



*Submission to the Senate Inquiry into the DEEWR
tender process to award employment services
contracts*

Brotherhood of St Laurence

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Introduction

The Brotherhood of St Laurence welcomes this opportunity to contribute to the Inquiry into the tender process for the new employment services contracts.

The Brotherhood of St Laurence (the Brotherhood) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions to address social exclusion at both national and local levels.

Over the past decade the Brotherhood has undertaken a range of research and evaluation into the effectiveness of the Job Network and related specialist support services for Australian job seekers. In particular we have strongly advocated over the past 2 years for the Job Network to be reformed to have a much stronger focus on highly disadvantaged and long term unemployed Australians

The Brotherhood did previously provide Job Network services, as well as being a Personal Support program and JPET provider under the current contracting arrangements.

Following the finalisation last month of the DEEWR tender for new universal employment services to replace the Job Network from July 2009, the Senate has established an inquiry into the tender process through the Education, Employment and Workplace Relations Standing Committee.

The Brotherhood of St Laurence actively participated in and monitored the development of the new employment services model and related purchasing requirements. However, we did not submit a tender to provide Stream Services under the new arrangements. It should be noted that we did submit a successful bid to be included on the Innovation Fund Panel.

Therefore, the following submission is based on our experience as a service provider and our evaluation and policy advocacy work on the need for substantial reform to the delivery of assistance to jobseekers.

Rather than focus on the detail of the selection process for providers of JSA services from July, we wish to emphasise the following matters to the committee for its consideration:

- Substantial weaknesses in the former employment services system had developed over time
- Key elements for a more effective employment services system
- The new JSA model of employment assistance should address the past failings of the Job Network, and
- Additional investment is warranted to provide effective support for highly disadvantaged jobseekers through the emerging economic downturn.

Limitations of the former employment services system

The Brotherhood's analysis of the employment assistance system, including the Job Network and specialist pre-employment, mutual obligation and support programs, pointed to substantial weaknesses and inefficiencies:

- Service providers had become burdened with ever-increasing regulation and contractual obligations;
- Highly disadvantaged job seekers with greatest need did not receive higher levels of resources;
- The service system had become increasingly fragmented, complex and inefficient with separate accountabilities;
- The complex payments structure had led to skewed incentives and perverse outcomes; and
- The competitive quasi-market model limited collaboration and partnership, stifling innovation (BSL 2008)

Inadequate outcomes for disadvantaged job seekers

Analysis by DEWR of selected performance indicators found that the Job Network achieved comparable outcomes to previous forms of assistance (for example under Working Nation), that it improved its performance over time, and that these results were achieved at lower unit cost per job outcome (Thomas 2007).

The employment outcomes (3 months post-exit) achieved by selected programs of the current system are summarised in Table 1. Focusing on those job seekers with significant barriers to employment assisted by the Job Network, the performance measured by placement in full time work, for example, is relatively poor: 18% of Intensive Support customised assistance 1 (ISca1) clients in the Job Network and 12% for ISca 2 clients. Less than half of all Job Network ISca participants achieve an employment outcome, including part-time work (DEWR 2007).

Whilst the primary objective of WfD is to 'develop the work habits of participants', only 13% achieve full-time employment, while 59% remain unemployed and 10% drop out of the labour force altogether. The Personal Support Programme (PSP) was created as a pre-employment program for those not ready to engage in Job Network assistance: only 6% of participants achieve full time employment.

Table 1: Labour market assistance outcomes*, 12 months to March 2007

| Labour market program | Employed full time % | Employed part-time % | Unemployed % | Education and training % | Job seeker exits |
|-----------------------|----------------------|----------------------|--------------|--------------------------|------------------|
| ISca 1 | 18.4 | 28.0 | 39.6 | 13.3 | 186,436 |
| ISca 2 | 11.9 | 28.8 | 48.8 | 11.5 | 81,652 |
| WfD | 13.5 | 17.2 | 59.2 | 10.8 | 95,368 |
| PSP | 6.3 | 10.7 | 39.4 | 7.3 | 28,150 |

* Outcomes are measured 3 months after exit from program.

The sequential nature of assistance made it difficult to assess the real effectiveness of the overall system, due to the level of multiple spells recycling through the various levels of assistance over time, often interspersed with periods of medical incapacity or short-term/casual work.

In summary, the above short-term employment outcomes rates were less than optimal when considered in the context of a sustained employment boom and emerging labour shortages.

In the absence of more detailed longitudinal data analysis for highly disadvantaged job seekers, tracing their spells through the range of sequential assistance in the current system, we can still point to relatively poor outcomes for this category from community based research.

Surveys of welfare agency clients, who are long term unemployed and have multiple barriers to work, indicate significant levels of poor outcomes and dissatisfaction with the Job Network (see for example Jordan & Horn 2006; Horn & Jordan 2007). Considering their marginalised backgrounds, the 2007 finding that over half the job seekers had not participated in any employment or training programs in the previous two years was especially worrying.

