

30 April 2008



The Hon Brendan O'Connor MP  
Minister for Employment Participation  
Parliament House  
CANBERRA ACT 2600

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Dear Minister

Thank you for your invitation to contribute our views on how employment services can be improved. As you note, we and others made submissions to the previous Government on similar issues in June 2007. We also made a submission to the Treasurer in the context of his call for submissions on the forthcoming federal budget. Many of the observations and suggestions we offered then remain pertinent today and I have touched on some of these in recent discussions with you and your staff.

As the peak body for more than 240 nonprofit organisations delivering employment and related services, we have sought and incorporated many of the views of our members on the many important issues which your review needs to cover. Our suggestions about ways to achieve the objectives of the government's social inclusion, employment participation and skills policies are not based on calls for additional spending in these areas. We believe that, in keeping with the Rudd Government's strong emphasis on fiscal responsibility, these important policy objectives can be achieved through more efficient use of currently allocated resources.

I also point out that we have endeavoured to be quite frank and candid (and far more so than became the norm under the former government) in relation to many of our views about aspects of the present employment and related services system because we believe such frankness and candour to be necessary if we are to provide the government with the best advice about ways in which the system can be improved. The former government actively and systematically stifled and prevented critical debate and airing of problems in the system to the ultimate detriment of the system itself and those it was intended to serve.

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We note that many unemployed citizens and the great majority of service providers want to see a quite revolutionary approach to the design of the future employment services system and would be disappointed if this does not happen. There are significant and systemic flaws that need to be addressed in the current program and policy arrangements and substantial efficiencies that can be found to enable redirection of resources where they are needed.

We believe that, by rearranging and redirecting some of the available resources in the system, it will be possible for the government to target more resources to those people with significant barriers and disadvantage to help them to achieve truly sustainable and satisfying employment. We also believe that it is imperative that the macro policy settings of the former government – settings which impose too many requirements, provide insufficient incentives and not enough assistance – need to be substantially changed. Not only do unemployed and jobless people need more incentives and assistance, they also need a system which engages, enthuses, encourages and empowers them – one which focuses on positive engagement and which has a strong “engagement ring” about it.

The obsession with jobseeker compliance reflected in the current system results in significant wastage of resources and some of the harsher aspects of the system amount to quite punitive and damaging treatment of some of our nation’s most vulnerable citizens. Some aspects of the policies and the practice and rhetoric of the previous government can reasonably be construed as a sinister and damaging vilification and punishment of people who need a hand up rather than being slapped down. It is sobering to reflect that we have witnessed the development of a system which has caused significant detriment and harm to some of our most vulnerable fellow Australians and which has left others on the wayside without the help they need. In some instances and hopefully not too many, it may well have been a contributing factor in some vulnerable jobseekers seeking to take their own lives as a compounding consequence of being denied income support for extended periods. One could be forgiven for thinking the citizens these policies and practices were directed at were regarded as nothing more than “bludging bottom dwelling scum suckers”.

We have greater faith in the battlers and in their ability, with the right mix and sequences of assistance, to get to work in most cases. We also know that they need support and assistance to build their self efficacy and their self reliance and to deal with often complex and difficult barriers. This will only be achieved if they are treated with dignity and respect and given the opportunity to develop long run and trusting relationships with the people working at the front line of welfare to work. We think it imperative that a new and very different set of arrangements need to be developed for people who don’t have all the capabilities of the job ready and who need substantial and multi-faceted assistance. This will likely require a shifting of resources away from those people who have capability and are job ready or close to being so. For the latter group, a trimmed down version of the current Job Network model with its linear and largely one size fits all service model will likely continue to do the trick at a very reasonable price.

In the context of the implementation of the government’s social inclusion agenda, it will clearly be necessary to tailor combinations and sequences of services and interventions to meet the needs of widely differing individuals and locations in ways which will not be possible using the one size largely fits all and linear Job Network model. The government will also need to explore ways in which relevant services can be more effectively integrated into the communities they serve and the other services and programs relevant to the needs of the excluded citizens being assisted. The former government attempted to achieve some degree of integration by mandating and requiring partnerships and, somewhat misguidedly, through the conduct of Better Connections workshops in many locations across Australia. Real integration and joining up of services will require high levels of local involvement, engagement and creativity and will necessarily require a much more bottom up approach.

Another crucial issue in this context of your review is the critical need to reform the system so that is designed around the needs of the many hundred of thousands of people it affects, rather than a ridiculously complex set of contractual and other rules and business process

models and information technology systems which constrain the people working at the front line and limit their ability to exercise their judgement and use discretion in the practice of engaging and working effectively with disadvantaged people. Much more attention needs to be given to the crucial role the front line workers at Centrelink and employment and related services play. We need to ensure the information technology cart is behind the program horse and not in front of it. The information technology system needs substantial and radical trimming down and simplification which needs to be undertaken with a primary eye on the human interface end of the system and not the contracts and program architecture. This will require a much greater emphasis on and attention to the ways in which unemployed citizens experience and navigate the system and the ways in which they and the front line workers interact.

We need to ensure we remove the myriad of unnecessary and unproductive bureaucratic intrusions and controls which have iteratively been accreted onto the system since its inception nearly ten years ago. If perchance the architects of the original Job Network "radical market experiment" were demised, they would be turning in their graves about the extent to which the fundamental pillars of their design have been so distorted and corrupted in the name of bureaucratic command, control and Senate estimates hearings posterior protection (so to speak). Not only does all the present nano-management of the system impede its success, it imposes significant and unnecessary costs to providers and to the taxpayers. Doing away with large swathes of inappropriate and unnecessary regulation and control of process and administration can be achieved without losing necessary levels of accountability for the level of expenditure of public funds involved.

