

# Submission to the Productivity Commission Review of Australia's Automotive Manufacturing Industry

February 2014

## CONTENTS

1.	About Jobs Australia .....	3
2.	About this submission .....	3
3.	Resourcing issues in employment services .....	3
3.1	The impact of economic shifts on Job Services Australia providers .....	3
3.2	Financial pressures in Job Services Australia .....	4
4.	Services available in Job Services Australia .....	4
4.1	Support measures in Job Services Australia and equity issues .....	4
	Box 8: Productivity Commission Position Paper – Draft Finding 5.1 .....	5
5.	Evaluation of employment services outcomes in SAPs .....	6
6.	Options for purchasing employee adjustment assistance .....	6
6.1	Improving Job Services Australia .....	6
6.2	Specialised services for redundant workers .....	7
6.3	Expand the role of Job Services Australia providers .....	7
7.	Suggestions for a systemic approach to structural adjustment .....	8
7.1	The broad approach .....	8
7.1.1	Preventative measures .....	8
7.1.2	Preparedness measures .....	8
7.1.3	Response measures .....	9
7.1.4	Recovery measures .....	9
8.	Conclusion .....	9
9.	Appendix A: Overview of assistance available in Job Services Australia .....	10
9.1	Generally available services .....	10
9.2	Basic services .....	10
9.3	The Employment Pathway Fund .....	11
	Box 4: Employment Pathway Fund Credits .....	11
	Box 5: Proportion of job seekers assisted from the Employment Pathway Fund .....	12
9.4	Normal assistance for redundant workers .....	12
	Box 6: Centrelink Assets Test .....	13
9.5	Special assistance for redundant workers: Structural Adjustment Programmes .....	14
	Box 7: Current Structural Adjustment Programmes .....	14
10.	Appendix B: Information on financial pressures in JSA .....	16
10.1.1	Fewer jobs = fewer outcomes = less resources .....	16
	Box 1: Department of Employment – evidence to Senate Estimates, 21 November 2013 .....	16
10.1.2	Funding has not kept pace with costs increases .....	17
	Box 2: Inflation - Education .....	18
10.1.3	Budget cuts .....	18
10.1.4	Increasing administrative burden ('red-tape') .....	19
	Box 3: Department of Employment – evidence to Senate Estimates, 21 November 2013 .....	19
10.1.5	Future viability is a bigger concern .....	20

## 1. About Jobs Australia

Jobs Australia is the national peak body for non-profit organisations that assist unemployed people to get and keep jobs. Jobs Australia helps its members to make the most effective use of their resources and promotes the need for services and support that will help unemployed people to participate fully in society.

We provide an independent voice for our members who range from large charitable organisations to small local community-based agencies. Jobs Australia is the largest network of employment and related service providers in Australia and is funded and owned by its members.

Many Jobs Australia members deliver employment services under the Federal Government Job Services Australia (JSA) and Disability Employment Services (DES) contracts.

## 2. About this submission

Jobs Australia welcomes the Productivity Commission's Position Paper on the Automotive Manufacturing Industry and the opportunity to comment on its findings and recommendations.

As a peak body in the employment and related services sector, we are particularly interested in the Commission's comments and findings on adjustment assistance for employees, primarily contained in Chapter 5 of the Position Paper.

This submission will focus particularly on that chapter of the paper.

Jobs Australia believes that the mainstream employment services that are provided under Job Services Australia contracts are not ideally suited to redundant workers. A number of equity issues arise when redundant workers are serviced alongside highly disadvantaged job seekers and a separate programme would be a preferable approach.

In addition, we believe that Australia needs to take a more systematic approach to assistance packages, in place of the ad hoc approach that has characterised assistance packages in the past.

## 3. Resourcing issues in employment services

### 3.1 The impact of economic shifts on Job Services Australia providers

Jobs Australia welcomes the Commission's Finding 5.1, particularly noting the need for mainstream employment services to be adequately resourced.

As we pointed out in our submission to the Department of Employment and Workplace Relations *Employment Services: Building on Success Issues Paper* (2013), and in other submissions to Government since<sup>1</sup>, the structural shifts occurring in the Australian economy can be expected to place additional demands on mainstream employment services now and into the future.