Whilst care must be taken in drawing strong conclusions from small-scale, local studies, this evidence supported other findings about the poor responsiveness of the current assistance system to the needs and circumstances of the more marginalised and vulnerable unemployed. This has been due in part to the perverse incentives built into the funding structure that discouraged timely and effective investment in 'difficult-to-place' clients in Customised Assistance (Thomas 2007). It is also related to the proportionately lower investment in this category of job seekers over the period.

Increasingly complex and fragmented service system

The evolution of the current employment assistance system, including Centrelink's key role, had been punctuated by frequent contractual and administrative changes to maintain the viability of the partially privatised model, to address the emergent weaknesses (including perverse payments structure) and respond to the impact of the changing labour market on the flow of unemployed into the Job Network.

The changes may be characterised as radical shifts to both operational and administrative elements of the system, including for example:

- reconfiguration of the assessment and referral processes that lowered the proportion of highly disadvantaged clients in the system
- introduction of tied budget allocations to stimulate investment in training and other assistance (Job Seeker Account)
- iterative strengthening of mutual obligation requirements, including the introduction of Active Participation
- redesign of quality and performance framework, including eventual introduction of the Star Rating system, that in time, became almost universally criticised by the community and welfare sector as driving perverse outcomes.
- replacement of competitive price setting by fixed service fees for Intensive Assistance
- increasing the pool of job seekers in the system through 'welfare to work' reforms aimed at those with disabilities, sole parents and mature aged workers
- including specialist or targeted assistance programs (for example PSP) under the 'work first' umbrella, with active participation requirements extended to highly disadvantaged categories of unemployed
- upgrading of data collection and reporting systems
- increased prescription and micro-management of service delivery processes.

The changes substantially increased the fragmentation and complexity of the overall system, undermined the confidence of providers, and increased the expenditure on program monitoring and compliance of both funded providers and Centrelink. This level of control and regulation in the face of increasing evidence of system failure led to ongoing problems of perverse incentives that

ultimately increase inefficiencies (greater proportion of expenditure expended on monitoring contractual performance and micro-management) and distorted outcomes (parking and churning of highly disadvantaged clients).

We also argued that the system restricted collaboration at a local level and limited sharing of best practice between providers and therefore stifled innovation—for example, through partnerships with employers, training and welfare organisations job service providers develop more flexible, responsive and integrated services to match job seekers with emerging local labour shortages.

An outstanding example of the failure of Job Network to provide an integrated service response lies in its response to homeless job seekers. The essential interdependence between employment and housing and homelessness services is self evident. Without a stable home it is well nigh impossible to undertake training and look for a job. And without appropriate training opportunities and without a job, for many there is little prospect of securing decent housing. Yet attempts to integrate the various forms of assistance have been largely shunned by Job Network providers. Numerous studies have found that this failure to provide an integrated service response has resulted in very poor employment outcomes for job seekers experiencing homelessness. – For example SPRC May 2008.

Overseas evidence

Overseas evidence has pointed to the efficacy for a more balanced or mixed approach to employment assistance: newly unemployed people and those who are job-ready should be encouraged to rejoin the workforce as quickly as possible to avoid loss of skills and minimise risk of dependency on income support. Rapid movement back into the workforce is also important for vulnerable and marginalised job seekers. But the focus should be on meaningful support and positive incentives with a line of sight to a *sustainable* employment outcome.

The recent UK reforms adopted the mixed model of employment assistance. Elements appear to have been borrowed from the Australian approach that tighten access to disability benefits and increase obligations on income support beneficiaries to actively engage in employment programs. While strengthening the obligation on disadvantaged job seekers to actively seek work, the UK Government also invested in human capital development approaches through better-resourced individualised and flexible assistance, skills building, together with financial incentives for job seekers to take up job opportunities (work credits) (DWP 2007).

Key elements for a more effective employment services system

The Brotherhood's analysis summarised above offered a strong argument for fundamental reform of the current system through a more collaborative approach between business, government and community sectors that incorporated a model of integrated, flexible and individualised assistance aimed at highly disadvantaged job seekers.

We argued for a reconfigured service system simplified into two main components:

- (1) short-term assistance to those unemployed who are job-ready or have minimal barriers to job sustainability
- (2) an intensive support program for those with significant or multiple barriers to taking up open employment.

The objective of short-term assistance is to provide new and recently unemployed with skills and support to obtain and sustain jobs—one of the core components of the Job Network. However, there is scope for improvement through a stronger engagement with employers to match job

seekers to work opportunities and to ensure vocational training relates to aspirations and builds on existing skills relevant to their job search plan.

The second component of a simplified system would merge the range of pre-employment, support and mutual obligation programs (WfD, Green Corps, PSP, JPET and DEN) with Customised Assistance (JN) into a single intensive support program for highly disadvantaged job seekers. Allocation of dollars to contracted providers would be based on a full assessment of individual barriers - including skill gaps.