Another aspect of the system which requires fundamental reform is the governance of the system. Current contracts are onerous, one-sided and ridiculously complex and prescriptive. Contract management and performance management processes are in many ways oppressive and difficult for providers to manage and respond to and load significant and often unnecessary costs and impositions on providers. Investigations have been sometimes very heavy handed and conducted with regard for legal rights of those under scrutiny and funds in dispute unilaterally recovered without due and just process. The purchaser has used its purchasing power to silence dissent and debate about the system and its governance and management. Providers have frequently required to spend inordinate amounts of time and money justifying expenditures which have amounted to far less than the costs of justification. Consultation often seems to be conducted in name rather than reality and opportunities for frank and respectful dialogue and debate about ways of improving and enhancing the system are less frequent. The pursuit in various tribunals and courts of tighter and tighter interpretation of income support laws has been arguably oppressive and unconscionable and may well have caused serious harm and injury to some of the recipients who were the subject of an overzealous and obsessive approach taken or at least endorsed by the former government. The glowing rhetoric of partnership of the former government's *Reforming Employment Assistance* manifesto is but a distant memory in terms of present (or at least immediate past) realities.

The government should consider the adoption of regulatory and consultative best practice such as that promoted and developed by the UK Department for Business Enterprises and Regulatory Reform (<http://bre.berr.gov.uk>) and the consultative practices of the UK Department of Work and Pensions (<http://www.dwp.gov.uk>). In a similar vein, we think there is considerable merit in exploring the benefits of more independent and external research and evaluation of the various programs and the system overall. No system is perfect and all systems can be improved and we think more external and independent scrutiny of the system will be of benefit to the government, to the citizens the system is there to serve and to the taxpayers. Like you Minister, we aspire to a system that is the best it can be and not one that is less than optimal in part because a belief has developed that we have world's best practice in Australia and have nothing to learn from the experience of others..

We appreciate that the time available to consult and decide on new policy parameters to allow releasing a Request for Tender later this year is quite limited. Timing pressures will

have a bearing on what is possible for the period from 1 July 2009 but changes need to be substantial rather than minor tweaking of existing policy settings and program architecture. If we use the analogy of each program being a car (as I have been known to do from time to time), a minor tweak and service will not suffice – they need a major stripping down and a rebuild. There is also a need for more detailed knowledge and understanding about how the government proposes to implement its social inclusion agenda so we can better understand how best to arrange and position employment and related services to best effect. We know employment participation is an important ingredient in the social inclusion cake and that different people and locations will require different cakes but it's difficult at this juncture to know how the various ingredients will be mixed and baked.

In an ideal world it would be highly desirable to take more time so that the government has the opportunity to frame the new arrangements, which will operate until June 2012 and which will impact on the lives of so many people, families and communities, over a lengthier time frame. We appreciate that various legal strictures relating to the Australia-US Free Trade Agreement may well prevent this. We therefore make two suggestions about the design process.

The first is that you, to the fullest extent possible, engage and collaborate with and seek the views of relevant consumer representative bodies, trade unions representing the front line workers, providers' representatives and social and other policy experts during the course of the review and before the heavy duty tarpaulins of budget confidentiality and purchasing probity are cloaked over the governments plans and decisions. The system is so very complex and has so many interlocking and interdependent parts that it is not possible to anticipate and contemplate all the possible sequences, combinations and permutations which could be involved in developing a more targeted and effective system. For that reason, those who have hopefully good advice to offer you will need ongoing and iterative opportunities to do so.

The second suggestion which we make is that you could settle the broad and minimum necessary number of parameters of the new and reformed system as is necessary to frame budget submissions and inform other government decisions and that you leave as much of the all important detail for consideration over a longer time frame. To the extent that many details will not have a bearing on financial or contractual arrangements, it should also be possible to further tune and refine the system after tenders are released and contracts are executed – including over the life of the next contract. In making this point, however, we do not encourage the government down the path of the contract variation proliferation which is a pestilence on holders of current Job Network contracts in particular.

Our views on the matters you specifically identify in your letter on the present review are set out in the attachment to this letter. There are, however, a large number of other issues which should be considered in the context of a comprehensive review of the forms of Commonwealth assistance to help unemployed people get and keep jobs and in implementing the Government's social inclusion and skills policies. In the interest of brevity we have only outlined many of these additional matters and would be happy to provide more details should you wish.

*The complex system of Commonwealth assistance for unemployed people needs substantial and fundamental change. Free up service providers to deliver more flexible services and encourage creativity.*

Most of the desire for substantial change arises from serious concerns about the growing contractual red-tape burden on providers and their strong belief that they need far more flexibility and discretion about the nature, timing and sequencing of assistance they provide, especially to more disadvantaged unemployed people.

The current suite of programmes has differing objectives for different target groups requiring a range of service delivery modes and skills sets to effectively deliver these programmes. To varying degrees programme settings have been adjusted over the last decade in line with government policies. The *Welfare to Work* changes and the *work-first* (or “*work-foist*” as we prefer to describe it) approach to employment assistance have been major factors in the way programmes are structured currently and the conditions associated with participation. In our view the existing policy settings are not an ideal fit with the make-up of the labour market of today where there now exists a higher proportion of difficult to assist job seekers. The settings also do not do enough to positively engage with and encourage back into the labour market the large number of disillusioned job seekers who have withdrawn and who frequently have significant barriers which mean they are not job ready, the underemployed people who want more hours and those job seekers who lack the skills employers require.

Each programme has its own performance and payment parameters but some seemingly set up a conflict between the interests of participants and those of service providers. As an example, it can be to a provider’s financial benefit to invest more in a job seeker with better job prospects than to put more than minimal effort into job seekers with relatively low employment prospects.

