

**3 JULY 2002**

**REPORT TO THE STEERING COMMITTEE**

**STAR RATINGS SYSTEM  
APPLICATION TO NEIS**

BY

**ACCESS ECONOMICS**



AND THE

**DEPARTMENT OF  
EMPLOYMENT AND  
WORKPLACE RELATIONS**

**JULY 2002**

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## 1. CALCULATION OF STAR RATINGS FOR NEIS

### Regression Model

Insufficient outcomes data were available for NEIS during the conduct of the earlier Independent Review of the Star Ratings Method. Following the accumulation of additional outcomes information, the Review Team has established that meaningful regression results are obtained for NEIS using the measures of job seeker characteristics and labour market conditions that are used in calculating Star Ratings for other Job Network Services.

- **It is confirmed that application of the regression model is appropriate for the assessment of NEIS performance.**

### Weighting of Performance Measures

Consultations with NEIS providers indicated there was broad agreement on the proposed relative weightings for the 3 performance measures.

- **The 3 performance measures and their weightings are set out in Table 1 below.**

**Table 1**

Performance Indicator	Weighting
◆ <i>Number of job seekers commencing in NEIS as a proportion of contracted commencements.</i>	30%
◆ <i>Proportion of NEIS participants no longer receiving income support 3 months after the end of programme participation.</i>	55%
◆ <i>Proportion of NEIS participants withdrawing from NEIS and returning to income support.</i>	15%

**Assessment of Positive Outcomes**

In August 2001, performance against the second and most important NEIS performance measure was made with reference to recipients of NewStart Allowance and Youth Allowance only. Noting that the National NEIS Association had indicated support for widening of the measure, the Department had proposed a change to the use of Paid Outcomes data which incorporate all income support types. However, in the course of consultations a number of NEIS providers indicated that they had failed to claim for Outcome fees to which they were entitled because of administrative oversights, or because they lacked the resources to gather evidence on former participant’s hours of employment (e.g. for the recipient of a Parenting Payment, evidence of 20 hours per week employment is required).

The Review Team developed a method that largely resolves this issue through reference to both Paid Outcomes and former NEIS participant’s income support status, with income support status assessed in relation to all relevant forms of allowance. As illustrated in Table 2 using the newly developed method a NEIS provider is credited with a Positive Outcome when a former participant is not in receipt of income support 13 weeks after leaving their programme place, or when an Outcome Fee has been paid to the provider.

- **It is recommended that the combination of Paid Outcomes and participant’s income support status be used to assess the proportion of NEIS participants no longer receiving income support.**

**Table 2**

<b>Outcome Fee Paid (Claims made 13 weeks after the end of NEIS)</b>	<b>Off-Benefit 13 weeks after the end of NEIS</b>	<b>Positive Outcome</b>
Y	Y	Y
N	N	N
Y	N	Y
N	Y	Y

Y – Outcome Fee Paid, Participant Off-Benefit, Positive Outcome recorded.

N – Fee Not Paid, Participant receiving Income Support, Negative Outcome recorded

### **Star Ratings Categories**

Given the small number of NEIS providers and the length of the programme, the Review team considered that the number of Star Rating categories should be reduced from 9 to 5 by omitting the “half star” ratings.

- **The recommended percentile bands for use in determining 5 Star Ratings categories are shown in Table 3.**

**Table 3**

<b>Star Rating Category</b>	<b>Proportion of Providers</b>
<b>5</b>	15
<b>4</b>	33
<b>3</b>	64
<b>2</b>	83
<b>1</b>	100

### **Quality of Outcomes Measure**

A “Quality of Outcomes” measure is to be incorporated in the assessment of NEIS providers’ performance for future Invitation to Treat and Tender purposes. Consultations between the Review Team and NEIS providers included discussion of both this specific measure and the broader elements of quality in the delivery of NEIS assistance.

It was determined that the proportion of participants not receiving unemployment allowance 6 months after the end of their NEIS placements should be used as the measure of NEIS outcomes quality. This measure reflects the extent to which NEIS outcomes levels are sustained over time and relates to the second NEIS Key Performance Indicator set out in the Employment Services Contract. Given the limited availability of other data, this is the most practical measure of the quality of NEIS outcomes.

