees

Job Placement providers will be paid a fee for filling a job advertised by them on the national vacancy database. The fee will be at three levels depending on length of unemployment. A bonus may apply if a placement lasts for at least 50 hours over two weeks.

Service fees for Job Network providers

Some types of assistance, such as interviews, job search training, update of vocational profile etc. will be funded at a fixed hourly rate. The cost of job search facilities will be met from the service fees. Additional payments from DEWR will cover the cost of leasing and maintaining touch screen equipment.

Outcome fees for Job Network providers

Outcome fees will be paid when a job seeker is placed and remains in employment for 13 or 26 weeks or in qualifying education for one or two semesters, usually of 16 weeks full-time duration (but not less than 13 weeks).

Outcome fees will increase as the job seeker's duration of unemployment increases.

Arrangements to manage capacity

The number of commencements with the Job Network will be determined by the number of eligible job seekers. Options for managing referrals to individual Job Network providers are still being canvassed, and range from:

- no limits on provider capacity, with job seeker choice the primary consideration; to
- providing a percentage of share of places to each provider, based on the estimated number of job seekers in any one employment service area; or
- an in-between position where providers are allocated a share of places, but with some tolerance to exceed that share, based on job seeker choice.

In the case of Job Placement services, there will be a cap of 400 000 paid places per year, with 70 per cent of these being reserved for Job Network eligible job seekers or others receiving income support. Arrangements to manage the allocation of these places will be determined after consultation with the industry.

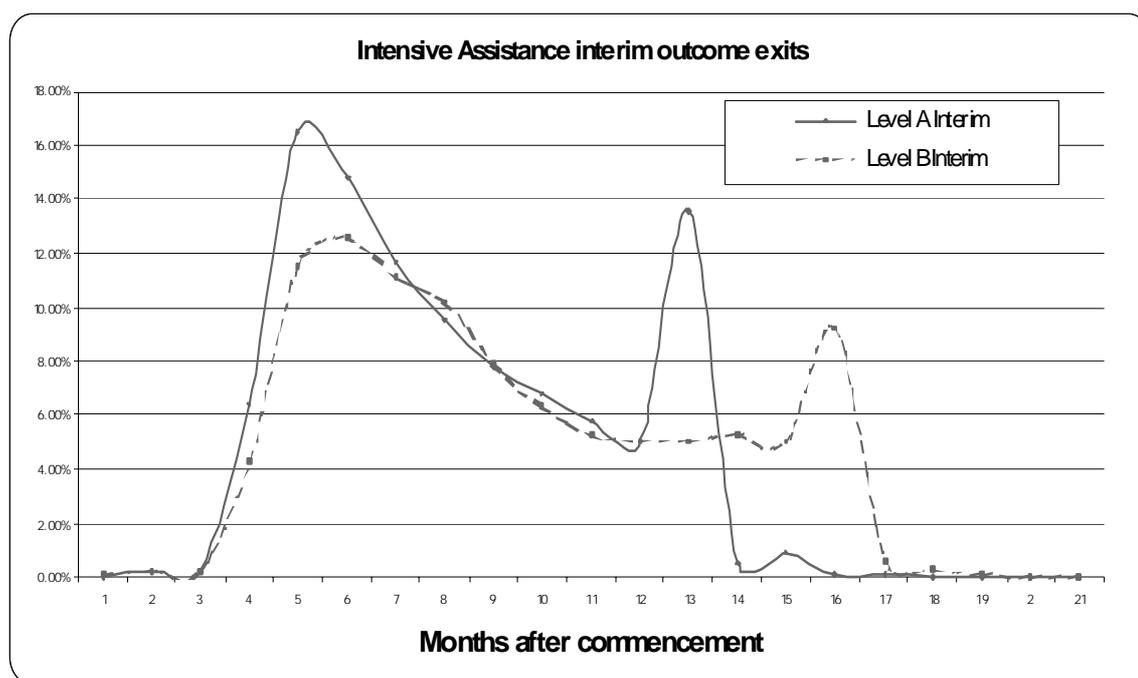
Sale and closure of Employment National

The Minister for Finance and Administration has announced that the marketable parts of Employment National will be sold by October 2002 and the remainder of the company wound up on 30 June 2003 (Minchin 2002). This matter is discussed in chapter 13.

L Distribution of outcomes in Intensive Assistance

In the draft report the Commission published a diagram setting out Intensive Assistance interim outcome exits (figure L.1 below) — the ‘twin peaks’ graph — and drew certain conclusions from it (draft report, p. 7.21). The diagram was supplied by DEWR to illustrate some of the statements made in their submission (sub. 43, p. 61).

Figure L.1 Intensive Assistance interim outcomes



Data source: Information provided by DEWR.

Members of the Job Network industry advised that DEWR had also circulated it to them. It has assumed a certain iconic status and was the subject of intense debate at the forum that the Productivity Commission attended with NESAs members after release of the draft report. Comments were especially focused on the interpretation of the second peak and the apparent ‘hole’ in outcomes in the middle. Some providers considered that the second peak was the result of investment in job

seekers. The diagram has also been raised as a central issue in a number of submissions to the Commission since the draft report.

Subsequent requests by the Commission to DEWR to clarify aspects of the data has highlighted that the graph measures interim outcome *exits* from IA — not the point when the outcome is claimed or when the outcome actually occurs — and that the second peak is the result of outcomes in a number of months at the end of the program being recorded against the single month at which the program ends (12 months for Level A and 15 months for Level B).

In this context, it is important to understand exactly how the twin peaks graph is constructed. In order to qualify for an interim outcome payment the outcome must be sustained for a period of 13 consecutive weeks in the case of employment or one semester in the case of education. Hence, there is a lag (of three months) from when the placement is made and when the interim outcome *exit* occurs. This lag is also reflected in the early and middle periods of the graph. For example, placements made in month zero are recorded as exits in month three, placements made in month four are recorded as exits in month seven and so on. However, this pattern does not continue in the latter part of the graph. Placements made in months 9, 10, 11 and 12 do not appear in months 12,13,14 and 15. Rather, as the graph depicts the interim outcome exit point, placements made in months 9, 10, 11 and 12 appear collectively as outcome exits in month 12 for level A job seekers (simply because all level A IA jobseekers without an extension are formally ‘exited’ at month 12). A similar pattern exists for level B job seekers exiting in month 15.

The second peak has been widely interpreted as reflecting a sudden change in placements at the end of the contract period — and the apparent ‘hole’ in outcomes between the peaks as a period where few outcomes (and activity) has occurred. However, the second peak, unlike the first peak, does not reflect the profile of placements over time. Rather it has bunched (subsequently payable) outcomes at the time of defined exit. Thus the graph, while accurately representing outcome exit points, can be easily misinterpreted if read as a measure of outcome placements.

DEWR subsequently supplied data for interim outcomes at the time that the outcome placement was made, with placements in later months being allocated to the month in which the placement was made (figure 7.2). This data related to Level A commencements for the period 1 March 2000 to 28 February 2001 (178 298 commencements), and Level B commencements for the period 1 March 2000 to 31 November 2000 (75 054 commencements)¹.

¹ While the revised data was for a longer period than that of the original twin peaks diagram (level A, March 2000 to September 2000, and Level B, March 2000 to July 2000) the pattern is essentially the same.

When data is shown on the basis of outcome placements — which the Commission sees as the appropriate measure of outcomes over time — interim outcomes generally fall after the first peak, albeit at different rates as assistance duration rises, without any apparent increase in the rate of placements as the conclusion of the clients' duration in Intensive Assistance approaches.

This matter is discussed further in chapter 7.

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