As a recent research paper from the Australian Parliamentary Library summarises:

- *problems with the performance-linked payment structure of the Job Network, along with the limited fees paid to Job Network providers, have resulted in many difficult-to-place job seekers being given little or no employment assistance, and limited employment outcomes for this group*
- *changes made to the Job Network in order to deal with emerging systemic problems have resulted in substantial administrative and compliance demands being placed upon Job Network providers*
- *increased Government monitoring and regulation of Job Network providers have impacted on the ability of these providers to furnish the flexible and tailored support necessary to improve the employment outcomes of long-term unemployed and difficult-to-place job seekers*
- *the above findings indicate the need for changes to be made to the Job Network to ensure its capacity to meet the needs of job seekers in the current economic and labour market environment*

*If the Job Network is to be reconfigured to meet these needs, while also potentially meeting skills in demand and tackling workforce shortages, then this may first require the reassessment of the work first focus of this system. A ‘life-first’ approach to employment assistance for disadvantaged job seekers, one that addresses non-employment-related barriers alongside the provision of employment assistance, may need to be adopted if the Job Network is to achieve better and more sustainable employment outcomes. (Parliamentary Library, [A review of Developments in the Job Network](#): 24 December 2007, no. 15, 2007–08, ISSN 1834-9854)*

We agree with the observations in the paper and note that these findings apply to more than just the Job Network.

Some of the complexity of contract and program design has arisen as a consequence of numerous contract variations. Some variations were introduced to give effect to Government policy and program decisions and others have been in response to emerging problems and opportunities identified to iteratively tune the performance of the Job Network system in

particular. The combination and accretion of these factors is reflected in more and more complex contracts, guidelines and rules, and in the information technology systems which underpin the operations and management of the whole system.

A little appreciated side effect of the shift toward greater micro-management is that service providers have tended to adjust their staffing profiles as a consequence of these pressures. Where the key skill for staff had been a capacity to work with people, the ability to manage within a highly regulated, computer driven system has become critical. Front-line workers with well developed human service skills have chosen to leave employment services because they do not have the discretion to work in ways their professional training and experience judge to be in the best interests of the client. Paradoxically this shift has been occurring as the proportion of more difficult to assist job seekers has increased so people with system or process skills are attempting to assist complex client needs resulting in heightened levels of frustration for all parties.

The economic and social imperatives for increasing employment participation and productivity mean that providers of employment and related services have a crucial role to play in reducing dependence on income support and in assisting those people of workforce age with capacity to work to realise their potential and to share more equally in the proceeds of national prosperity and growth. Given the uneven employment opportunities that exist throughout Australia, the Government should consider the provision of sufficient, relevant and flexible mobility assistance to enable people who want and are able to move to take up employment in low unemployment regions and localities.

A key step in the design of the post June 2009 system should be a comprehensive process of review and simplification which may need to involve revisiting government authorities and decisions to achieve a more congruent, coherent and efficient set of programme arrangements.

*Reduce micro-management and transaction-based focus of contracts. Move to a more efficient risk-based approach where outcomes, rather than process, are the business of the purchaser.*

When the Job Network was established, a major part of the rationale was that private and community organisations were deemed to be better able to assist unemployed people than was the extant public provider. Over the last 10 years program guidelines have become more prescriptive and rigid as the degree of micro-management has grown and innovation has been stifled. Contract management has increasingly focused on the fine detail of service providers' processes in contrast to the original premise of relying on the skills and innovation of the private and community sectors. The financial cost of this excessive prescription and reporting is borne by government and providers and is obvious. Less tangible but equally important is the limitation on the overall effectiveness of employment services attributable to the throttling of innovation.

The introduction of the Active Participation Model with its strong emphasis on activation of jobseekers and associated and continuing improvements in the congruence, consistency and integrity of the monitoring and compliance system, has significantly increased the level of job search activity and the active engagement of many jobseekers. We consider, however, that the resources being devoted to compliance and monitoring functions being undertaken by employment service providers and Centrelink could be more effectively and efficiently used.

A more calibrated risk management approach which would ensure that more resources are devoted to those groups of jobseekers at high risk of non-compliance and fewer resources and less compliance effort is targeted at those groups who are active and compliant. There is also scope to examine and rationalise the compliance roles and functions of Centrelink and employment services providers. A new and more tailored approach to compliance would then enable more resources to be devoted to provision of more assistance to those very disadvantaged groups for whom no amount of activation and compliance effort is going to assist them to overcome their barriers. The government should continue to be assiduous in

terms of its monitoring of the compliance and penalties system to ensure that vulnerable jobseekers are not subject to harsh payment preclusion period penalties.

Much needs to be done if the Australian employment services system is to achieve regulatory best practice and achieve those levels of risk management and control which maintain necessary levels of integrity in the stewardship of public funds, as well as reasonable levels of efficiency in terms of the costs of regulation and contractual compliance. Uncontained regulation and contractual compliance result in substantial cost burdens on providers, as well as contributing to the growing costs of departmental contract management.

*The compliance framework is based on punishment. It should be redesigned to encourage and reward participation where income support recipients are responsible for the consequences of their actions and financial accountability for public funding is not compromised.*

As part of the process of design of Australia's public employment service and related labour market and other programmes, the Government should review the current settings and design of the *Welfare to Work* measures to ensure they provide the best policy underpinnings for the optimal performance of the system. In that context, the Government should consider whether the present mix of assistance, penalties and incentives is appropriate and whether it can and should be adjusted to achieve even better results.

In 2002 the Pearce Review<sup>1</sup> set out recommendations for the future direction of Social Security Breaches and Penalties based on principles which recognise the obligations of jobseekers to seek employment if they are in receipt of government welfare and the necessity of enforcing sanctions if they fail to comply with those obligations. The review argued for the need for compliance measures to focus on active engagement for jobseekers and that *care should be taken to avoid discouraging people from cooperating in a system that is intended to increase their prospects of obtaining work*<sup>2</sup>.

Jobs Australia agrees that penalties should apply if income support recipients fail to meet obligations associated with their income support. However, we strongly disagree with the policy that even if a job seeker incurring an eight weeks suspension of income support agrees to comply with the conditions they are obliged to forfeit the balance of the eight weeks of income support. This does not reinforce positive behaviour.

In our view, the Government should continue to improve incentives by further reducing effective marginal tax rates so that people can see and gain more substantial financial benefits from undertaking some and more work. This will be a major issue for people with low levels of skills and education and limited work capacity who will not earn sufficient additional income to make the transition from welfare to work truly worthwhile. The government should particularly review the approach to people with disabilities in receipt of Disability Support Pension (DSP) to give them more positive incentives to voluntarily participate in employment services assistance and to ensure that they have the necessary degree of security of their income support and concessions to enable and encourage them to do so. This should be a high priority in terms of the large number of people on DSP who want to work and who have the capacity to do so.