- **The recommended Quality of Outcomes measure is, the proportion of participants not receiving unemployment allowance 6 months after ceasing NEIS.**

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## **2. INTRODUCTION**

A Working Group from Access Economics and the Department of Employment and Workplace Relations (DEWR) has reviewed and analysed the Star Performance Rating methodology to determine its appropriateness for the New Enterprise Incentive Scheme (NEIS). The review is being overseen by a Reference Group comprising representatives of DEWR, NESAs and the National NEIS Association.

The project has involved consultations with NEIS providers; review of programme structure and data flows, and of previous evaluations; technical analysis of the regression models and the construction of star ratings; and development of options.

The issues under consideration are:

1. how to produce star performance ratings for NEIS providers in the current contract period;
2. assessing the performance of NEIS providers for the purpose of the Invitation to Treat and the subsequent tender exercise for residual business; and
3. choosing KPIs and the method of assessing performance for the next contract period.

The first two issues require resolution in the short term. Following technical analysis by Access Economics, the Working Group has identified a practical method of constructing star performance ratings that will be suitable both for publication and for subsequent combination with a “quality of service” measure in the context of the Invitation to Treat. These findings and recommendations are summarised in Section 1 of this report.

To address the third issue, the Working Group has identified various possible ways to:

- modify the existing KPIs to reflect more accurately the various facets of the programme; and to
- augment the data so as to allow consideration of a wider range of possible performance measures, and to improve information available for analysis of the programme’s impacts.

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### 3. PERFORMANCE MONITORING IN THE NEXT CONTRACT PERIOD

The remainder of this report addresses the third issue listed above: choosing KPIs and the method of assessing performance for the next contract period. It also considers what aspects of provider performance might be included in a “quality of service” assessment. We have deliberately set the bounds wide – to allow consideration of a broad set of possibilities.

#### *Issues addressed*

The paper considers the following questions:

- ❑ what aspects of performance should be monitored in the next contract period - either as formal KPIs, or as other aspects “to be taken into consideration”;
- ❑ whether there is additional data that could be collected or created to improve the monitoring and analysis of the program and its impact;
- ❑ whether there is an additional role for a “quality of service” indicator, and if so, what might it be.

#### *Consultations with NEIS providers*

An important part of this project was to consult with a wide range of NEIS providers. The objective was to obtain the view of NEIS providers on

- ❑ how to produce star performance ratings for NEIS providers in the current contract period;
- ❑ assessing the performance of NEIS providers for the purpose of the Invitation to Treat and the subsequent tender exercise for residual business; and
- ❑ choosing KPIs and the method of assessing performance for the next contract period.

Given timing constraints, consultations were held in person with NEIS providers in Canberra, Sydney and Melbourne. NEIS providers in other venues (in other capital cities and in regional Australia) were consulted via video conference/telephone hook-ups. We are satisfied that those NEIS providers consulted via video conference/telephone hook-up were given an adequate opportunity to express their views. As all NEIS providers were invited to participate in these consultations, we are also satisfied that all providers were given the opportunity to be provide their views to the Working Group. All such consultations involved representatives from Access Economics and the Department of Employment and Workplace Relations.

NEIS providers were also advised of a website which could be used to provide subsequent comments.

## **CURRENT SITUATION**

### *Scope of performance assessment*

NEIS performance monitoring is designed to assess:

- providers' performance in delivering NEIS;
- efficiency and effectiveness of NEIS in achieving sustainable self-employment outcomes for the unemployed;
- the impact of NEIS on the broader labour market

KPIs listed in Section E of the 2000-2003 Employment Services Contract (Specific Conditions for NEIS) are:

- number of commencements compared to planned commencements as identified in the milestones;
- percentage of participants off income support 3 and 12 months after ceasing NEIS allowance, broken down by NEIS participants whose business is still operating and NEIS participants in other employment or training;
- percentage of NEIS participants who withdrew during NEIS allowance and returned to income support; and
- average number of days between the start of training and the start of NEIS business (taking account of longer periods of preparation required by disadvantaged clients).