---

<sup>1</sup> Jobs Australia's submissions are available at <<http://ja.com.au/publications/submissions>>

For instance, we anticipate that the characteristics of the caseload will change over time, as people with good work histories and experience in outgoing industries find their skills are less relevant to jobs in emerging industries. There may even be an increase in the number of highly educated job seekers joining the caseload. It will mean that services will need to cater for varying degrees of disadvantage and be highly adaptable to changing caseloads.

Unfortunately, the existing JSA model has become constrained by administrative complexity and too much of providers' resources are tied up in excessive compliance. This affects not only the financial viability of the sector, but also the sector's ability to innovate and adapt as the economic and labour market environment changes.

### 3.2 Financial pressures in Job Services Australia

Jobs Australia has received reports from many of its members that suggest the financial pressures associated with their JSA contracts are growing.

Although we do not have detailed financial information about our members' financial positions, we believe that these reports are correct. There is a strong consistency to what we hear from the industry, across a broad range of providers (large, small, metro, regional, non-profit and for-profit) that would support a conclusion that the cost of delivering the contract is tracking somewhat higher than the income available.

This is also evident in some of the business dealings within the industry – with some providers merging or assigning their contracts to larger providers due to an inability to sustain further losses on the contract<sup>2</sup>.

Factors contributing to this include the tight labour market, a lack of indexation in the JSA contract, a one-off reduction in funding in the 2012-13 Federal Budget and growth in administrative burden. Further information about these financial pressures is provided in Appendix B.

Financial pressures are expected to be an ongoing concern. Indeed, Government commitments around Work for the Dole and other new programmes could come at the expense of existing employment programmes, including JSA, and may add to the financial pressures.

Jobs Australia is concerned about the impact of the financial pressures on the quality of service for disadvantaged job seekers, but these factors must also be kept in mind when considering JSA providers' capacity to assist redundant workers.

## 4. Services available in Job Services Australia

### 4.1 Support measures in Job Services Australia and equity issues

---

<sup>2</sup> Afflick, R, 2014 'Skills Plus deal saved Best Community Development from falling into insolvency', *Ballarat Courier*, 5 February, viewed 13 February 2014 <<http://www.thecourier.com.au/story/2069926/skills-plus-deal-saved-best-community-development-from-falling-into-insolvency/>>

Overall, the Job Services Australia system is relatively well designed for the task of preparing disadvantaged and long-term unemployed job seekers for work. It also manages to balance a number of objectives, including the Government's priorities regarding accountability for taxpayer funds and the mutual obligation requirements that Government sets for people receiving income support payments.

As the Productivity Commission has identified, there are a number of benefits in providing services to redundant workers through the mainstream employment services system. However, not all of the benefits sought by the Commission are presently realised through Job Services Australia.

#### Box 8: Productivity Commission Position Paper – Draft Finding 5.1

Generally available measures have some distinct advantages in dealing with adjustment pressures, relative to ad hoc or special adjustment assistance. These measures:

- treat individuals in similar circumstances equally
- target assistance to those in genuine need whatever the cause
- address the net effects of the various factors influencing the financial circumstances of individuals and families
- support individuals and families rather than a particular industry or activity
- minimise the design, administration and monitoring costs of assistance provision.

*Source: Productivity Commission (2014), Draft Automotive Industry Position Paper*

The level of support that is generally available in JSA can vary, and people in similar circumstances are not guaranteed to receive similar levels of support. Indeed, the system is designed such that providers must ration resources (such as the EPF) in a way that means some job seekers will receive more support than others. As explained in Appendix A (below), EPF credits are not held as individual budgets and simply go into a pool. This means that some clients receive more support through the EPF, while others receive less or even none at all.

A further equity issue arises from the presence of SAPs. These packages are not targeted in any way other than by reference to a worker's industry. It means that a worker from an industry covered by a SAP is able to access JSA services before they are actually made redundant and without any consideration of their level of disadvantage; whereas a worker from another industry will have to use up their redundancy and meet the assets and income tests (including their partner's income) just to be fully eligible for services. Even then, the redundant worker who is not covered by a SAP is likely to be assessed as Stream 1 – with a much lower level of resourcing than the comparable worker covered by a SAP, who will be serviced at Stream 3 level.

