

**GOVERNMENT RESPONSE TO THE
PRODUCTIVITY COMMISSION
INDEPENDENT REVIEW OF JOB NETWORK**

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Job Network is a national network of around 200 private, community and government organisations contracted by the Australian Government to deliver employment services to assist unemployed people into jobs.¹ This new network replaced the publicly operated employment service (the Commonwealth Employment Service) and a range of labour market programmes that delivered short-term training, wage subsidies and work experience. Job Network contracts are awarded through a competitive tender process. The first contract ran from May 1998 until February 2000. The second contract runs from February 2000 until June 2003.

Job Network is the Commonwealth Government's primary employment service and is administered by the Department of Employment and Workplace Relations (DEWR). Job Network is complemented by other employment services, including Work for the Dole and the Indigenous Employment Policy, administered by DEWR, the Apprenticeship and Traineeship System, administered by the Department of Education, Science and Training, and employment services for job seekers with disabilities administered by the Department of Family and Community Services.

The move to Job Network represented a radical change in the way employment services are delivered. While Australia is not alone among OECD countries in introducing market-type mechanisms in this area of government servicing, Job Network constitutes the most comprehensive example. In view of this, the Government's overall evaluation strategy for Job Network, which was released in 1998, included a requirement for an independent review. The Productivity Commission was asked to undertake this review. The review was to include an examination of the application of the purchaser-provider model to employment assistance, the roles of relevant players in the employment services market, areas where the model could be improved and the scope to apply the model to other types of Government service delivery. To ensure input from a wide range of stakeholders, the review took the form of a public inquiry.

The Government welcomes the Productivity Commission's report as a significant and authoritative examination of Job Network. Together with the Government's own evaluation of Job Network, the report demonstrates the Government's commitment to transparency, accountability and continuous improvement in the provision of employment services. The report also complements other independent assessments of Job Network, including the OECD's review of the Australia's labour market which was released in 2001.

The Productivity Commission found that Job Network's purchaser-provider model, with its focus on outcomes, competition and choice, is a suitable policy framework for the delivery of active labour market programmes. Competition between providers and the use of outcome payments have created incentives for improved efficiency and better outcomes.

The Productivity Commission found that consistent with overseas experience, Job Network's impact on net employment is small and, while this impact is similar to that of previous labour market assistance arrangements, assistance is delivered and outcomes are achieved at significantly lower cost. Other key messages of the report are that the star ratings approach to provider performance assessment is performing an essential function in the operation of the

¹ The Australian Government announced a new framework for the delivery of labour market assistance in the 1996-97 Budget. The rationale for and characteristics of the new framework are set out in *Reforming Employment Assistance—Helping Australians into Real Jobs* (Vanstone 1996). The new system, of which Job Network is the major element, was implemented in May 1998.

market and that the success of Job Network has lessons for other areas where Government purchases services.

As to be expected in a new approach to the delivery of employment assistance, the Commission found that not all aspects of Job Network were working as well as they could. To address these findings the Commission supports incremental reform. Areas where the Commission considers reforms are needed include:

- the Job Network tender process, which is regarded as costly, complex and not ensuring optimal pricing of services. A licensing and accreditation system is proposed with providers having free entry into Job Network. Providers would also be subject to ongoing quality assessment;
- Government intrusion in the market, which is considered excessive. This is believed to undermine the flexibility of Job Network and should be replaced by a risk management approach to contract monitoring and compliance;
- liberalising fixed provider case loads, which according to the Commission frustrate the growth of the better agencies. In the longer term, the Commission favours moving progressively to unregulated case load sizes. This would be accompanied by removal of random allocation in the auto-referral system to favour the more successful providers;
- the extent to which job seekers exercise informed choice. Given that under the Active Participation Model, job seekers will potentially stay with the same provider, better information needs to be available on providers to inform choice;
- services for disadvantaged job seekers require better targeting, changes to payment systems and increased options for re-referring job seekers to other programmes. While the *Active Participation Model* tackles these issues, further changes may be required in the future; and
- the removal of subsidies for some minor programmes such as the Harvest Trail and the Self Employment Development programme. This would allow Job Network to focus on its core function of getting jobs for the most disadvantaged job seekers.

The Government supports the overall thrust of the Productivity Commission's recommendations, particularly the endorsement of the purchaser-provider model. The implication of this finding is that substantial private and community sector involvement in the delivery of employment services is feasible and that the model is likely to have application elsewhere. At the same time, the Government recognises that Job Network remains a work in progress: to be fine tuned over time in the light of experience. The *Active Participation Model*, which was announced in the 2002–03 Budget addresses many of the findings of the Productivity Commission's report and continues this process of improvement. Under the new model, services will be better targeted and more intensive, to assist job seekers to access the most appropriate assistance and maximise outcomes. Job seekers will no longer be referred to ineffective programmes. There will be more help for those most in need, simpler and faster access to services and improved linkages between Job Network and other services.

The Productivity Commission's report also contains a number of recommendations which the Government is not prepared to support at this time. This includes recommendations that are not consistent with Government policy and recommendations supported in principle but subject to further consideration.