*Funding for assistance to unemployed people needs to be maintained at a level that ensures:*

- *disadvantaged, marginally attached and disillusioned job are encouraged back into active participation the labour market*
- *access to places in all programs dependent on need, not quotas (eg PSP, JPET, DEN Capped)*
- *each service is funded sufficiently to meet needs (eg ISca 2)*

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<sup>1</sup> The Report of the Independent Review of Breaches and Penalties in the Social Security System (2002) <http://dSPACE.anu.edu.au/html/1885/41938/index-1.html#Heading119>

<sup>2</sup> 1.37 Pearce Review as above

The strong performance of the labour market presents significant opportunities for getting more people to work and back to work. It also presents challenges in terms of the need to ensure that the most disadvantaged unemployed people have access to the assistance they need to overcome barriers and to develop the skills and other capabilities they need to be successful in gaining and retaining sustainable employment.

Although the current workforce participation rate is high by Australia's standards, there is scope for more to be done to assist registered unemployed jobseekers, the disillusioned Australians who are only marginally attached to the labour market and those who have withdrawn entirely. In addition to these Australians, the Australian Bureau of Statistics records large numbers of underemployed workers including more than 600,000 part-time workers wanting more hours. Counted among this latter group will be young people who are not in full-time education or full-time work and who the respected Dusseldorp Skills Forum assesses as at risk of long term unemployment.

In terms of its overall approach to the strategies for increasing workforce participation and social inclusion, the Government should continue to ensure that significant resources and effort are targeted at those disadvantaged people and groups who are living on low incomes and to continue to reduce the number of Australian children living in jobless households. The goal should be not to reduce expenditure on income support but to ensure more disadvantaged people and families have access to the higher incomes and better opportunities to be derived from participating in paid and meaningful work.

In the attachment to this letter we address the need for programmes to be funded to a level that can accommodate all people that meet the criteria for a place. However, in addition to this we believe that the decision to reduce the level of funding and thus the support available to very long-term unemployed (VLTU) people completing two rounds of Intensive Support customized assistance (ISca2) should be reviewed. More assistance, not less, is required if the most disadvantaged and long term unemployed people are to get and keep jobs.

As Deputy Prime Minister Julia Gillard has said recently:

*The concept of social inclusion in essence means replacing a welfarist approach to helping the underprivileged with one of investing in them and their communities to bring them into the mainstream market economy. It's a modern and fresh approach that views everyone as a potential wealth creator and invests in their human capital.*

*Differential terms of trade in contracts - business reallocation and provider certainty.*

An issue requiring system-wide attention is the implications of the geographic bifurcation of the Australian labour market. Although we are enjoying historically low levels of unemployment and very long term unemployment, there remain significantly high levels of unemployment in many regions and localities.

The government will need to consider offering different terms of trade for those employment services providers operating in localities with very low and decreasing levels of unemployment and consequent low flows of jobseekers – with those left in the queues with seemingly higher and complex needs and barriers. This will be necessary if they are to remain viable and able to continue to meet the costs of maintaining the infrastructure and other costs they incur in providing the ongoing public employment and other services in such localities.

The commercial risk of service provision has shifted largely from the Government to service providers as a result of contracts based on market shares of the flow of job seekers. In regional and remote areas the risk is proportionally greater because of the lower number of job seekers, the limited availability of allied service providers and other factors associated with distance and the dynamics of local and seasonal labour markets. We note that in the most part these contracts are taken by community based nonprofit agencies as they do not

offer a sufficient margin to attract for-profit agencies. While nonprofit organisations are prepared to shoulder a high level of risk and draw upon their reserves to cover shortfalls in funding, they need to have a level of certainty of ongoing income levels rather than having to manage in an environment where they could lose all or part of their business at each six months review.

In the eleventh year of the operation of the employment services market, we suggest it is timely to reflect on the overall approach to the management and development of the market; the nature of the relationships between providers and the government as purchaser; the extent to which innovation and creative approaches to service delivery are being fostered; and to consider alternative approaches and refinements which might deliver even better results than those achieved thus far.

Accordingly, we recommend that you consider commissioning an expert and independent review of the overall approach to the management and development of the market, and of the contractual and regulatory framework for the employment services system as matter of the highest importance and priority.

In terms of assistance, we note and endorse the Government's intent to review the "Work First" (or "*Work Foist*" as we prefer to describe it) approach promoted by its predecessor. We support the "mixed approach" advocated by the OECD and other commentators and experts - with more emphasis and more resources for the provision of pre-employment education and vocational education and training for those people who don't have the literacy and numeracy skills, the basic education and the current and relevant vocational skills they need to be employed in the contemporary labour market. In that regard, we welcome the government's announcements of significant numbers of additional vocational education and training places which were made in mid-January this year.

Significant numbers of sole parents, Indigenous people and other groups such as older male former blue collar workers have not completed their basic education. These people do not have the current and relevant vocational and other skills they need to be sufficiently attractive to employers. Others who might be taken on in available low skilled and entry level jobs for short periods will not have access to the training they need to retain employment and to move up to higher levels of income without more and better assistance. The combination of resources for vocational training which is now available through various training credits and accounts, Work Skills vouchers and the Job Network Jobseeker Account could be enhanced from savings achieved through significant reduction and rationalisation of provider and jobseeker compliance. There is also considerable scope for better integration of the various sources of funds presently available for vocational education and training. Importantly also, due attention needs to be given to the need to ensure that the style delivery of education and training meets the needs of the people receiving it – standard classroom style learning will not deliver the necessary results.

In the attached responses to the specific questions posed in your letter we have provided feedback, comments and suggestions on some relevant key issues. The current public employment service in Australia is significant in terms of its size, the diversity and capabilities of its providers, its complexity and sophistication, its reach and coverage, the investment of public funds and, importantly, in terms of the number of unemployed citizens it works with and assists in a myriad of different ways.