Moreover, workers covered by a SAP are going to be relatively advantaged compared to ordinary Stream 3 clients. To be eligible for Stream 3 servicing, job seekers would ordinarily need to have multiple and severe barriers affecting their prospects of employment. That could include a combination of long-term unemployment, poor literacy and numeracy, substance abuse, a criminal history and other serious issues. Providing workers who have a good work history with the same level of servicing as someone with severe disadvantage is clearly inequitable. The presence of SAP clients

in the caseload could materially disadvantage other clients, given that providers have an incentive to provide more support to the job seekers who are most likely to attain an employment outcome.

## 5. Evaluation of employment services outcomes in SAPs

Jobs Australia notes the Productivity Commission's Draft Finding 5.4, concluding that "labour market programmes have had some, but limited, success in assisting displaced employees find future employment". Jobs Australia also notes the Commission's concern at a lack of robust evidence.

Notably, job seekers who register directly with Job Services Australia providers must be entered into the system and flagged, so that they are identifiable from other clients. This is because the computer systems used by providers draw information for other clients from data held by the Department of Human Services.

The Department of Employment conducts extensive data collection and monitoring for the employment services system, predominantly through an IT system that is designed and supplied by the Department. This software must be used by every JSA provider, and all data – including meeting information, transactions records for purchases from the EPF, job placements and job outcomes is tracked through this system.

Should the Commission seek the information, Jobs Australia can see no reason why data could not be supplied by the Department of Employment to allow the Commission to review the level of servicing, expenditure and outcome rates for all job seekers who have received services in JSA under a SAP.

Jobs Australia is not aware of such data having been made publicly available at any time in the past.

## 6. Options for purchasing employee adjustment assistance

### 6.1 Improving Job Services Australia

Jobs Australia believes that the employment services system could be improved in general if the system was more flexible, with less prescription of services by Government, and more accountable to the job seekers and employers that the system is meant to serve.

While that could be achieved in a range of ways, Jobs Australia has proposed moving towards a license-based system over the longer term.

Key features of Jobs Australia's proposals include:

- Using a combination of legislation, regulations and license conditions to regulate provider behaviour, in place of a contract deed that can be varied unilaterally by Government at whim;
- Winding down allocated caseload share, so that providers must compete to attract clients rather than rely on a fixed share of referrals from Centrelink;
- Treating EPF credits as individual budgets, so that all job seekers are more likely to receive a fair level of investment and none miss out; and

- Introducing longer-term outcome payments, so that providers have a greater incentive to achieve sustainable employment outcomes.

In proposing the licensing system, Jobs Australia intended that the system should become more responsive to labour market conditions and the needs of employers and job seekers; and less reliant on Government making changes to the service specifications to account for changing economic circumstances.

The Government is currently considering the settings for the next employment services procurement. If the Government chooses to retain a contract-based system, then responding to economic shifts will continue to require Government intervention on an ad hoc basis, and provider viability will continue to come under threat whenever the economic circumstances deviate from those that the system was designed for.

## 6.2 Specialised services for redundant workers

Given the number of anticipated redundancies from the automotive sector, Jobs Australia believes there is a case for a specialised service for redundant workers that could be tendered and contracted separately to the main JSA contract. Given that JSA providers have considerable experience in providing similar services to those required by redundant workers, they would be well placed to tender for the additional contract(s), though they may do so in competition with commercial recruitment firms and outsourcing companies.

A separate contract, with separate funding, would avoid some of the equity issues that Jobs Australia has identified above. In addition, a separate contract for redundant workers (who are not eligible for income support) could focus on supporting the job seeker, and would not need to include features of JSA that focus on mutual obligation / job seeker activity test compliance.

Targeting (or rationing) of support could be based on an assessment tool that operates similar to the Job Seeker Classification Instrument in JSA, but designed with redundant workers in mind. The tool would effectively identify those at greater risk of not successfully transitioning and provide the most support to those people, with those who are readily employable (or, for that matter, those who intend to retire) receiving less support.