The following is the Commonwealth Government's final response to the Commission's recommendations.

REPORT RECOMMENDATIONS

Is a purchaser-provider model justified?

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

Government Response

The Government supports this recommendation. It is clear from the success of Job Network that a purchaser-provider model is a viable means of delivering employment services. The Government is committed to retaining and strengthening the model in the third employment services contract (ESC3).

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.

Government Response

The Government supports this recommendation. DEWR collects a substantial amount of information that allows compliance and longer-term programme effects to be analysed. A detailed assessment of compliance net impacts relating to employment outcomes for Job Search Training and Intensive Assistance participants, for example, is included in the Job Network Stage 3 Evaluation Report.

Earlier this year, the Department released the findings of a longitudinal survey of Job Matching participants which measured employment outcomes 15 months after placement. Similar studies designed to analyse the longer-term outcomes of Intensive Assistance, Job Search Training and Work for the Dole participants are currently being undertaken by DEWR. 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.

Changes being introduced as part of the evaluation of the *Australians Working Together* (AWT) package will also enhance DEWR's capacity to examine compliance effects and longer-term outcomes. Under the AWT evaluation framework, DEWR and the Department of Family and Community Services (FaCS) are developing a joint longitudinal data set that will include comprehensive information on job seekers' programme 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 programme participation.

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

Government Response

The Government supports this recommendation in part. The Department (DEWR) 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 programme evaluation. The Department also solicits the views of overseas experts to help inform the development of research methodologies. The Government has a policy of making public its evaluations of Job Network which contain detailed information on data sources and methodology and will continue to support public release of the evaluations of the changes introduced in ESC3.

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

Government Response

The Government supports this recommendation in principle. To a limited extent DEWR data on Job Network programmes have been made available in the past for research purposes, but privacy issues have constrained the scope for this.

It is important to note, however, that establishing and maintaining de-confidentialised administrative data available on demand carries considerable resource implications. The issues raised by this recommendation will be considered in more detail in the context of addressing transparency concerns and future evaluation priorities.

What services should the Job Network provide?

7.1 The commission recommends continuation of a generalised job matching function that provides greater incentive for placing more disadvantaged job seekers.

Government Response

The Government supports this recommendation. It is accepted that bearing the deadweight costs of assistance to non-disadvantaged job seekers may be worth the gains of a viable job matching function to disadvantaged job seekers. Arrangements for ESC3 include an expansion of the Job Matching service with the aim of maximising opportunities for 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.

Government Response

The Government supports this recommendation in principle. The Government will meet all costs associated with the development and operation of the automated matching process. Job seekers will be notified of matches to jobs via email or telephone message bank services. Management of the costs which may accrue to a job seeker in following up matches is under

consideration as part of the consultation process for ESC3. The financial implications associated with this measure were addressed in the 2002–03 Budget.

7.3 The Commission recommends that Job Search Training be retained.

Government Response

The Government supports this recommendation. The Government agrees that Job Network members should continue to provide supervised job search training activities. Consideration is being given to providing job search training activities more flexibly in ESC3.

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

Government Response

The Government does not support this recommendation. The Government believes that unless minimum levels of contact are prescribed some job seekers will receive inadequate levels of service, and that contact is important in maintaining active participation by job seekers.

The contact requirements outlined in the *Active Participation Model* discussion paper, describe, at a broad level, the services job seekers can and should expect from their Job Network provider. Beyond these specific requirements, Job Network members have flexibility to tailor other contacts and assistance to meet client needs. The services provided to job seekers by Job Network providers will be underpinned by a Service Guarantee. The detail of the Service Guarantee will be settled following consultations with industry and other stakeholders on the *Active Participation Model* and on the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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.

Government Response

The Government notes this recommendation. The detail of the operation of the Job Seeker Account will be settled following consultations with industry and other stakeholders on the *Active Participation Model* and the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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

Government Response

The Government supports this recommendation. Currently there is adequate flexibility in the Preparing for Work and Activity agreements to take account of individual circumstances and different labour market conditions. This arrangement will continue.

The Government is of the view that the intensity of activity of job seekers participating in Intensive Assistance, as it currently operates, could be increased. Under the *Active Participation*

Model, the intensity of assistance to job seekers will increase with duration of unemployment. The requirement for active job search will continue throughout the job seeker's period of unemployment. Job search requirements, however, will need to be tailored to ensure that they complement and support other activities being undertaken by the job seeker.

The financial implications associated with increasing the intensity of job seekers' participation in intensive assistance were addressed in the 2002–03 Budget.

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

Government Response

The Government supports this recommendation. The New Enterprise Incentive Scheme will be one of the programmes available to job seekers in ESC3.

7.8 The Commission recommends that the Self Employment Development programme be terminated.

Government Response

The Government supports this recommendation in principle. The Government will be considering whether the resources associated with the Self Employment Development programme could be used more effectively in the New Enterprise Incentive Scheme.

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

Government Response

The Government does not support this recommendation. The Government considers that it has a role in supporting the operation of this segment of the market.