The core principles for highly disadvantaged job seeker assistance should comprise:

- (a) complete assessment of barriers and needs, including skills, with regular review/update
- (b) agreed Individual Pathway Plan, including work experience and training components
- (c) a social inclusion assessment to ensure health, housing or personal barriers are addressed
- (d) accessible or integrated specialist support skills (allied health, mental health, disability)
- (e) continuity of a primary caseworker (optimum 1:25 caseload)
- (f) immediate access to paid employment or work experience
- (g) strong emphasis on individual work preferences and capabilities
- (h) accredited training relevant to capabilities and aspirations using applied learning techniques
- (i) availability of long term mentoring and post-placement support
- (j) linkages to paid work opportunities with local employers, including community enterprises.

Within the reformed system, we suggested that additional resources were needed to enable the Intermediate Labour Market (ILM) model to be implemented at a local level through social enterprises that can offer up to 12 months paid employment coupled with accredited training in a supportive environment. This approach has been shown to be effective for highly disadvantaged job seekers and to deliver cost effective longer term benefits to the community (see for example Mestan & Scutella 2007; Mission Australia 2008).

Capacity of the new JSA to be more effective than the former model

The new approach to be implemented from July this year has taken into account many of the criticisms levelled at the current system as outlined above. There has been significant simplification through for example the consolidation of seven existing contracts into one that will provide four streams of assistance based on job seeker needs.

There has been a rebalancing of resources within the budget towards more disadvantaged job seekers including the extension of brokerage funding (Employment Pathways Fund) - replaces the Job seeker Account in the Job Network, to stream 4 job seekers who currently have no access to such funds in PSP or JPET.

All streams will provide assistance for up to 12 months, with six months extra possible for those in stream 4. However, the streams will not be sequential and job seekers will only move to a more intensive stream if their level of disadvantage increases. In all other cases, job seekers will undertake ongoing work experience, including Work for the Dole, after completing their period in one of the service streams. A substantial improvement in the new model will be the increased capacity in the system for the agreement of an individualised plan that should better match the aspirations and skills of job seekers.

A range of additional policy reforms have been developed such as the Productivity Places Program, that will enable a better integrated approach to be delivered to job seekers and thereby address one of the key weaknesses in the current service model.

Importantly, the Government has encouraged providers to work far more closely with local employers, training organisations and health and welfare service providers through a mix of incentives under the funding model, as well as through the selection criteria for new providers. Local partnerships through collaborative arrangements and local strategies were given significant weight as one of the key selection criteria in the tender process. As a consequence the new employment service landscape will see a network of JSA providers partnering with specialist health and welfare providers in providing integrated responses. It is particularly pleasing that for the first time we will see employment service providers specialising in the delivery of an integrated service response to homeless job seekers.

Overall, the Brotherhood welcomed the new JSA system as having greater potential to be significantly more effective and efficient as a demand driven model compared to its predecessor. In respect of the contracting of the new arrangements, the government's reform agenda clearly laid out a new vision for service delivery through both the purchasing arrangements and the selection criteria. We believe this required potential tendering organisations to take into account this vision in developing their submissions.

Adequacy of resources to ensure JSA is effective through the economic downturn

In our responses to the Exposure Draft for the new purchasing arrangements, the Brotherhood raised several concerns about the new system and funding arrangements that have increased relevance in the context of the impact of the economic downturn on unemployment and especially long term unemployment over the coming 3 years.

We identified a risk that the substantial new outcome payments may lead providers to focus narrowly on vocational interventions and employment outcomes in order to maximise outcome fees. Within each stream, greater effort may be placed on those with greater likelihood of securing a paying outcome at the possible expense of the more highly disadvantaged. In addition, while the new model provides an important incentive to achieve employment outcomes that was missing under the PSP, there is no longer an incentive to achieve social outcomes.

The Brotherhood has encouraged the development of social outcome payments for stream 4 clients in recognition of the small but important steps necessary for this cohort on the trajectory to sustainable employment. The stream 4 arrangements will contribute to social inclusion for those clients assisted to gain a job. However, the focus should extend beyond work to assist clients to increase their capacities for social participation.

With a scenario of 8.5% national unemployment rate, there will be a substantial increase in the long term unemployed. We have estimated that LTU could increase to 275,000 people – a significant proportion of whom will progress into Work Experience.

For those disadvantaged job seekers who move into Work Experience, the prospects of them finding open employment are now far worse due to the downturn. In our submission to the Commonwealth Government in early 2009, we stressed the importance of developing intermediate labour market (ILM) approaches utilising social enterprises to offer meaningful paid work with support and training for this cohort (BSL 2009). The Brotherhood has welcomed the Government's stimulus packages, notably the Jobs Fund that will enable local place based enterprises to be developed. However, we believe that additional resourcing of the Work Experience stream of the new system may be required as a *universal* approach for job opportunities over the next 3 years.

One of the criticisms of the past period has been the lack of availability of performance data and reporting of the Job Network. It will be important to ensure through regular public reporting of performance by DEEWR of the new JSA *to enable informed analysis* of how well the system is responding to increasing unemployment and especially the effectiveness on highly disadvantaged job seekers, such as the homeless. This proactive monitoring will be essential to make timely adjustments to the model and additional resourcing as we have suggested may be needed.

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