### *Current performance assessment*

Three KPIs are measured systematically and used to construct star ratings:

- number of actual commencements compared to planned commencements identified in the contract milestones;
- percentage of participants with a NEIS post-programme outcome (i.e. off income support 3 months after cessation of NEIS Allowance);
- percentage of participants who withdrew during NEIS assistance and returned to income support.

These are to be supplemented for the purposes of the imminent Invitation to Treat with a "quality of service" indicator. Data availability may limit its scope.

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In constructing star ratings, the three KPIs listed above are combined using the weights: 30%, 55% and -15%.

*Issues raised by providers relating to the star ratings*

In general, providers are supportive of the concept of star ratings and appear to understand how star ratings are constructed.

Specific concerns that were raised during the consultations about the construction of star ratings include:

- the contract milestones for planned commencements do not take account of the natural seasonality of the NEIS programme. Training cannot commence just before or during the Christmas holiday. Activity is less during the wet season in Northern Australia. NEIS businesses in seasonal industries should begin operations as demand strengthens.

*It is understood that DEWR is aware of this concern.*

- the dominant KPI (relating to the post-programme outcome) can only begin to be measured 15 months after the contract commences. Sufficient observations to allow confident assessment of relative provider performance are not available for a considerable period after that.

*This raises the question whether there are any measurable indicators that can be used to predict this KPI (and hence to supplement it in performance assessment).*

- there have been some concerns about the control for regional differences in the regression analysis.

*These may be partly allayed by the inclusion of new variables following the independent review of the Job Network Star Performance Ratings System. However the review suggested an ongoing program of research to improve the data and specifications of the regression analysis.*

- Some NEIS providers are concerned that their wider social contribution is currently unrecognised (for example the provision of training to and raising the self-confidence of job seekers who subsequently do not become NEIS participants).

*This suggests there may be scope to broaden the coverage of the KPIs included in the star ratings.*

- Some providers are concerned that what they are trying to achieve (the establishment of viable businesses) is only being measured indirectly.

### *Measurement of service quality*

There is support among NEIS providers to augment the quantitative outcome on star ratings with an assessment of quality. Some useful suggestions were provided as to how this might be done, but there is no consensus.

Three possible concepts could be embraced by “quality of service”:

1. clients’ perceptions whether the service they received was of high quality;
2. whether the services provided by the JN member are such as will lead to a higher proportion of sustained businesses;
3. whether the JN member is providing socially useful services beyond those acknowledged in the KPIs included in the star ratings.

This raises the issues:

- on which aspects of quality to focus?
- how can they be measured (A) in the context of the Invitation to Treat, and (B) in the longer run?
- whether to modify the list of KPIs included in the star ratings to include some presently omitted aspects of “quality”? or
- whether quality should be assessed after the KPIs have been assessed – via some form of quality adjustment.

To a large extent, the concept of “quality of service” appears to be a way of acknowledging dimensions of performance that are already considered important, but are currently unmeasured in a formal way.

### **PROGRAMME CONTEXT**

NEIS’ objective is to create new employment opportunities by providing income support and training to help job seekers establish and run new small businesses. Under the *Active Participation Model*, NEIS is no longer to be a Job Network programme.<sup>1</sup> Under the *Active Participation Model* to be implemented from July 2003 NEIS is, with some other services, described as being a complementary employment and training program. Eligibility for NEIS is however still limited to those receiving unemployment allowances or equivalent income support.

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<sup>1</sup> Discussion Paper, *Employment Services: An Active Participation Model*, Department of Employment and Workplace Relations, 2002, page 9.

While successful establishment of viable small businesses is an important objective of NEIS, the programme's role in improving the broader labour market prospects of its participants is also relevant.

The programme assists only a tiny fraction of job seekers and (depending on how the measurement is made) appears quite costly per successful outcome. There are numerous other sources of advice and training for potential small business operators that do not involve the payment of income support.

Hence targeting of NEIS is an important issue. Given the cost of NEIS and the small size of the programme, the focus of screening is currently to exclude those considered unlikely to be able to create a viable business. However, an alternative view has been put in evaluations by the Centre for Labour Market Studies and the Productivity Commission – namely that NEIS could be focussed more on disadvantaged job seekers who would not otherwise have been able to start a business.