The Government is in the process of considering the recommendations of the Harvest Working Group. For ESC3, however, the Government is committed to Harvest Labour Services and ensuring that harvest information is available to growers and job seekers.

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.

Government Response

The Government supports this recommendation. Job seekers currently have access to extensive sources of information about Job Network. The employment information and service delivery system, JobSearch, is available on the internet and on touch screen kiosks in Centrelink offices and Job Network premises. This system provides extensive information about Job Network members (including information on their performance) and services to job seekers. The Government, moreover, is continually looking to enhance such information provision systems. The success of any information provision strategy, however, relies on job seekers being

motivated to access and use the information, and ensuring that job seekers are not overloaded with information.

The financial implications associated with the referral of job seekers to Job Network services were addressed in the 2002–03 Budget.

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.

Government Response

The Government does not support this recommendation. The Government believes that job seekers on activity-tested allowances have an obligation to improve their job readiness and attempt to reduce their dependence on income support. Participation in Intensive Support customised assistance can improve job readiness and assist in meeting this obligation.

The Government also believes if participation in customised assistance was voluntary, some job seekers who require this type of assistance would miss out because they may choose an alternative mutual obligation activity which may not address their labour market disadvantage. Even with increased availability of information about Job Network, some job seekers would not be motivated to access this information.

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.*

Government Response

The Government notes this recommendation. The *Active Participation Model* discussion paper proposes that the extent to which job seekers can change their Job Network provider should remain limited.

Allowing job seekers to change shortly after commencement (as suggested in part (a)) would create administrative complexity (for both providers and the Government) regarding the management of job seeker information (ie, the need to transfer information from one provider to another) and would lead to increases in costs when a further commencement payment is made to providers. The discussion paper proposes that, as under current arrangements, job seekers have the opportunity to change Job Network providers where there is an irreconcilable breakdown in the relationship. This seems to reflect the situation envisaged in part (b) of the recommendation.

The detail of this issue will be settled following consultations on the *Active Participation Model* and on the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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.*

Government Response

The Government does not support this recommendation. As noted in the response to Recommendation 8.3, the *Active Participation Model* discussion paper proposes that the extent to which job seekers can change their Job Network provider should remain limited. The discussion paper proposes that, as under current arrangements, job seekers have the opportunity to change Job Network providers where there is an irreconcilable breakdown in the relationship.

The detail of this issue will be settled following consultations on the *Active Participation Model* and on the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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.*

Government Response

The Government notes this recommendation. As noted in the response to Recommendation 8.4, the arrangements described in the *Active Participation Model* discussion paper will allow job seekers to transfer to another Job Network member in cases of irreconcilable breakdown. This is consistent with current practice. In its current form, however, the recommendation is inconsistent with the arrangements proposed for ESC3 because it implies that Mutual Obligation activities are a substitute for Intensive Support customised assistance. Mutual Obligation activities are complementary and participation in them does not result in an exit from Job Network service.

The *Active Participation Model* links Mutual Obligation activities with Intensive Support and Job Search Support. When a job seeker undertakes a mutual obligation activity the relationship with their Job Network member does not cease, it continues. The Job Network member maintains regular contact with the job seeker and assists their continued job search.

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

Government Response

The Government supports this recommendation. Currently, the Job Network Code of Conduct, which contains a description of the complaints process, including the Customer Service line number, is provided to all job seekers when they commence with a Job Network member.

The Code is also available through Centrelink and on the Department's website. As part of the changes proposed for ESC3 the Department is introducing a Service Guarantee for job seekers and developing a Code of Conduct to apply to all employment services providers and a Code for Job Placement providers. The details of these codes are currently being considered in the consultation process for the *Active Participation Model* and on the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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.

Government Response

The Government notes this recommendation. Operation of the JSCI relies on consistent application by operators and between locations and accurate information from job seekers. Any move to increase Centrelink's flexibility to apply the instrument would have to be done in the context of this requirement. The Government is concerned to ensure the quality of JSCI and its administration. Accordingly DEWR has ongoing negotiations with Centrelink about the quality of their application of the instrument and the scope for improvement of the JSCI so as to increase job seeker's' disclosure of their barriers to work.

It should be noted that revisions to streamline the JSCI under the *Active Participation Model* will address some of these issues. The revised instrument will be used by Centrelink at the registration interview to identify those job seekers at very high risk of long term unemployment, who require early entry to Intensive Support customised assistance and job seekers who are likely to benefit from literacy and numeracy training such as that provided by DEST's Language, Literacy and Numeracy Programme. To improve job seekers' disclosure of their barriers to work, under ESC3, Centrelink staff administering the JSCI will have access to supplementary information to assist in clarifying the purpose of the question when a job seeker is unable to respond immediately. Where job seekers' circumstances change, or where they disclose barriers to employment after they commence Intensive Support, their Job Network member will be able to enter this information to up-date their JSCI score. This score will determine whether the job seeker requires immediate placement in Intensive Support customised assistance or referral to other more appropriate assistance outside of Job Network. Training will be provided to Job Network members to support their new role in updating job seeker information.