## 6.3 Expand the role of Job Services Australia providers

Another option may be to expand the role of Job Services Australia providers with redundant workers generally, so that all redundant workers are serviced at a higher level of resourcing. This could be achieved by, for example, giving all redundant workers early access to Stream 2 level services rather than the present Stream 1 Limited. This would be a return to previous arrangements that existed for redundant workers prior to 2010.

An alternative approach may be to allocate redundant workers to a Stream via the Job Seeker Classification Instrument. It should be noted, however, that this approach would likely result in most redundant workers being serviced at Stream 1 level.

## 7. Suggestions for a systemic approach to structural adjustment

### 7.1 The broad approach

Jobs Australia believes the ad hoc approach to structural adjustment needs to be replaced with a more systemic approach. While there are many options and it would be beyond the capacity of Jobs Australia to consider all possibilities, we believe that one approach to consider is to draw on the disaster recovery model.

While disasters obviously have an impact on communities that is far greater than the closure of a major employer, some of the issues that arise are similar – particularly in terms of the economic recovery.

Such a model would allow policy makers to consider the response to economic shifts in the following stages:

1. Prevention
2. Preparedness
3. Response
4. Recovery

#### 7.1.1 Preventative measures

Generally, the closure of large employers does not come as a surprise. We have had very good predictions about industries in decline for some time – in the case of the car industry, predictions of its demise go back decades.

And, while propping up unviable industries through subsidies can simply delay or prolong the inevitable pain, there is a case for strategically targeting assistance to minimise the disruption.

For example, in regions that are reliant on a particular industry, the work to diversify the regional economic base must begin early and must involve all levels of government. Assistance may be provided to help employers in a declining industry develop export opportunities or to support innovation that would not otherwise be viable.

#### 7.1.2 Preparedness measures

Knowing that an industry is in decline and is likely to need to reduce its workforce over time provides the opportunity to prepare for redundancies before they are announced.

For example, programmes could target workers in an industry and provide early assistance with Recognition of Prior Learning, skills assessments, career advice and information about training opportunities.

Local and state governments, potentially with assistance from the Federal Government, need to be working on attracting new employers to their region at this stage, if not before.

### 7.1.3 Response measures

In the response stage, after closures and redundancies are announced, response measures may be required. Whether JSA providers play a role here depends on purchasing decisions, as described above. Which purchasing and delivery arrangements are preferred, the assistance should include:

- Job search assistance and help preparing a résumé
- Training opportunities and Recognition of Prior Learning
- Professional career counselling (not just advice on local vacancies, etc)
- Access to psychological support services, both for the workers and their spouses
- Financial advice, including advice on redundancy payments, debts and temporary hardship relief available for home loans and other loans
- Advice about relocation

### 7.1.4 Recovery measures

In the recovery stage, the focus would be on ensuring that measures in the previous stages are working and providing additional support as required.

Workers who do not successfully transition may eventually become eligible for income support, at which point any additional assistance they have been receiving should be discontinued and support should be provided through the mainstream Job Services Australia system.

## 8. Conclusion

Job Services Australia (JSA) is a programme that is designed to support people who are receiving income support to move into employment. While some of the supports and interventions that JSA providers provide to disadvantaged job seekers are similar to the interventions that are required for redundant workers, some of the features of the JSA model are not ideally suited to redundant workers.

Rather than extend access to JSA for cohorts for which it was not designed, Jobs Australia recommends that government establish a separate programme, that may or may not be delivered by the same organisations that deliver JSA. Such a programme could be designed to better suit the needs of redundant workers and could be developed as part of a more systemic overall approach to Structural Adjustment Packages.

## 9. Appendix A: Overview of assistance available in Job Services Australia

### 9.1 Generally available services

While JSA providers are adept at delivering interventions to ensure job seekers find employment in the shortest possible time and at low cost, the typical level of support is unlikely to meet the expectations of redundant workers.

This is due to the fact that the programme is not designed exclusively to support job seekers and some aspects are designed with the other objectives in mind. For example, there are expectations from Government (which reflect the expectations of the community) that taxpayer funds will be fully accountable and that those who receive income support from taxpayer funds meet their obligation to take steps towards employment.

Those considerations are reflected in the programme – for example, periods of compulsory activity are designed in part to protect taxpayer funds by making it difficult to sort welfare payments while working a cash-in-hand job.

