

PC SUBMISSION

The role of the public employment service in the transition of regional economies following the resources boom

For more than a decade Australia has enjoyed an unprecedented mining boom driven by strong demand and increasing commodity prices. As commodity prices have dropped the investment phase of this boom has come to an end and Australia is now facing a difficult period of transition to a more broadly-based economy.

Western Australia benefited most from this boom. As the boom winds down it is also the state that faces the most difficult transition. Whatever form this transition takes it will involve a significant re-allocation of labour between sectors, regions and businesses. Most of this re-allocation occurs through a decentralised process without intervening unemployment through informal networks and making vacancies public to which job seekers then respond. This re-allocation is facilitated by a relatively well functioning and responsive labour market where the both employers and job seekers adjust their behaviour to the current realities. However, the sharpness of the downturn and the resulting large rise in unemployment means that intermediaries - our public employment services, have a large role to play.

The concern raised in this submission is that the current system for the contracted out employment services, jobactive, is not functioning as well as one would wish. Since the start of jobactive in July 2015 the placement rates of Western Australian Jobactive providers have been poor and the features of the system itself makes a significant improvement difficult. This will inhibit the ability of the Western Australia economy to make a successful transition to a more broadly based economy and disadvantaged job seekers to fully share in the opportunities that might arise.

It is commonly accepted that an economic downturn justifies an expansion of active labour market policy. The efficiency rationale is that the lock-in effect, the reduction in job search due to participation in an activity, is lower in a downturn since the chance of finding a job is smaller. In addition, the post-program effect might be larger by, for example, reducing the scarring effect of unemployment. There is also a case for varying the form that ALMP policy takes during a downturn. During a downturn, the job losers include a higher proportion of more skilled workers and a recovery is often accompanied by a period of structural change.

These commonly accepted views about ALMP are implicit in the OECD's recent report on how to improve the re-employment prospects of displaced workers - Back to Work - Australia. The OECD recognises the relative flexibility of the Australian labour market but also highlights the role played by the structural adjustment program in place. These programs give some displaced workers immediate access to higher levels of re-employment support. The coverage is, however, limited and the main OECD recommendation is to extend coverage to displaced workers in all sectors of the economy, with the intensity of intervention tailored to the circumstances and needs of the displaced workers. Thus they warn that providing minimal assistance to displaced workers may become increasingly problematic. They further recommend a pilot scheme to test how this higher level of support can be delivered by Jobactive providers. Likewise they recommend an expansion of the training component in programs for displaced workers. These recommendations were based on a

mission to Australia in March 2013, when they thought that the labour market would be less buoyant in the future although the report itself was not published until 2016.

If there was a case for increased intervention in 2013, when there were signs that the mining boom would come to an end, the case for it has become more compelling. However, the changes put in place with Jobactive have tended to go in the opposite direction. For example, a larger proportion of job seekers are now classified as job ready (Stream A) and receive minimal and delayed assistance. Another example is the mandated shift from education and training to artificial and temporary “job” creation (through Work for the Dole). Although training remains an alternative option to Work for the Dole, the many conditions and restrictions placed on it, the difficulty of funding it from the jobactive Employment Pathway Fund, and the absence of outcome payments for education outcomes, makes it difficult for jobactive providers to utilise this option.

The consequence is that in the state most affected by the end of mining boom, Western Australia, Jobactive providers have been unable to provide effective assistance to many of the people in the large inflow of job seekers.

Since the start of Jobactive, the placement rates of WA providers have been running at half the national level. At the first publicly available Star Rating (which compares the performance of all jobactive providers nationally) more than 90 per cent of WA providers were rated as one or two stars; notwithstanding that the Star Ratings regression model purportedly takes into account both the composition of the job seeker pool and the regional labour market conditions. By any accounts, the performance of the WA jobactive providers has been very poor.

The main reason for the poor outcomes is of course the severe and sharp economic downturn caused by the end of the mining boom. There are also two additional reasons particular to WA.

The downturn in coincided with the change of contract

Much of the deterioration in the labour market conditions took place during the change of contract period in mid-2015. . During 2015 the number of job seekers, persons who would normally be required to register with a Jobactive provider, increased by 50 per cent or 20,000 persons.