While such issues are outside the scope of this report, they are relevant to decisions about performance monitoring and about the data to be collected about the programme and its participants. We need to bear in mind the need for data that may be relevant to assessing the efficiency and effectiveness of NEIS – and its impact on the broader labour market – as well as that which is needed to monitor provider performance in a narrower sense.

#### **4. DATA TO ASSESS NEIS' PERFORMANCE**

There are several main actual or potential sources that can generate information about NEIS' performance. The information already collected from these sources is input to various databases, that in turn become potential sources of information for analysis.

The focus here is on the original sources of the information, rather than the databases into which it is subsequently entered. We do note however that, although most of the data on the Department's Integrated Employment Services database comes from Centrelink, it is further refined as progress reports and the like are received by the Department. Most data used by DEWR to assess the performance of NEIS providers is held on the Department's IES and related systems. This presumably would become a vehicle for concentrating much of any additional information collected about providers' and participants' performance.

Three of the original data sources relate to NEIS participants:

- ❑ data from the Centrelink database;
- ❑ data on participants transmitted to DEWR by NEIS providers, some of which is in turn provided by NEIS participants;

- responses by NEIS participants to surveys (either general or specific to NEIS) separately administered by DEWR.

Two data sources relate to NEIS providers:

- administrative data on contract conditions and performance (e.g. payments, contract reporting, complaints);
- assessment of provider performance and code of conduct compliance by DEWR contract managers and auditors.

We provide comments on possible modifications to each.

### **DATA FROM CENTRELINK**

Centrelink data provide information on job seeker characteristics (JSCI) and on benefit history and status.

It is possible that there is additional information in the JSCI that would help predict NEIS participants' prospects of success (for example: family status, other than "sole parent")

It has also been suggested that information on reasons for leaving NEIS allowance might provide additional indicators to predict provider performance on the programme outcome KPI.

- **Both ideas seem worth investigating.**

More fundamentally, the existing NEIS participants' database maintained by DEWR includes only clients that have formally commenced NEIS. Hence it provides no information on NEIS providers' impacts on job seekers and labour market outcomes during training.

- **We recommend that the NEIS database be expanded to include all job seekers who begin attending NEIS training, as well as NEIS allowance recipients.**

This would have the following potential impacts. It would allow:

- quantification of the existing unmeasured KPI relating to the average time to commence NEIS participation following commencement or completion of training;
- assessment of NEIS providers' overall training effort and its possible wider labour market impacts.

*This might lead to the development of a new KPI;*

and

- investigating possible use of providers' numbers in training and wastage rates to create indicators to predict future commencements and post programme outcomes.

### **DATA FROM NEIS PROVIDERS**

NEIS providers furnish DEWR with data on participants' progress through NEIS. Following the provider's submission (and DEWR approval of) NEISAC recommendations about commencement, the focus of the information is on financial performance against the business plan and on compliance with NEIS obligations.

Additional information about participants and their businesses might help in prediction of post programme outcomes and in more general analysis of the programme's and providers' impacts.

There is scepticism whether it is possible to predict NEIS participants' outcomes from information available at earlier stages in their progress through NEIS. NEIS providers observed that it was difficult to predict in advance of NEIS training which job seekers were likely to succeed in establishing viable businesses. In addition to labour market and economic conditions, it was difficult to predict which clients had the drive and energy required successfully to establish a new business. However, without information, it is impossible to test this operationally.

It seems clear, from research undertaken by the Centre for Labour Market Studies, that there is collectable information that might help to predict business survival, and also in assessing deadweight losses (i.e. the likelihood that a participant would have established an equivalent business without participation in NEIS).

There are also some other aspects of NEIS participation that may warrant inclusion in the participants' database.