### 9.2 Basic services

As noted in the Commission's Position Paper, services available through JSA providers can include a broad range of support including job search assistance, career advice, formal training and wage subsidies. Because services are individualised, not all job seekers will receive the same mix of interventions.

At a minimum, job seekers receive<sup>3</sup>:

- Assistance preparing a résumé
- Advice on the best ways to look for work
- Information on job opportunities (including a list of available jobs)
- Advice on the skills shortages in the area
- Advice on how to access training
- Access to an interpreter (if required)

The provider must also meet regularly with clients (generally at least monthly) and must maintain an up-to-date Employment Pathway Plan.

It is worth noting, however, that caseloads have been driven up by financial pressures and some providers are now reporting caseloads above 150 clients per consultant. Due to the high ratio of clients to employment consultants, appointments are very brief – typically 15 minutes or so. Given

<sup>3</sup> Department of Employment (2014), *Service Guarantee*, viewed 14 February 2014 <<http://employment.gov.au/job-seeker-servicing-what-you-can-expect>>

the short time of appointments, most clients are unlikely to receive the full range of assistance listed above.

Meanwhile, a significant portion of the Employment Pathway Plan is focussed on job seeker compliance. There are literally pages of requirements for job seekers – most of which are standard (non-personalised) information. The document is also an important part of the system of accountability for providers, as purchases from the Employment Pathway Fund (EPF) can (generally) only be made if they have been agreed to by the job seeker in the Employment Pathway Plan.

While many employment consultants are able to engage their clients well and achieve excellent outcomes, the overall approach imposed by the contract requirements and tight resources means that some service providers can also end up churning job seekers through an alienating process of short meetings that focus on bureaucratic forms and agreements.

### 9.3 The Employment Pathway Fund

Many of the interventions that job seekers may receive are funded through the Employment Pathway Fund (EPF). The EPF is made available to providers to purchase services for job seekers, but providers cannot use the EPF to fund their basic operations or overheads. While providers receive an EPF credit for each job seeker, the funds are pooled and not held as individualised budgets. So, for example, a client may attract a \$1,100 EPF credit but the provider is free to spend those funds on interventions for other clients.

The level of EPF credit depends on the 'Stream' to which the client is allocated by the Department of Human Services (DHS). When the job seeker applies for benefits, DHS undertakes an assessment of disadvantage factors to produce a score. The score determines the level of support, allocating the job seeker to one of four Streams. The Streams are numbered 1 to 4, ranging from least disadvantage (Stream 1) to highest disadvantage (Stream 4).

The level of funding provided in the EPF necessitates a degree of rationing. For example, the EPF credit for Stream 1 clients is only \$11, which, if it were attached to each individual job seeker, would not be enough to buy much more than a bus ticket. By pooling the credits, providers are able to ration the expenditure and buy interventions for some Stream 1 job seekers, while spending nothing at all on the rest.

Providers must also manage the EPF pool to ensure they have sufficient funds to service job seekers in the Work Experience Phase (26 weeks of compulsory work experience after 12 months of servicing) and Compulsory Activity Phase (11 months of compulsory work experience or other prescribed activity after 24 months of servicing). Providers receive only \$500 in EPF to contribute to the cost of arranging an activity in the Work Experience Phase, and \$1,000 in EPF to support the cost of activities in the Compulsory Activity Phase. Note, however, that these EPF credits are only provided once, so that if a client remains in servicing for more than two years, then they remain in the Compulsory Activity Phase but the provider receives no additional EPF credits.