Reforming and refining the system's design, management and operations to enable it to most effectively meet the future needs of disadvantaged unemployed people, the labour market and the economy and to meet the imperatives of increasing workforce participation is a substantial, complex and difficult task. The options and directions for reform and improvement and the combinations and permutations of possible changes and improvements are numerous and varied. We think it imperative that there be ongoing and open dialogue and consultation between you as Minister and your department - on key strategic issues and

principles and then on all the relevant details - with providers, relevant provider and consumer peak organisations and with key employer groups in this important process.

Thank you for the opportunity to provide our initial views and comments on some of the relevant issues. You will appreciate we are of the strong view that it is critical to get the settings right for the next Employment Services Tender to achieve our common goals of social inclusion with higher levels of workforce participation and employment and especially for those disadvantaged Australians who remain unemployed despite the best of economic and labour market times in recent history.

The task of steering and securing major improvement in Australia's welfare to work and employment and related services system is a major and difficult undertaking which has to be undertaken in an extraordinarily short time. We are confident that you will succeed in this important endeavour and enormously relieved that you will approach the review with a keen eye and long overdue regard for the need for the system to invest in and to respect and treat with dignity the disadvantaged and often vulnerable citizens it will serve. We're ready to provide you with good, well-informed, useful and constructive advice whenever you would like it. We share the government's goals and aspirations for the reformed system and look forward to playing a part in helping you deliver a fairer go for the battlers than they have experienced for far too long.

With very best wishes.

Yours sincerely

David Thompson AM  
CEO

13 February 2008

**How Employment Services Can Be Improved:  
Jobs Australia's Submission to Minister O'Connor  
13 February 2008**

*How we might achieve the objectives identified in the Government's Social Inclusion and Skills policies, including how to ensure:*

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

There are a number of groups of working age Australians that need to be considered when thinking about early intervention to minimise long-term welfare dependence. These include registered job seekers, young people who don't complete secondary schooling and don't go into full time education or training, new arrivals including refugees on various visas and people lacking basic social and communication skills. Other potentially long-term welfare dependent Australians that emerge from time to time are retrenched and redundant workers that become displaced as industry adjusts to economic, technological and social change here and abroad and those for whom accident and illness mean they are no longer able to work in their previous capacity.

Within this submission we will concentrate on the first two of these groups, registered job seekers and early school leavers. We begin with a discussion of the *Job Seeker Classification Instrument* before moving on to programme options and youth issues

Job Seeker Classification Instrument (JSCI).

A substantial proportion of Australians seeking work will find employment quickly, particularly in those parts of the country where unemployment is at very low levels. Because of this, and to avoid 'dead-weight' losses, the Active Participation Model which underlies the continuum of current employment services, offers little actual assistance to job seekers for the first three months of their registration as unemployed. While this may be sound economically, it is dependent on the capacity of the front-end of an assessment process to ensure that an individual does not require more assistance at this early stage.

Job seekers who remain unemployed after three months move on to Intensive Support where, as the name implies, they begin to receive higher levels of assistance to find jobs. For those who haven't got a job three months of enthusiasm and optimism may be severely eroded and unhealthy habits or attitudes may begin to develop.

The current assessment process for determining the level of employment assistance made available to individuals is based on the Job Seeker Classification Instrument. The JSCI is a screening instrument which does not purport to measure levels of job seeker disadvantage in absolute terms. It classifies relative levels of disadvantage based on responses to a series of questions. Centrelink is not funded to do more than an initial screening and job seekers will often withhold critical information as they are not aware of, or do not accept, that it is to their advantage to disclose fully all of their relevant information. Allowing more time to build rapport and job seeker understanding would be a step toward improving the JSCI reliability.

At its simplest, the JSCI produces a score that is a relative measure of disadvantage. DEEWR then determines what proportion of the job seekers should be regarded as highly disadvantaged (HD). Job seekers with JSCI scores at or above an arbitrary level for HD are immediately given access to Intensive Support customised assistance (ISca). Through setting the cut-off score, DEEWR controls the proportion of HD eligible job seekers. In earlier Job Network Contracts, the proportion of HD equivalent job seekers was as much as 33% while it is now set at 10%. Although the rationale for reducing the proportion of job seekers deemed highly disadvantaged may be that the job market is more buoyant now than

10 years ago, there is little argument about the fact that case loads today have a far higher proportion of difficult to assist job seekers.

Options at the front end of the job seeker registration process when the JSCI is conducted include intervention by specialist Centrelink officers (such as social workers), referral to a Job Network member and referral to a Job Capacity Assessor (JCA). A review of the JSCI process should include the JCA.

Job Capacity Assessments are usually triggered by answers to particular JSCI questions but are also instituted by Centrelink officers. These assessments identify a person's ability to work and any barriers they face to getting a job and will directly connect them to employment support services to assist in addressing those barriers. Job seekers whose circumstances prevent them from working until certain barriers are addressed may be referred by the JCA to one of a number of programmes including the Disability Employment Network and the Personal Support Programme (PSP).

Although the higher category referrals can generally be accommodated with minimal delay, waiting lists exist for PSP places in some parts of Australia. All the evidence supports the importance of ensuring that people referred to a program like PSP are more likely to commence participation and benefit from the programme if the first meeting occurs quickly after the referral.

It follows that making someone wait for a place in the program is counter productive. We understand that the waiting list for PSP places has been up to 25,000 people and waiting periods sometimes exceed six months. A policy issue is '*what job search obligations should be imposed while a person waits for a PSP place?*' The reason someone is referred to PSP is that they are not ready for the services available through Job Network to help them get and keep a job.

### Youth in Transition

Early intervention is critical for young people who leave school and don't go into full-time employment or full-time study. [\*It's Crunch Time: raising youth engagement and attainment\*](#) is a report produced as collaboration between the Australian Industry Group and the Dusseldorp Skills Forum. Drawing on Australian Bureau of Statistics figures, the report reveals that in May 2007, 526,000 young Australians aged 15 to 24 years were neither in full-time work nor full-time study. This equates to one in six of our young people stumbling off a career path.