Information that might help predict business survival and otherwise improve the analysis includes:

- industry of the NEIS business
- occupation of the NEIS participant
- family unit type of the NEIS participant (*potentially available from the JSCI*)
- whether a sole trader or part of a partnership; if a partnership, the number of partners (family relationship or other) – cross referencing to other NEIS participants

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- whether the participant has previous experience in operating a business, and the extent as perceived by the NEIS provider
  - whether received recognition of prior learning in whole or in part. Reasons for RPL (whether because of prior experience, or because of previous training or qualifications)
  - whether omitted from training because other business partners received NEIS training
  - capital required to establish the business (total in cash and in kind, as set out in the business plan)
  - planned main source of capital to establish the business
  - housing tenure of NEIS participant's family unit
  - whether the participant also receives assistance from a relevant state/territory government or other programme (e.g. loan guarantee or business incubator location)
  - whether business plan projects marked seasonal variation in business income
  - business plan: projected number of financial quarters for business income to reach NEIS allowance level
  - business plan: projected business income (ratio to NEIS allowance) at end of NEIS participation
  - actual business income as percentage of NEIS allowance at last report before end of NEIS allowance
  - actual business income at end of second financial quarter as percentage of that projected in the business plan
  - employment generated in the NEIS business, at the time of the last provider report before end of NEIS allowance;
  - amount of capital invested to date in the business at the time of the last provider report before end of NEIS allowance; amount of mentoring received, including the number of visits to the participant's place of business.

The information listed above would be best collected from the NEIS provider, though an extended reporting system (discussed further below).

Closely related information (but probably better collected from Centrelink) includes:

- external income as a percentage of NEIS allowance at the end of the second and fourth financial quarters
- reasons for early termination of NEIS allowance.

*Possible extension of quarterly provider reports*

Much of the additional information listed above might be collected in the quarterly reports by providers. These are designed to monitor the performance of the NEIS business in the first year of operation.

Providers obtain information on such things as cash inflows and outflows, bank account statements. But there is no requirement that this information be collected and reported in a uniform way. The only information systematically collected is the NEIS Income Statement – which NEIS participants are required to complete after each financial quarter during which they are receiving NEIS Allowance. This information is then sent to contract managers.

The most cost effective way to increase the flow of information for monitoring and analysis would be to develop an electronic form that could be completed by the participant and/or by the provider, and passed either to the contract manager for some additional input or sent straight to the Department for processing into a data base.

There is some potential overlap between what might be collected in this way and information obtained via the PPM. There would be a need to avoid duplication.

The quarterly reporting mechanism has the advantages of 100 percent coverage and of vetting of participants' information by providers before it is sent. The PPM is more appropriate for collecting participants' confidential views about provider performance.

- ❑ **We recommend that information collected from NEIS providers be expanded in the next contract period, along the lines suggested above.**
- ❑ **Additional data on participants could be collected from NEIS providers through an expanded Business Plan Summary Form, or by expanding the quarterly financial reporting mechanism. Expanding the scope of the last quarterly financial report before the end of the NEIS allowance would be one way to gather additional data about NEIS businesses that may aid in assessing their wider economic contribution and likelihood of survival.**

**INFORMATION FROM CONTRACT MANAGERS AND THE DEWR ADMINISTRATIVE SYSTEM**

The DEWR administrative system currently generates data on:

- the first KPI (commencements against contract milestones); and
- providers' compliance with the NEIS code of conduct

Contract managers presently assess compliance with the code of conduct. It appears likely that they could also generate useful information on the efficiency and effectiveness of providers' operations. This information might be a component of a quality of service indicator.

There was quite strong support in consultations that contract managers should contribute to assessments of quality of the service. The attractions of such an approach were seen as being:

- it would not be expensive;
- it would involve the assessments and expertise of people who knew well both the strengths and weaknesses of individual providers, as well as the local labour market and other economic and social conditions in the particular area;
- contract managers would be well placed to be able to comment on the relative strengths and weaknesses of providers in their area.

An option canvassed with NEIS providers was whether it would be possible to develop a formal definition of "best practice" provider service, along the lines already required in certification of training programmes, or in formal quality assessments. An aspect of such an outcome could be the establishment of a mechanism for the industry to assume some responsibility for providing assessments of and data used to assess the quality of service. .

Although there are already elements of this in the DEWR programme and contract guidelines, providers were on the whole not attracted to further systematisation of their activities. It was indicated that:

- best practice was very much in the eye of the beholder, and developing and reaching agreement on a measure of best practice would be difficult; and
- conditions varied considerably across Australia so defining a uniform measure of best practice would be difficult in practice.

Nevertheless, any assessment of service quality by contract managers would itself need to be systematic, if it was to be useful. We suggest that contract managers might use objective and subjective information, against a checklist, to generate scores for various dimensions of provider performance.