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

Government Response

The Government supports this recommendation. The Job Seeker Classification Instrument (JSCI) has been used in a limited way to adjust the flow of job seekers to Intensive Assistance. In the early days of Job Network it was important to maintain provider viability by ensuring providers had a sufficient pool of job seekers. Small adjustments to the JSCI bandwidths helped achieve this. This recommendation is consistent with changes being considered to the way in which the JSCI will be used for the *Active Participation Model*.

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.

Government Response

The Government supports this recommendation. From July 2002 (as part of *Australians Working Together*) charges levied on Job Network members for supplementary assessments

were dropped. The design of these arrangements for ESC3 will be finalised after consultations on the *Active Participation Model* and on the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

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.*

Government Response

The Government supports this recommendation in principle. The Department's Centrelink Business Partnership Arrangement (BPA) 2001–02 is monitoring the completion of Special Needs Assessments (now known as JSCI Supplementary Assessments) with a view to establishing a benchmark for the 2002–03 BPA. The issue of the payment of penalties needs to be considered further.

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 capacity to re-direct job seekers to other programmes;*
- *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.*

Government Response

The Government notes this recommendation. The recommendation is broadly in keeping with the *Australians Working Together* arrangements which were introduced from July 2002. Under these arrangements Job Network members are able to refer job seekers to complementary programmes to address employment barriers such as motivation, language or literacy/numeracy prior to their commencement in Intensive Assistance or to Centrelink for assessment for the Personal Support Programme where non-vocational barriers are apparent.

Job Network members contracted to provide Intensive Assistance will remain largely responsible for the supervision of job seeker activity while they are participating in complementary assistance. Job seekers undertaking these activities remain subject to the activity test. Once their identified barrier has been addressed job seekers return to the provider to commence their Intensive Assistance placement.

The *Active Participation Model* arrangements for ESC3 build on the pathways and the complementary assistance concepts introduced under the *Australians Working Together* measures. All job seekers will get access to Job Search Support services, while only those job seekers more disadvantaged in the labour market will get access to Intensive Support (principally those in receipt of Government income support). Intensive Support integrates mutual obligation activities, with employment services of graduated intensity commencing with job search training after three months unemployment and substantial customised assistance services for all eligible job seekers from 12 months unemployment. Under the *Active Participation Model*, Job Network

members will have greater flexibility to refer job seekers to a wider range of complementary employment and training programs, including those provided through Commonwealth and State/Territory government funding. Participation in complementary programmes would be arranged as part of a job seeker's job search support plan to address barriers to employment.

As noted in the response to Recommendation 7.6, the requirement for active job search will continue throughout the job seeker's period of unemployment. Job search requirements, however, will need to be tailored to ensure that they complement other activities being undertaken by the job seeker, including participation in complementary employment and training and non-vocational programs. Job Network members will work in co-operation with Centrelink Personal Advisers where appropriate.

Under current Job Network arrangements the characteristics of job seekers in Intensive Support who are referred by their Job Network member to complementary assistance (ie. language, literacy and numeracy training, Work for the Dole and Personal Support Programme) are recorded. Analysis of this information may give some indication of the appropriateness of job seeker referrals to Intensive Support. Any analysis, however, would need to take into account issues of job seeker disclosure at the Centrelink registration and participation interviews. Under the *Active Participation Model* such arrangements would be equally relevant

The recommendation that the Department detect and discourage referrals to complementary programs that distort outcomes or shift costs will be taken into consideration in the design of performance management arrangements for the third employment services contract.

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.

Government Response

The Government supports this recommendation noting that it is consistent with the approach being implemented as part of the *Australians Working Together* package (ie, strengthening the role of providers in the assessment process) and the approach being considered under the *Active Participation Model*. Under the Model job seekers will have a maximum of two placements in Intensive Support customised assistance. The range of activities undertaken by job seekers in their second period of customised assistance will depend on their job prospects. Where the Job Network member assesses that these prospects are reasonable their activities will focus on achieving employment. This could involve specific training, work experience and/or participation in complementary programmes.

Where viable labour market opportunities do not exist, for example in job-scarce locations, the Job Network member could consider referring the job seeker to voluntary work or complementary employment and training programmes, where such assistance would benefit the job seeker's long term employment prospects. The type of assistance delivered during this period would vary depending on the job seeker's needs and the opportunities locally available.

At any time when the job seeker discloses additional barriers to employment, their Job Network member will provide this information to Centrelink. The JSCI can then be reapplied to assess whether the job seeker should be referred to alternative assistance, such as the Personal Support Programme.

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.*

Government Response

The Government does not support this recommendation. The balance of services between generalists and specialists is a key consideration in maximising both quality of services provided to job seekers and outcomes achieved. This balance needs to be aligned with job seeker characteristics in individual employment services areas and local labour market conditions. Arrangements to ensure an optimum balance are under consideration for the purchasing arrangements for ESC3.