Further breakdown of the data shows that 221,000 of these young people are working in part-time jobs and half of them want full-time work. Another 98,000 are unemployed and 173,000 are outside the labour force. Integration within your portfolio of the youth programs managed by the former Department of Education, Science and Training offers the opportunity for overlaps and service gaps to be identified and more efficient and consistent transitions of school to on-going training and work to be implemented. This could include further support for apprentices and trainees to address high drop-out rates.

There is a need to ensure young people have the guidance and support they need to choose and stay on a career path and complete the level of education and training appropriate to their aspirations. At the same time it will be important to obtain the willing involvement and commitment of industry, education and training providers, and governments to ensure that there are opportunities for young people to prepare themselves for careers and jobs that industry needs and values.

As is the case for adults, there should be learning options for young people that are consistent with their learning styles and mechanisms to identify and intervene where there are indications that a young person may not develop a positive attachment to the labour market and be at risk of long-term welfare dependency.

- ***employment services are relevant to the circumstances and needs of the Job seeker***

The Active Participation Model (APM) which underpins mainstream employment services is a continuum of services. Where a job seeker starts in the continuum depends on their assessed circumstances. From commencement, people move along the time based continuum where they are required to meet certain conditions associated with stages of the APM. While the rhetoric is that the service should take account of individual differences, the reality is that the rigidity of the APM compels people to fit the service model, not the other way around.

These built-in rigidities and the focus on outcome payments as the major source of income puts in conflict to varying degrees what might be best for individual job seekers and the needs of providers to maximize income and star ratings. A discussion paper from [Catholic Social Services](#) argues that the current arrangements for the APM present a number of perverse incentives. Among these are delayed service and placement to take advantage of higher subsequent provider incentives and shorter term placements that achieve high provider rewards but lead to earlier return of job seekers to unemployment and allowance dependency. If these assertions are valid, it underlines how important it is for job seekers to receive the appropriate level of service in which there is no conflict between the best interests of the job seeker and the service provider.

Under the APM, a typical job seeker completes 100 hours of Intensive Support job search training beginning 3 months after registration as unemployed. If they don't find a job by six months after registration, most will be obliged to undertake six months of Work for the Dole. This one size model does not fit everyone and we support broadening options for employment assistance and the ways open for job seekers to meet Mutual Obligation, including appropriate on- and off-the-job training.

Providing the most relevant service means giving providers of the various services more flexibility than is afforded by the current continuum. This would allow them to tailor the timing, nature and sequences of assistance provided to individual jobseekers, especially those who are most disadvantaged and will enable more job seekers to gain and retain sustainable employment.

Shifting the overall emphasis of the present system from "work first" to a "mixed approach" and provision of more resources (and better and easier access to currently available resources) for education and vocational education and training for those job seekers with low levels of literacy and numeracy, basic education and vocational skills and competencies should also be a major priority. This might also involve adjustment of payments for education and training outcomes to give more incentive and recognition of the need for them to be achieved as a realistic pre-cursor to employment for relevant job seekers.

Consideration should also be given to adjusting the level of outcomes payments to place greater weight on 26-week outcomes and the introduction of payments and performance recognition for longer term outcomes. This does mean incentives based on staying in the same job for 26 weeks as once employed and more confident, some people will move to better jobs.

The government might also consider the introduction of a new strand of activity, incentives and resources to enable providers to provide more post placement support to secure sustainable employment and career and pay advancement for very disadvantaged jobseekers who are placed but who are at high risk of returning to unemployment.

The current and limited range of measures targeted at very long term unemployed people have a strong and increasing focus on requirement and compliance and provide only very limited numbers of these people with assistance (other than bi-monthly interviews) through the Wage Assist subsidies for employers which are not being fully utilised even though

numbers are so very small. Contractual and administrative constraints on the use of these subsidies should be identified and removed as a matter of priority and the government should invest the additional resources needed to enable providers to provide education and training and the other forms of assistance necessary to help them to overcome their barriers to employment.

It needs to be recognised that for limited numbers of very long term unemployed people, the nature of their barriers is such that they may not ever be placed into employment in the best of labour market conditions and that compliance measures are neither effective nor appropriate. We need to find new ways of engaging them and allowing them to participate and make a contribution to the community – perhaps through a benign and positively engaging form of Work for the Dole which doesn't tag or identify them as "work avoiders". Work experience is an important tool for developing positive work habits but there should be far greater flexibility in the timing and duration of engagement in work experience to meet individual circumstances.

While the scope of employment services is greater than Job Network, the Brotherhood of St Laurence criticism of the Job Network is relevant:

*Job Network, with its approach of getting people quickly into work, was designed for the labour market conditions of a decade ago ... The Job Network works best for job seekers who are 'job ready' and don't need extra help to compete for work. Its programs are fragmented and complex, the most disadvantaged job seekers are overwhelmed by compliance obligations and penalties, and the people with the greatest need are getting a falling proportion of the Network's resources. It is well past its use-by date. (Brotherhood of St Laurence, [Job Network past 'use by' date: fresh approaches needed](#), Media Release, Melbourne, 27 September 2007.)*

Service providers are dealing with increasingly more complex, prescriptive and difficult contracts and program arrangements, being stifled and burdened with rules and more rules, administration, justification and the production and filing and archiving of evidence. The accretion of layer upon layer of rules and requirements threatens the Job Network's ability to do the very best it can in getting people into work. Other programs which have been remade in the image of the Job Network are suffering a similar fate. The current levels of prescription stifle creativity and put the requirements of meeting contract parameters in conflict with meeting individual needs.