#### *Contract managers' assessments*

Contract managers might assess the following dimensions of provider performance:

- promptness and efficiency in dealing with initial approaches from prospective participants (a possible indicator being the average time between an initial referral and reactions by the provider – such as the commencement of training – and some

- measure of the extent and effectiveness of pre-NEIS training, for example on computing skills);
- efficiency of the training process (possible indicators include: frequency of training programmes; ratio of instructors to clients; the numbers commencing NEIS training relative to the numbers completing training; extent of provision of supplementary training and training directed at disadvantaged groups);
  - efficiency and effectiveness of the business planning process (possible indicators include: numbers of commencements relative to the number completing training; average time from completion of training to commencement; proportion of business plans rejected by NEISAC and/or DEWR);
  - effectiveness of the mentoring process (reflecting: assessed quality of mentors; compliance with contract requirements for mentoring; assessed flexibility and responsiveness of mentoring process; proportion of NEIS participants subject to mentoring visits at their place of business );
  - efficiency of providers' administration (reflecting indicators such as: completeness and promptness of quarterly reporting; proportion of participants receiving viability assessments; proportion of participants terminated as a result of DEWR assessments of unavailability; proportion of participants assessed as potentially viable, but requiring an action plan; proportion of payable post programme outcomes claimed by the provider);
  - cost effectiveness (as measured by the agreed contract price per post-programme outcome)

A guiding principle should be for contract managers to rely as far as possible on objective factual information supplied by the NEIS provider – and on clear criteria for allocating scores to the various dimensions in the quality index. This may suggest some addition to the internal performance data routinely collected by NEIS providers.

We also suggest that, despite their reservations, that it is in the interests of NEIS providers to contribute actively to any attempt to measure provider performance more systematically.

We note that some of the indicators suggested may vary systematically with local labour market conditions and job seeker characteristics. DEWR will need to bear this possibility in mind in any use of the indicators to assess relative provider performance.

- **We recommend that DEWR develop and pilot test indicators of provider quality of service based on contract manager reports and other administrative data.**

*Possible use of information on complaints*

It was also put to us that more use could be made of data collected as a by-product of the complaints system. One provider argued that at present the complaints system was not designed to elicit information on the nature of the complaints that job seekers had about providers, but rather to ensure there was a mechanism in place to check that providers had, in fact, responded to complaints.

There would appear to be merit in assessing whether recording of complaints could be modified to elicit more information about the nature of the complaints – and whether this could be used as an indicator of the quality of the service offered by the provider.

There are however some potential problems in doing so. Issues include

- many complaints are resolved “on the spot”, with only those not resolved being recorded formally
- too few complaints are received by DEWR to allow them to be used in assessing relative provider performance; and
- there might be a risk of participants using such a system unfairly to criticise providers – giving rise to questions as to how to distinguish between legitimate and vexatious complaints.

It therefore appears doubtful whether the complaints system can generate information useful for analysis of participants’ or provider performance.

*Provider characteristics and provider performance*

It also appears likely that there are differences in provider characteristics that may correlate with performance against the KPIs or quality of service indicators. We are interested here in characteristics that would not be eliminated by controlling for differences in local labour market conditions and job seeker characteristics.

Relevant characteristics may include:

- size of the provider’s NEIS client base, nationally and in the relevant contract region;
- proportion of disadvantaged clients in providers’ NEIS commencements or outcomes;
- whether provider also provides Job Network Services (and their nature);
- whether provider is a registered training provider; is a tertiary educational institution; and/or operates a BEC.

(While not relevant as regards performance assessment, some providers suggested to us that “not for profit” providers were more inclined than “for profit” providers to give relatively disadvantaged job seekers a chance to commence NEIS training.)

Information on these characteristics will be available from DEWR administrative sources. It would be a research task to ascertain their value in predicting provider performance. It would require a policy decision to make use of such information in predicting provider performance for the purposes of performance assessment or tendering.