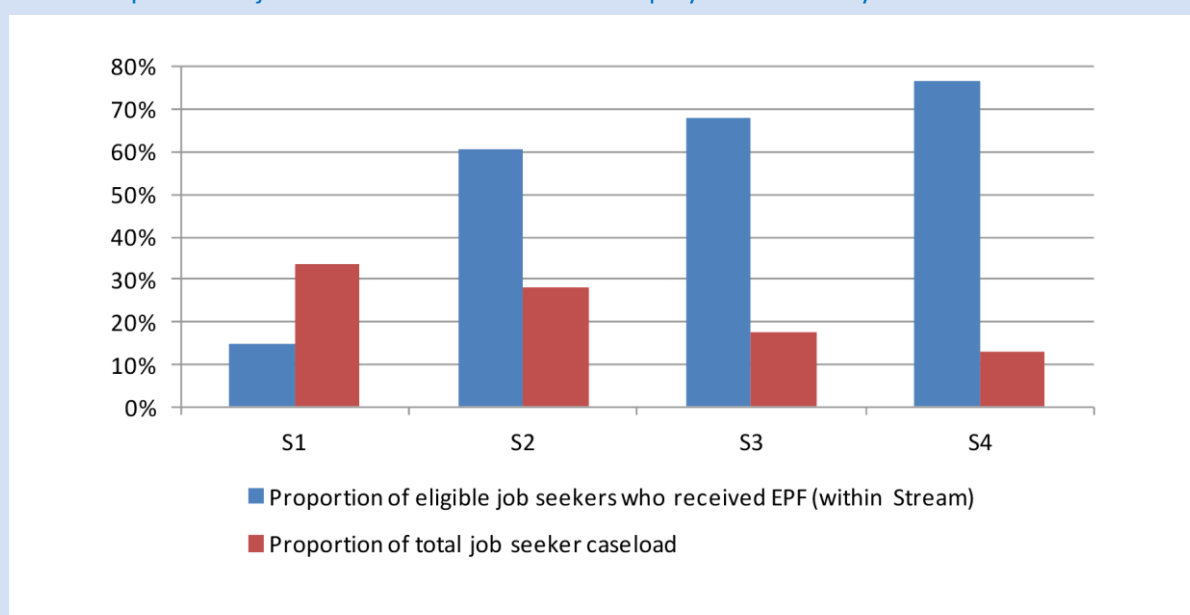
#### Box 4: Employment Pathway Fund Credits

Stream 1	Stream 2	Stream 3	Stream 4*	Early School Leaver	Work Experience Phase	Compulsory Activity Phase	Labour Adjustment Package (additional)
\$11	\$550	\$1,100	\$1,100	\$500	\$500	\$1,000	\$1,780

Source: Department of Employment, Job Services Australia Employment Services Deed 2012-2015 (GDV7)

The arrangements with the EPF result in most job seekers receiving no assistance from the EPF at all. Less than half of job seekers in any Stream receive assistance, but those who do receive assistance have more than the value of their EPF credit spent on them. For example, because providers receive just \$11 in EPF credit for each Stream 1 client, less than 15% of Stream 1 clients receive any assistance via the EPF but for the small number that do, the average spend per transaction is around \$124<sup>4</sup>. Stream 2 job seekers are the most likely to receive assistance through the EPF, with 40% receiving some support.

Box 5: Proportion of job seekers assisted from the Employment Pathway Fund



Source: DEEWR 2012, Evaluation of Job Services Australia 2009-2012: Employment Pathway Fund

#### 9.4 Normal assistance for redundant workers

Most workers who are made redundant will not immediately be eligible for income support and, therefore, will not be fully eligible for services in Job Services Australia. However, anyone who is not

<sup>4</sup> Department of Education, Employment and Workplace Relations 2012, Evaluation of Job Services Australia 2009-2012: Employment Pathway Fund

eligible for income support can still register directly with a Job Services Australia provider for 'Stream 1 Limited' services. Providers are paid a service fee of \$63 per registration and will meet with the job seeker to review their résumé and provide advice on local labour market conditions, job opportunities and how to search for a job. There is no access to additional support from the Employment Pathway Fund and providers are not paid for employment outcomes for Stream 1 Limited clients<sup>5</sup>.

Due to the limited resourcing for Stream 1 Limited clients, the level of servicing is relatively basic.

If the job seeker becomes eligible for an income support payment that has participation conditions attached (such as the Newstart Allowance), then they will become fully eligible for Job Services Australia services.

That point will only be reached, however, after the job seeker has used up any redundancy entitlement from their employer and liquidated and expended any of their own assets above the Centrelink assets-test threshold.