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.*

Government Response

The Government supports this recommendation in part. The JSCI is currently used to determine eligibility for Intensive Assistance. Job seekers whose JSCI score is not high enough for them to be eligible for Intensive Assistance can be referred to Job Search Training. Within Intensive Assistance, the JSCI score is also used to distinguish between those attracting a funding level A and those attracting a funding level B. Outcome payments for level B job seekers are higher than those for level A job seekers. The Commission argues that the JSCI should continue to be used in this way in relation to outcome payments, although it notes that fine gradations in client risk may be beyond the scope of an instrument like the JSCI. The Department agrees with this view and recognises the need to further refine the instrument and to test its predictive capabilities.

The Government proposes under the *Active Participation Model* to partly base outcome payments on a streamlined JSCI and unemployment duration (the longer the duration, the higher the outcome payment).

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 programme by repeat users. Compliance effects for those job seekers should be elicited in other ways.*

Government Response

The Government notes this recommendation. The recommendation does not take into account the changed model of employment service delivery proposed for ESC3, the *Active Participation Model*.

Under the *Active Participation Model* all job seekers (with the exception of those identified as being at risk of long term unemployment and in need of early intervention) will commence in Intensive Support job search training after three months unemployment. Job search training will assist job seekers to obtain employment through individually tailored assistance that improves their job search skills, motivates them for work and expands their job search networks.

The model does not support voluntary participation because it is important that all job seekers develop job search skills. The model, however, does recognise that repeat users may only require a refresher job search training course. It is expected that around two-thirds of job seekers (who have not undertaken formal job search training activities in the previous year), would be required to attend 100 hours (usually three weeks of full-time participation) of job search training. The remaining job seekers (who have participated in job search training within the past 12 months), will undertake an abridged training course run over 30 hours (one week full-time or equivalent) involving supervised intensive job search activities.

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.

Government Response

The Government notes this recommendation. Currently, around 50% of NEIS commencements have been in receipt of income support for six months or more. Many of these job seekers would fall into the category of disadvantaged. It is important to note, however, that NEIS is not appropriate for all job seekers. Entrepreneurial skills are required for successful NEIS businesses. It is also important to understand which job seekers benefit most from NEIS. In the context of its response to *Age Counts: an inquiry into issues specific to mature age workers* (the Nelson Report), the Government has conducted a study of NEIS businesses at regular intervals (3, 6, 12 and 24 months) to better assess the outcomes of the programme and which job seekers achieve outcomes.

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.*

Government Response

The Government notes this recommendation. Pricing arrangements for Job Network services in ESC3 will be finalised after consultations on the *Active Participation Model* and the Exposure Draft of the Request for Tender for the Employment Services Contract 3.

The *Active Participation Model* discussion paper proposes that a fixed fee structure with rates set by the Commonwealth will apply for the life of the third Job Network contract. Fees will not be subject to price competition.

The proposed fee structure is designed to create a mix of incentives to encourage increased placements and sustained employment outcomes, as well as increased job seeker activity and improved service and assistance, particularly for those job seekers most disadvantaged in the labour market. The fee structure includes strong incentives for placing into sustainable jobs, job seekers who have been unemployed for long periods.

The fee structure will comprise a job placement fee, a service fee and outcome fees. These will be underpinned by a Job Seeker Account for job seekers in Intensive Support.

The Department recognises that the servicing of job seekers outside of metropolitan and regional centres creates challenges for the arrangements proposed under the *Active Participation Model* including both the design of services and fee levels. Arrangements for the servicing of job seekers located beyond reasonable travel from a Job Network member's premises are designed to be flexible. They are outlined in the Exposure Draft of the Request for Tender for the ESC3. The arrangements include a Locational Supplement to the Job Seeker Account to help offset costs associated with locational barriers to accessing Job Network services. In addition, if the tender process for ESC3 finds locations where the *Active Participation Model* is not viable, the Department will consider the most appropriate form of employment service delivery to be purchased. This may include direct negotiation of fee-for-service arrangements.

10.2 The Commission recommends that there be more outcome payment categories for intensive phases of assistance to take into 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).

Government Response

The Government does not support this recommendation. While feasible this recommendation adds complexity to the system of outcome payments. Many job seekers eligible for Intensive Support customised assistance, moreover, have multiple barriers to employment and it is the interaction between these barriers that determines labour market disadvantage rather than membership of a particular group.

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.

Government Response

The Government supports this recommendation. The scale of outcome fees, described in the *Active Participation Model* discussion paper, rises with increases in duration of unemployment (beginning at three months) and also provides for higher outcome fees for those job seekers identified as needing early participation in intensive services. Outcome fee structures will be finalised following consultations with industry and other stakeholders.

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.

Government Response

The Government notes this recommendation. The Government is considering this issue as part of consultations in the lead up to the third Job Network contract.

10.5 The Commission recommends that DEWR recognise the importance of shorter term jobs by introducing and outcome payment for a job placement that lasts seven weeks.

Government Response

The Government notes this recommendation. The Government is considering this issue as part of consultations in the lead up to the third Job Network contract.

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.

Government Response

The Government notes this recommendation. The current arrangement for verification of outcomes involves daily electronic checking of Centrelink records for reductions in job seeker income support payments. The capacity for further automation is being considered as a part of ESC3 system development.