- ❑ **DEWR could undertake research to ascertain whether there is a correlation between provider characteristics and provider performance.**

#### **CLIENT PERCEPTIONS OF SERVICE QUALITY**

During our consultations there was a view that more effort should be made to obtain NEIS clients’ assessments of quality of service provided to them. There was a view that while important and necessary in themselves, the KPIs and star ratings did not adequately capture the comprehensive nature of the service quality that NEIS providers offered – and that accordingly some further effort would be warranted in terms of obtaining directly NEIS clients’ assessments of service quality.

A survey of clients could give rise to two problems:

- ❑ in almost all instances NEIS clients had experience with only one provider, and would accordingly not be in a position to compare the services offered by different providers; and
- ❑ there was likely to be an element of bias in such a survey. Those clients who had been successful in establishing businesses would likely attribute their success to their own efforts rather than the quality of the service provided to them during NEIS training. Clients who had not been successful would be likely to attribute such failures to the NEIS provider, rather than to any problems with their own approach.

Pilot testing might show whether these problems might seriously affect the usefulness of the survey results.

Two options present themselves:

- ❑ modifying the PPM process to ask specific questions about service quality; and
- ❑ a dedicated survey of clients after a certain period.

Several providers were of the view that service quality could be assessed via the PPM process. There was however a recognition that to do so might require some modification of the way the PPM is undertaken.

The biggest attraction from modifying the PPM to obtain assessments of quality is that it would be relatively cheap. Unlike Job Network members, current response rates from NEIS providers are already sufficiently high (around 80 per cent) to deliver statistically meaningful results. Additional resources should therefore not be required to boost these response rates by follow up telephone interviews – as long as the potential bias problem mentioned below are assessed as not being so serious as to undermine confidence in the results.

But there are potential drawbacks.

- ❑ there is a limit to how much could be asked in the PPM about NEIS quality issues;
- ❑ there were some bias problems – in the sense that those responding initially via the PPM tend to be more negative about the service than those contacted via subsequent telephone follow up. The assessment of Departmental officers is that this may be explained by those likely to respond initially will tend to be those who are still unemployed – and hence had a greater sense of “mutual obligation” than those either employed or running their own business. The latter were more likely to ignore initial requests for advice.
- ❑ **At present the results from the PPM for NEIS providers are not coded into a data base. Consideration should be given to doing so.**

## **POSSIBLE DEVELOPMENT OF THE KPI'S**

Star performance ratings have three potential uses:

- providing information to job seekers on provider quality;
- allowing providers to gauge their performance relative to one another; and
- for DEWR to rank providers for the purpose of contract negotiations.

Information relevant to performance may differ depending on who is using the star rating. It is likely, for example, that what is important to a NEIS client will differ somewhat from what is important in a contract renegotiation.

In practice the last two uses dominate the first.

- ❑ **This suggests that construction of the star ratings should be focussed on DEWR’s needs, which for key purposes will coincide with those of the NEIS providers.**

KPIs are specified in NEIS provider contracts. But not all are used in constructing star ratings. This is partly because not all can be measured – at all, or in a timely manner.

- ❑ **If important KPIs cannot currently be measured, it suggests that data collections should be widened to allow this.**
- ❑ **If there is an important measurable element of performance that is not currently a KPI, then there could be consideration of expanding the list of KPIs.**
- ❑ **If there is an important dimension of performance that can only be assessed subjectively, then this is an argument for an appropriate entity making such assessments systematically and recording the results. It may be more appropriate for such information to be introduced into the performance ranking as a supplementary “quality” indicator.**

#### **COMMENT ON EXISTING KPIs**

NEIS’ objective is to create new employment opportunities by providing income support and training to help job seekers establish and run new small businesses.

The number of job seekers establishing businesses and the sustainability of the resulting businesses are key aspects of provider performance.

Positive labour market outcomes for jobseekers that do not start or sustain a business may also be valuable, but are not the central focus of NEIS. Similarly for training provided to jobseekers.

Performance against the number contracted is also important since NEIS places are rationed.

#### ***KPI (1)***

- ❑ **Existing KPI (1): *Commencements relative to the number specified in contract milestones* captures an important dimension of performance. It should continue.**

However, there are concerns about the way that contract milestones are set, given the natural seasonality of the NEIS business, that may itself vary in different parts of Australia. This suggests that DEWR should take more account of market circumstances in setting milestones – and should probably focus more on cumulative performance over the contract period than on performance at each individual milestone.