The tender process of Jobactive was particularly complex as was the transition from JSA to jobactive when more than half of the jobseekers had to choose a new provider. This process was inevitably highly disruptive to services. Further disruption was caused by the prospect of the 18-month re-allocation of business to take place after the release of Star Ratings for the period ending in December 2016. Because of the low star ratings of WA jobactive providers, this re-allocation has the potential to result in large changes in the market shares of providers.

Financial impact on providers

Under jobactive and previous contract models, public employment service funding in Australia follows job seekers. Thus as the number of job seekers increases there is a proportionate increase in funding. But there is no automatic increase in per capita funding which allow providers to extend their services in an economic downturn. Any such increase is dependent on discretionary action by the Government.

In practise the funding issues is more complicated. The introduction of jobactive entailed a further shift from up-front to outcome payments meaning that the providers have to carry some of the initial cost of servicing the jobseekers themselves until they begin to receive a stream of outcome payments. However, already in March 2016, after 9 month of jobactive, many providers were reporting that the Jobactive contract did not seem to add up; the initial shortfall was larger than expected and there was concern that they would not be able to recover this over the duration of the contract.

This financial issue was further aggravated in Western Australia by the shift in the composition of job seekers. The downturn led to a large inflow of new job seekers most of whom were both skilled and experienced. As such they were classified as Stream A job seekers for which providers receive the lowest rate of initial and outcome payments. At the same time, these job seekers made Streams B and C jobseekers less competitive thereby depriving providers of the higher outcome payments for these persons. This tended to increase the initial shortfall and the likelihood that the contract may not add up.

The claim here is not that the jobactive contract is necessarily unviable for providers. Over the duration of the contract they may well be remain viable if the labour market conditions improve. The point is that the Western Australian providers in particular have been under financial stress and looking for ways to reduce costs at a time when they should be servicing and better servicing more job seekers than ever.

Particular reasons aside, it is evident that Australia's contracted out model for employment services has not performed as well as one would wish. To put this in another way, that the Government department ultimately responsible for this service rates almost all providers in one state as being poor or very poor is a tacit admission of a policy failure. In most circumstances, this would constitute a call for action but in this case it is not clear that this is possible or even desirable. It is an inherent feature of the model of governance of Australia's public employment service that once the contract is drawn up there is very little scope to vary the terms to suit different labour market conditions over time or by regions. In case of more intensive assistance to displaced workers, large numbers of redundancies are often temporary and difficult to anticipate. In the case of Western Australia, the ABS quarterly redundancy rate (proportion of employed workers made redundant) begun to rise during 2015 and remained at the two percent level (twice the national average) during 2016. By the time a policy response could be implemented the retrenchment phase of the current downturn may well be over.

The current model for Australia's public employment service has evolved over a period of nearly 20 years. At every new contract period the parameters of the model have been modified in the light of recent experience and in consultations with providers, their national organisations and other interested parties. At less frequent intervals, the model has been given a new name when the modifications have been deemed to be more extensive. On the whole this process has been constructive but with a consistent tension between the Government on one side and the providers and welfare organisations on the other. But the continuous reforms have not changed the fundamentals of the system. Thus many issues have resurfaced again and again including the too prescriptive service requirements, the culture of processing and monitoring job seekers, the administrative burden and red tape, and mediocre outcomes for the disadvantaged. That the

attempts to resolve such issues have not succeeded suggest they are systemic to the existing model and can only be addressed by a fundamental change to this model.

For these reasons, Jobs Australia has come to the view that continued tinkering with this model is unlikely to be helpful. Rather, a different approach should be tried and the poor performance of WA providers reinforces this view.

Jobs Australia's vision is set out in the Blueprint for Reform (2013):

[https://www.ja.com.au/sites/default/files/jal04 - blueprint for a better system final.pdf](https://www.ja.com.au/sites/default/files/jal04_-_blueprint_for_a_better_system_final.pdf)

The six key features of a modern employment services system

- Job seekers and employers are front of mind
- A truly competitive provider market
- A diversity of providers to match the diversity of jobseekers and communities
- A focus on durable outcomes
- Risk-based quality assurance with less red tape
- A redefined role for the government

In brief, these six features implies giving users a real choice between a diversity of licensed providers that compete on quality and service in a market with weak entry barriers regulated, but not managed, by the Government.

The principles of such a system, the required reforms, the benefits and how a transition might take place are set out in details in the Blueprint.