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:

- (a) ultimately permits free entry at any time to any supplier that meets DEWR's accreditation standards; and*
- (b) includes automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.*

Government Response

The Government notes this recommendation. Under the *Employment Services – an Active Participation Model* job placement services will operate under a licensing approach. Whatever model for employment services is adopted in the future, however, must involve a purchasing process that is transparent and rewards good performers.

A licensing and accreditation system would clearly make entry to and exit from the market easier than is the case in the current tendering system. The disruption to business levels and placement activity associated with tendering would be avoided, as would the administrative costs of putting together a tender selection team. The possibility of such a system at some stage in the future, however, raises a number of significant service quality issues which would need to be resolved before a licensing and accreditation system could be introduced. As indicated above, these issues include maintaining a quality service over time and avoiding the situation where providers focus their efforts on the easiest to assist and refuse or minimise the service to those who are hard to assist. Resolving these issues is crucial to ensuring protection of the Commonwealth interest.

Under licensing systems, quality of service is maintained by accrediting provider organisations that demonstrate a capacity to achieve a certain standard of service and competition between providers. Where market forces do not lead to their removal from the market, the market's purchaser and regulator has the power and responsibility to apply sanctions to poor performers.

This ultimately may include revoking a licence to operate within the market (in this case Job Network). Under a tendering system, poor performers can be removed more readily from the market at the end of each contract round.

A key difference between the two systems is where the onus of proof lies. In a tendering system the onus is on service providers in the market to demonstrate through performance and subsequent re-tendering that they should be retained. A licensing system, however, shifts the onus more to the purchaser who has to demonstrate that a provider has not achieved the performance standard before that provider can be removed from the market. If the purchaser lacks the will to intervene and market forces do not operate sufficiently (in locations, for example, where there are few providers), poor performers may remain in the market. This situation seems a less likely outcome under a tendering system.

Job Network includes incentives and contractual requirements to ensure access to services within a flexible framework which allows services to be tailored to individual needs. Incentives include the fee structure (a combination of upfront fees and outcome payments, and higher fees for more disadvantaged job seekers), the star rating system to encourage higher performance and the prospect of future business. A monitoring and compliance framework is in place to support contractual requirements.

There is no reason to believe that a similar incentive structure could not operate under a licensing system. The conditions currently set out in Job Network contracts, such as the requirement for providers to accept all job seekers referred to them, could also be included within the terms and conditions of any licence.

<p><i>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.</i></p>
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Government Response

The Government does not support this recommendation. The Government believes that favouring more successful Job Network providers could impact adversely on the overall provision of services.

Auto-referral is currently used where job seekers do not choose a provider or the provider of choice is unavailable. This is likely to continue under ESC 3. The Government, however, has taken steps to increase the number of job seekers choosing a provider (through the introduction of streamlined referral processes), thereby reducing the extent to which auto-referral occurs.

This issue is also related to management of Job Network member capacity (see Recommendation 11.3).

Arrangements for the auto-referral system for the third Job Network contract will be finalised after consultations on the *Active Participation Model*.

11.3 The Commission recommends that in the long run there be no regulated limits on caseloads and/or 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 contract capacity by a given margin, which should be increased progressively.*

Government Response

The Government notes this recommendation. Under the *Active Participation Model* the Government is considering options for managing Job Network member capacity. These include:

- no limits being applied to Job Network member capacity with job seeker choice being the primary consideration;
- establishing a percentage share of places for each Job Network member. This would, however, limit job seeker choice where providers are operating at full capacity; and
- allocating a share to each Job Network member but allowing some tolerance to exceed that share.

Arrangements for managing provider case loads for the third Job Network contract will be finalised after the consultation process on the *Active Participation Model*.

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.

Government Response

The Government supports this recommendation. It is recognised that refinements to the star ratings may be required over time. The Government has adopted an evolutionary approach to what is a relatively innovative system of measuring performance. The recently completed review of the star ratings reflects this.

The Government commissioned Access Economics to review the star rating system following concern by some Job Network providers that the model may not, among other things, sufficiently account for different labour market conditions and job seeker characteristics. The review (the findings of which were publicly released in March 2002) examined the potential for improvement in the control of these factors and the potential impact on relative performance scores of any changes to the way Intensive Assistance secondary outcomes are counted. The review was also aimed at improving Job Network members' understanding of the assessment model and the way it is used to monitor performance. The review confirmed that the methodology behind the star ratings was sound and recommended a number of refinements, which are being implemented. The latest release of ratings includes, for example, additional adjustment for regional factors, as recommended in the review.

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 what ever geographic level they are supplied..*

Government Response

The Government support this recommendation in part. Employment Service Area ratings were publicly released in April 2002. In relation to part (b), the Government will consider publication of some indication of the reliability of the published estimates. As a general rule, however, the Government would be reluctant to publish estimates which were statistically unreliable. If this occurred, such estimates would be accompanied by a warning as to their level of reliability.