*KPI (2)*

- **Existing KPI (2): *Post-programme outcomes relative to commencements captures a central element of performance. It should continue. However, there are questions about the form of this KPI.***

These include:

- Should equal weighting continue to be given to off-benefit outcomes that do not involve continuation of the NEIS business? While such outcomes (e.g. full-time employment) are desirable from the an overall labour market perspective, they are not the central objective of NEIS. This might argue for a lower weighting, even if they are largely outside the NEIS provider's control.
- Given the length of the NEIS process, should the KPI be supplemented with another KPI relating to the proportion of commencements that have not yet completed NEIS (but seem likely to achieve a post-programme outcome)?
- The KPI is taken at a point in time and provides no indication of the sustainability of NEIS businesses beyond that point. This is a difficult issue, to which we return below.
- The KPI gives the same weight to participants that leave NEIS early and are subsequently off benefit after 13 weeks, as it does to those who complete the whole NEIS period. Perhaps early cessation of NEIS allowance, combined with a successful labour market outcome, deserves a greater weight in the star ratings.

*KPI (3)*

- **Existing KPI (3): *Proportion of commencements that leave early and return to benefits captures a reasonably important (negative) element of performance. It should continue with moderate weight, as at present.***

A justification for this KPI is that it measures one result of errors in a provider's screening process. However, since some disadvantaged groups are disproportionately represented in this category, there is a case for counterbalancing the KPI with another measuring the proportion of disadvantaged groups in a provider's commencements or post-programme outcomes.

*Measuring sustainability of NEIS outcomes*

The KPIs listed in the contract refer to post-programme outcomes at 12 months after cessation of NEIS allowance. One difficulty is to measure these accurately. Another is that sufficient data will become available only very late in the contract period – if at all.

There is Centrelink data on former participants' benefit status at 6 months, that we are in the process of analysing. One aim will be to see if there is an identifiable provider effect in this data. However, "off-benefit" does not mean that the participant is still conducting a business.

We can also see if there is any information in the available data that can be used to predict the likelihood that participants will be off benefit after 6 months. However, we have only a limited data set to test.

Surveys of survival of NEIS businesses can be undertaken as a research project. But this is likely to be too inexact and time consuming for use in assessing individual provider performance. However, such research can indicate variables that are likely to be associated with business survival. Based on available insights we have suggested the collection of additional information about participants and their businesses during the next contract period. After research to link these with long term off-benefit status, it should be possible in time to develop new KPIs reflecting the sustainability of the businesses created.

- **We recommend that DEWR expand the available data sets in the next contract period and continue research into ways of predicting the proportion of NEIS businesses that may be sustainable.**

#### **SUGGESTIONS FOR AUGMENTING THE KPIs AND MEASURES USED IN STAR RATINGS**

This section summarises suggestions for modifying or augmenting the KPIs and performance measures used in star ratings for the next contract period.

- 1. Continue the existing three KPIs, but review the way contract milestones are set to take account of natural seasonality in NEIS process.**
- 2. Consider reducing the weight given to off-benefit post-programme outcomes that do not involve establishment of a NEIS business.**
- 3. Consider giving additional weight given to early cessation of the NEIS allowance, associated with an off benefit outcome. Possibly taper appropriately the weights attaching to early cessation (e.g. 1 in the first financial quarter, 0.75 in the second, 0.5 in the third, and 0.25 in the fourth). A similar but reversed tapering could be applied to KPI 3 (Off NEIS allowance and returned to benefits)**
- 4. Balance KPI 3 by adding an additional KPI with similar weight measuring the proportion of commencements that are of members of disadvantaged groups (including the long term unemployed and the 55+ age group)**

- 5. Using new data collected in the next contract period, undertake research into the possibility of predicting the sustainability of NEIS businesses and of developing an appropriate KPI.**
- 6. Using new data collected in the next contract period, undertake research leading to the development of a KPI measuring NEIS providers' wider contribution to labour market training.**
- 7. Develop a quality of service indicator based primarily on administrative data and contract manager reports as outlined in section 4. Following a review of its application, determine whether it should be added to the KPIs or kept as a separate quality assessment.**

*Access Economics  
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