The labour market and the issues facing job seekers have changed considerably over the 10 or 11 years of the Job Network. Changes have included the skill requirements of new industries and the introduction of measures to reduce the welfare dependence of groups of Australians and to apply more stringent penalties for compliance failures. Those that are essentially work ready have little trouble getting jobs and those lacking in skills, experience or attitude have either had difficulty in finding jobs or have a succession of short-term marginal jobs that move them in and out of unemployment. As mentioned earlier, the payment and incentive structure and *work first* philosophy in Job Network encourages organisations to compel job seekers into any job irrespective of its suitability and potential longevity.

- ***Job seekers with higher levels of disadvantage receive intensive Assistance***

It is self-evident that the level of government assistance to help individuals find and keep a job should meet their specific needs and be delivered at a monetary cost that is sustainable. Assistance needs to offer more than a short-term fix and cycling through assistance programmes.

To get a level of effective service requires appropriate investment in the front end assessment phase as we have discussed earlier. Having determined the degree of potential disadvantage a job seeker faces, the suite of services available needs to be able to address

the identified disadvantage and, crucially, provide for quick access to the service designed to assist in overcoming the identified factors.

Those job seekers identified as unready for the forms of assistance to find and keep jobs provided by Job Network, may be referred to other programmes. An obvious and important aspect of the current system which must be addressed and rectified is the capping of places in PSP, JPET and Capped DEN. The current unacceptably high number of people in the waiting list for PSP, in particular, is a matter of serious concern. The previous government's rationale is that demand driven places are provided for those people with activity and job search obligations. The capping of places at lower than demand levels for PSP and JPET prevents or substantially delays access to the assistance people with high levels of relative need and disadvantage need to become job ready. These delays are likely to exacerbate their barriers and result in a need for higher levels or longer durations of assistance to enable them to become job ready where that is achievable.

Other issues concerning the Job Network which impede the effective delivery of services for highly disadvantaged job seekers under current arrangements include a number of elements of the programme which were adjusted as a consequence of compromises made in the early stages of the design of the system. One issue in particular is the effective nearly halving of the resources available for the second round of Customised Assistance – which resulted from the reversing of the decision that only half of those job seekers who reached that point in the continuum would actually receive substantial assistance despite the fact that their level of disadvantage grows with the length of unemployment. Arguably, the resources available for assistance should grow rather than diminish with longer periods of unemployment

Another issue is the need to codify in contractual arrangements necessary flexibility in delivery of the 3 days per week of activity during Customised Assistance, for delivery of services in rural and relatively remote regional areas and for delivery of services for Indigenous people in many areas. Similarly in non-metro areas, it needs to be recognized that access to professional services may be severely limited eg drug and alcohol counselling and psychologists as well as skilled case workers. Without access to a full range of professionals employment service providers are faced with making compromises in trying to assist high needs disadvantaged people to find and keep jobs. This underpins our view that the terms of trade offered or negotiated in regional and remote areas should not necessarily be the same as for metropolitan cities.

- ***Incentives for training which will improve the employability of job seekers (including incentives for long term training and education to address labour market needs)***
- ***Job seekers receive appropriate training***

With education, employment and training programmes in a single portfolio the opportunity exists to link a comprehensive range of education and training. It should be possible for people to move between different forms of training in pursuit of different career paths and to allow participation in multiple programmes. It also brings into the portfolio the main programmes addressing language, literacy and numeracy skills shortages.

Australia has a shortage of skills and, in some locations, a shortage of labour. For high level skills in short supply, a long term approach is required to skill people through schooling, university or vocational training including traditional apprenticeships. A review of the conditions for Austudy, apprentice and training wages (in particular living away from home allowances and parental means testing) may help increase retention in longer term training.

An urgent discussion is about how to engage those people at the edges of the labor market who lack basic skills and for whom formal education and training has not worked and a different form of training may be appropriate. [\*A review of Developments in the Job Network\*](#) by the Parliamentary Library offers the following:

*Addressing underlying barriers to employment while also meeting skills in demand and tackling workforce shortages would appear to demand a greater role for Community Work Coordinators and Work for the Dole providers. This could entail their either being brought within the Job Network itself, or being given a greater collaborative role in providing services to job seekers (p30).*

However badged and revised, there is an important place for work experience in developing a range of foundation employability skills. Employers have often made the call for people with the 'right attitude' saying they will provide the specific training themselves.

Experiential training delivered through work experience is likely to be more attractive to job seekers with few relevant employment skills and for whom formal training has not worked. The current Work for the Dole program puts job seekers in supervised positions for 6 to 25 hours per week – this is far more than any other employment program. As a consequence, Community Work Coordinators are able to identify and address employment barriers early while the job seeker learns important skills including teamwork and punctuality. Relaxing the current terms under which Work for Dole operates would offer more opportunity to tailor work experience to the needs of individuals.

The Parliamentary Library paper goes on to discuss the introduction of more interim outcome payment categories noting:

*it must be recognised that without Government assistance and recognition for providers' efforts to provide less measurable forms of personal support, including access to further education and training to meet current labour market demands, alongside employment assistance, quality and sustainable employment outcomes for disadvantaged people are not likely to be achieved (p31).*

Employers must be intimately engaged in developing on- and off-the-job training that is relevant to their future needs. Labor's Industry Skills Councils are an important part of this process.

Jobs Australia members delivering Job Network and DEN and other services involving placement of job seekers into employment have developed and are implementing a wide variety of effective strategies for engaging with employers, identifying and matching suitable job seekers and vacancies.

To varying degrees, providers will shape their processes to obtain results that ensure their viability. For some this will have an element of investing in winners and thus they remain strongly mindful of the need to ensure they continue to refer the right people if they are to continue to secure vacancies from employers and rightly remain reluctant to refer unsuitable job seekers simply to test their job seeking bona fides.

The freeing up of the system and allowing credit for training in both financial and performance rating terms is critical to long term change that will make it equally rewarding in these terms to assist job seekers to identify and undertake appropriate training.

- ***Performance management principles (including star ratings and business reallocation) that support sustainable outcomes and promote quality service delivery***

Our response to this point covers two basic areas; firstly the validity and application of the Star ratings; and secondly the principles of performance management and the current approach which has been a fairly constant theme through out this submission and the covering letter.