11.6 The Commission recommends that:

- *no weight in the start ratings be given to interim education and training outcomes, but that final outcomes continue to be recognised;*
- *secondary outcomes receive 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 purpose of star ratings.*

Government Response

The Government supports this recommendation in principle. The general thrust of the recommendation is consistent with changes under consideration for ESC3.

The issue reflected in the first part of the recommendation was considered in the review of the star ratings system by Access Economics. Access Economics found that reducing the weight on interim educational outcomes in the KPIs for Intensive Assistance would affect the star ratings of 45% of Job Network members, mostly by half a star. The review also found some evidence that providers in metropolitan areas would receive higher star ratings, while a few non-metropolitan providers would lose 1 or 1.5 stars. It did not appear that specialist providers would fare worse than other providers. Generally, removal of interim education and training outcomes from the star rating system could be expected to have a greater impact in locations with labour markets where job opportunities are poorer and a job seeker's chances of securing employment lower.

The third part of the recommendation is consistent with current practice. The Government currently pays primary outcome payments for a job seeker who is aged 15 to 20 years and has not completed Year 12 or equivalent and completes one semester of an approved eligible education or training course. The eligible course must be at least two semesters in duration of related training and eligible courses. The definition of secondary outcomes and their inclusion in the star ratings will be settled following consultations on the *Active Participation Model* and finalisation of the overall performance assessment model for ESC3.

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

Government Response

The Government supports this recommendation in principle. The recommendation is consistent with proposals for developing star ratings for publication early in the third Job Network contract.

11.8 The Commission recommends that the full details of the star rating model be made publicly available, including any assessments made of its technical validity.

Government Response

The Government supports this recommendation in principle. As noted in relation to Recommendation 11.4, the star ratings methodology was reviewed by Access Economics. The findings of this review were released in March 2002. Consideration is being given to the release of further details of the star ratings model.

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.*

Government Response

The Government supports this recommendation in principle. DEWR's National Contract Management Framework (NCMF) is a principles-based framework, which takes a risk-managed approach to contract monitoring and compliance activities. The Framework was adopted in November 2001 and promulgated to Job Network members in February and March 2002 and on the DEWR's Employment and Community Services Network (ECSN) website (www.ecsn.gov.au) for contracted providers.

The Government takes seriously accountability for the expenditure of public funds and the integrity of Job Network services and will maintain its commitment to appropriate programme assurance and monitoring through rigorous programme assurance activity.

Under ESC3 the Government is looking at applying the NCMF principles-based approach to minimise the extent to which upfront compliance monitoring of contractors will need to be undertaken. Under these arrangements much greater emphasis would be given to risk based quality assessment and audit arrangements combined with tough penalties for breaches of the Code of Conduct.

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.

Government Response

The Government supports this recommendation. Under the *Active Participation Model*, services that job seekers should expect to receive from a Job Network member will be included in a Service Guarantee. The Guarantee supersedes the Declaration of Intent. While details of the Service Guarantee will be settled following consultations on the *Active Participation Model*, it is expected to be a publicly available document and may be displayed in Job Network member premises.

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.

Government Response

The Government supports this recommendation in principle. Over the life of the current employment services contract (ESC 2), the need has arisen to offer a number of general contract variations, to account for developing government policy.

Current practice is to consult extensively with industry representatives and providers, prior to settling the terms of a contract offer. The extent of consultation depends on whether variations are simply required to comply with statutory law or matters confidential to government or budget processes. In the case of AWT changes, for example, three major national rounds of briefings and consultations were conducted for interested providers, with most of the suggestions and feedback raised accepted by Government for inclusion in the final contract offer.

Commonwealth contracts require consent from the contracting organisation before a variation may be effected. Of the six general contract variation offers made over the life of the current employment services contract, three have included the offer of funding to compensate providers for additional activities or costs incurred.

With respect to ESC3, it is intended to provide existing Job Network providers and prospective new entrants to the market with extensive briefings, and to consult on detailed implementation arrangements to operationalise the Government's approved policy framework. The Government has also announced its plans for consultations on the exposure draft of the ESC3 Request for Tender, and for information sessions when the final Request for Tender is released.

The Government is working closely with the employment services industry to ensure that the administrative costs associated with compliance activity are kept to a minimum. This is an important part of the design considerations for arrangements being developed under ESC3.

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.

Government Response

The Government supports this recommendation in principle and seeks to apply this approach in its existing practices. Where issues of non-compliance are limited to a specific site or organisation, such matters are dealt with on a bilateral basis between DEWR and the provider(s) concerned. This is the case in the great majority of compliance matters handled by DEWR.

Infrequently, broader issues arise such as practices that have the potential to bring the integrity of Job Network into disrepute or which affect the appropriate expenditure of public funding. With such an occurrence, the Government would take the least onerous approach necessary to systematically address identified risks. This may entail, for example, data analysis to identify higher risk sites or organisations for follow-up; addressing the risk within scheduled monitoring visits; and/or considering if the issue can be addressed adequately by raising awareness of existing contract provisions. Where possible, providers whose practices are not problematic are unaffected. On an exception basis, it has been necessary to address material risks through changes to IT recording systems. In one case, matters initially identified in respect of a single organisation required the issuing of a general contract variation.

When this occurs it is incumbent on the Government to take appropriate action to address identified risks systematically. In such cases, the Government continues to engage in dialogue with providers and the industry association to apply a risk managed approach to such issues, now and in ESC3.

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).

Government Response

The Government supports this recommendation in principle. The Government routinely publishes details of fraud cases and the costs of compliance activities in DEWR's annual report and regularly uses provider communication channels, such as the Job Network Bulletin, to alert providers of common errors to guard against. All findings from quality audits are communicated back to the provider concerned.

The Government appreciates the need for greater transparency in regard to compliance monitoring. This is a complex area, however, where the definition and content of compliance information may be open to different interpretations. It is recognised that there is a need to be flexible in this area, particularly in regard to:

- providing details of invalid claims by Job Network members; and
- providing information on deviations from existing compliance monitoring practices.

Under the NCMF, DEWR will produce aggregate information about quality audit findings for the information of the industry, as well as information to support practice improvement. The

latter commenced with industry events and information on the ECSN provider site in February and March 2002. Stronger data analysis tools and skills under the NCMF will enable local contract management staff to discuss with providers, for example, any recurrent errors detected in their operations.

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.

Government Response

The Government does not support this recommendation. The Government is committed to transparency and accountability in its administration of employment services. Initiation of the Productivity Commission's review provides an illustration of this commitment.

The Government already has in place extensive arrangements for scrutinising Job Network that include:

- a monitoring and evaluation strategy;
- regular release of significant performance information—detailed operational performance information, labour market outcomes (released quarterly), provider performance star rating (updated every six months), evaluation reports and research findings; and
- a set of governance arrangements covering quality of services and contractual compliance.

A strategy is currently being developed for the monitoring and evaluation of the ESC 3 changes.

Arrangements are also in place for external scrutiny of Job Network. This is provided by Parliament through the Senate Estimates processes, a number of statutory agencies (eg, ANAO, the Ombudsman, ACCC, the Privacy Commissioner and HREOC), academics and interest groups (including ACOSS, ACCI and FECCA) and the OECD.

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.

Government Response

The Government notes this recommendation. It is important to note that protocols already exist for the storage of data under the *Privacy Act 1988*. In addition, Centrelink Privacy Guidelines, developed in consultation with the Office of the Privacy Commissioner, were launched in June 1999. DEWR will hold consultations with FaCS, Centrelink, the DIMIA, DEST, the National Employment Services Association and the Privacy Commissioner to establish options for the storage and sharing of information.

It should be noted, however, that this recommendation raises a number of legal issues. The confidentiality provisions contained in the social security law currently permit the disclosure of client information lawfully to other Commonwealth Departments. Limits apply to the amount and type of information that may be disclosed. A protocol with Centrelink on sharing data would not be sufficient under the current law.

The *Australians Working Together - Helping people to move forward* package contained a measure titled Customer Information Management (Improved IT). The measure is an acknowledgment that the social support system (including Job Network) can deliver better outcomes for customers if agencies and service providers work better together. Improving the sharing of appropriate and accurate customer information is one way to achieve this. A scoping study to review existing operations with a view to developing business model options for improving customer information flow across agencies is currently underway. The study is managed by an inter-departmental steering committee with shared responsibility between FaCS, DEWR, DEST and Centrelink. Outcomes from the study will be considered by August 2002.

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.

Government Response

The Government notes this recommendation. The current contract with Job Network members requires providers to notify Centrelink, and provide documentary evidence (if requested by Centrelink) when an eligible job seeker does not:

- attend scheduled interviews to negotiate an Activity Agreement,
- respond to correspondence about the agreement,
- agree to the draft terms of an agreement or
- take reasonable steps to comply with the terms of the agreement.

The imposition of a penalty is a last resort to encourage compliance, and the priority should be to engage job seekers with appropriate support. The government anticipates that the closer relationship between provider and job seeker established under ESC3 will help to reduce the number of penalties imposed. This recommendation will be considered within both the consultation process to ESC3 and within the Government's regular reviews of overall breaching policy.

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 Programme.

Government Response

The Government notes this recommendation. Under the AWT framework, DEWR and the Department of Family and Community Services are developing a joint longitudinal data set that will house comprehensive information on job seekers' programme participation as well as their history with respect to receipt of all types and levels of income support. This dataset will allow short and long-term tracking of job seekers' income support payment levels and pathways following programme participation. There will be provision for commissioned research by independent experts in the programme evaluation field.

DEWR also has an internal research allocation that allows for investigation of best practice models for the Job Network.

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.

Government Response

The Government notes this recommendation and will consider this matter when developing future policy directions in relation to delivery of social services to the community.

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.

Government Response

The Government supports an approach which would provide genuine incentive for Centrelink to maintain and improve performance and will explore this approach in the context of the Government's consideration of new funding arrangements for Centrelink

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.

Government Response

The Government notes this recommendation and will consider the matter in the development of future policy for the delivery of social services to the community. This consideration would need to take into account the benefit to Australians of having a single, clearly identified gateway to integrated services as currently provided by Centrelink.