#### Star ratings

It is appropriate for a purchaser to have a system to evaluate and manage the performance of service providers. It is also important that services funded from public revenue are seen to be delivering value for money consistent with the requirements of an open tender. A system based on regression analysis which accounts for differences in provider and client characteristics is inherently a valid means to compare different providers.

The development of Stars for Job Network and allied programs has been with the involvement of academic institutions and experts. The Job Network Stars have been through several revisions and a number of internal and external evaluations including an independent review by Access Economics in 2005 (Jobs Australia's CEO was member of the steering committee for the review) .

Job Network Star Ratings are based on performance measures which identify those members that are best in assisting job seekers to find jobs. They provide for comparisons between organisations operating in different regions and Employment Services Areas. However, the star ratings are ranked so that on a national basis approximately 70 per cent of Job Network sites are rated at '3 Stars' or better. Five per cent are rated at '5 Stars', and four per cent at '1 Star'. On the basis of this distribution, the 30 percent of sites falling below 3 stars are subjected to scrutiny for possible loss of business (expressed in a percentage of market share).

In the decade in which Job Network has been operating the number of Job Network providers has fallen from 306 in 1998 to about 103 today. As the number of provider organisations has fallen with the lower ranked providers losing business and/or dropping out of the market, the application of the model inexorably means the bottom ranked 30 percent is still identified and subject to possible business reallocation. Consequently even good providers are fearful of losing business each six months. (It is noted that business reallocation for Job Network has recently moved to a 12 months cycle in recognition of the disruption and other costs associated with the shorter cycle.)

This process is difficult for suppliers who enter contracts for three years but where the possibility exists of losing some or all of the business every 12 months.

While DEEWR may agree that the process drives performance, it places unnecessary pressures on service providers and forces them to make decisions about what may be best for the Stars and what is best for the job seeker. This conflict may manifest itself as a bias toward putting someone into a short time subsidised job rather than spending longer to help prepare job seekers to obtain more permanent and satisfying employment.

We believe much of this potential conflict and cost could be overcome by the application of benchmarking performance rather than standardised relative performance as is the current case.

The Star Ratings approach is now being applied to other employment service programs. This has brought to the surface questions about the validity and reliability of the components and weightings used in the regressions that underpin the Stars systems. Factors that may be relevant for Job Network where the focus is on finding employment may not be appropriate for programmes such as PSP where employment may not be a realistic option.

#### Principles of Performance Management

When the Job Network was established and the extant labour market programs were 'cashed out', the then Minister explained the rationale was related to the capacity of private and community agencies to achieve better outcomes for unemployed people.

Since that time departmental contract management has become more and more focused on the minute details of process as opposed to outcomes. We believe a much lighter touch is needed based on a risk management approach that focuses on the achievement of agreed outcomes and allows providers greater freedom in how they go about achieving outcomes.

- ***The minimization of time and money spent on administration***

Consideration of ways to minimise the amount of time and money spent on administration of employment services should cover macro shifts in the architecture of the programmes and the roles of public and contracted providers as well as the transaction and compliance costs.

The high and ever increasing focus and preoccupation on contractual compliance and prescription of process has resulted in a diminution of necessary flexibility and the exercising of discretion by front-line workers in terms of their ability to tailor sequences and combinations of assistance to the needs of individual jobseekers. This prompts a need to consider a move away from a transaction-based payment and contracting approach to an approach which aggregates payment for and accounting for combinations of service provision, and which places far more emphasis on accountability for outcomes.

As an example, the current emphasis in the CWC payment model and performance framework on maximising utilisation of places (and the complexity which arises as a consequence of that emphasis) should be substantially reduced to allow more focus and effort on the achievement of the programme's objectives of provision of quality work experience and community benefit.

Much has been achieved in the 10 years of operation of the Job Network and the other programs in terms of the efficiency and effectiveness of the system, its procurement and contracting arrangements and information technology, a strong focus on outcomes and rewards for outcomes for more disadvantaged jobseekers and so on. The integration of the former DFACS and DEST programmes into the (now) DEEWR framework will be able to be further developed in the 2009 process when program contracts and arrangements will be able to be further aligned and refined.

There has been and should continue to be consideration of the costs and benefits of consolidating programs. There are efficiencies to be had through combining programs that have to do with economies of scale, particularly as the viability of delivering some programs is being adversely affected by the welcome lower levels of unemployment. There are also potential savings for government in administering fewer contracts for multiple services. However, there is a danger in consolidating programs in pursuit of efficiency that the quality and specialist expertise that has built up over the years will be lost to the detriment of service recipients.

In any general consideration of the possible streamlining and consolidation of the current suite of programs, the government should consider a number of factors including:

- *the differing objectives, target groups, modes of service delivery and organisational capabilities – including specialist expertise, where relevant - needed for each of the different programmes;*
- *the reasons for the creation of each of the programmes;*
- *the desirable level and nature of consolidation and segmentation of providers and the associated desirable level of diversity of providers of different types and sizes of providers; and*
- *the risks, costs and benefits associated with integration of programmes with different target groups, objectives and modes of service delivery and organisational capability.*

While there may be a number of potential and perhaps significant benefits to be achieved from the management, procurement and operation of fewer numbers of contracts in the hands of a smaller number of larger providers, the government runs the risk of a loss of diversity, focus, choice and specialisation in the employment services market and a transfer of complexity though integration of different programs into single contracts with differing service types and streams.

With regard to the architecture, there are issues around the number, timing and sequencing of individual programs and of the roles of Centrelink and of contracted providers. In the first three months of unemployment, for the bulk of job seekers there is little actual service provision as many find themselves jobs relatively quickly. However, job seekers are required to report to Centrelink to lodge forms and to their Job Network member to access services. This brings a level of duplication that could be reduced if one or the other agencies took responsibility for all contacts with job seekers during this period. At the end of an agreed period, if the job seeker is still unemployed the more specialised and intensive services of contracted providers would be brought into play.