#### Box 6: Centrelink Assets Test

##### Assets that are assessed under the assets test

Assessable assets include:

- any cash or money you have in bank, building society or credit union accounts (including interest free accounts), interest bearing deposits, fixed deposits, bonds, debentures, shares, property trusts, friendly society bonds and managed investments
- any assets you hold in superannuation and rollover funds if you are of Age Pension age
- the value of any real estate, including holiday homes, you own (this does not include your principal home)
- the value of any businesses and farms, including goodwill (where goodwill is shown on the balance sheet)
- the surrender value of life insurance policies
- the value of gifts worth more than \$10 000 in a single year or more than \$30 000 in a five year period
- the value of any loans (including interest-free loans) you have made to family trusts, members of the family, organisations
- the value of any motor vehicles you own
- the value of any boats and caravans you own which you do not use as a home
- the value of your household contents and personal effects
- the value of any collections you have for trading, investment or hobby purposes
- the value of your entry contribution to a retirement village if it is less than the difference between the homeowners' and non-homeowners' assets limits
- some income stream products

<sup>5</sup> OECD (2012), *Activating Jobseekers: How Australia Does It*

- the attributed value of a private trust or private company where you are a controller of that trust or company
- the value of a life interest created by you or your partner, or upon the death of your partner

We may also assess your granny flat interest or pre-paid funeral expenses if you have them.

#### Chart A - assets test limits for allowances and full pensions

Family situation	For Homeowners	For Non-homeowners
Single	\$196,750	\$339,250
Couple (combined)	\$279,000	\$421,500

Source: Department of Human Services <<http://www.humanservices.gov.au/customer/enablers/assets>>

### 9.5 Special assistance for redundant workers: Structural Adjustment Programmes

When redundant workers are granted early access to JSA through a Labour Adjustment Package or Structural Adjustment Programme (SAP), they are able to directly register with a JSA provider for Stream 3 services.

Workers covered by a SAP do not need to be eligible for income support. Indeed, they can start receiving services before they actually become redundant, provided that they can produce a letter from their employer indicating the date of their redundancy. This means that the usual assets test, waiting periods and conditions relating to partner income levels do not apply.

Further, because SAPs apply to entire industries, there is no requirement that the worker be disadvantaged in any way – so, for example, any executives at Ford, Holden and Toyota who are made redundant (and are Australian citizens) are just as eligible for JSA Stream 3 services as the factory workers.

The service that may be provided to a redundant worker covered by a SAP are the same as for other Stream 3 clients, except that they attract an additional credit of \$1,780 to the Employment Pathway Fund (see Box 3, above). That results in a total EPF credit of \$2,880 for workers covered by a SAP. However, as that amount is pooled with other EPF credits and may be expended on any job seeker, the extra funding does not guarantee extra investment in the redundant worker (see 4.3 above).

At present, there are four Structural Adjustment Programmes in place, including one covering the automotive sector. Notably, the Automotive Industry Structural Adjustment Programme covers workers from Ford, Holden and Toyota as well as all of their local component suppliers<sup>6</sup>.

#### Box 7: Current Structural Adjustment Programmes

LAP / SAP package	Commenced	Expires
Textiles, Clothing and Footwear SAP (TCFSAP)	1/07/2005	30/06/2015

<sup>6</sup> DEEWR (2013), *List of eligible AISAP companies as at 11/11/2013*

Automotive Industry SAP (AISAP)	1/11/2008	30/06/2017
Forestry Industry in Tasmania SAP (FITSAP)	1/06/2011	30/06/2016
Bluescope Steel LAP (BSSLAP)	1/07/2011	30/06/2015

*Source: Department of Employment Labour Adjustment Package EPF Credits Fact Sheet, 2013*

## 10. Appendix B: Information on financial pressures in JSA

### 10.1.1 Fewer jobs = fewer outcomes = less resources

The JSA contract is a partial payment-by-results contract. While the bulk of funding is provided up front for each job seeker (in the form of service fees as well as employment pathway funds to invest in interventions such as training), a significant portion of the funding is paid only on 'outcomes'. The outcomes for which providers may be paid are predominantly employment outcomes that allow the job seeker to fully exit income support, though employment that reduces income support by at least 60% and educational outcomes can also trigger a smaller, 'pathway outcome'. The funding model means that if providers fail to achieve employment outcomes, then they will struggle financially and could find they are penalised through the performance framework.

In an economic environment where employer demand collapses, the entire sector experiences a collapse in employment outcomes and financial viability becomes a widespread issue.

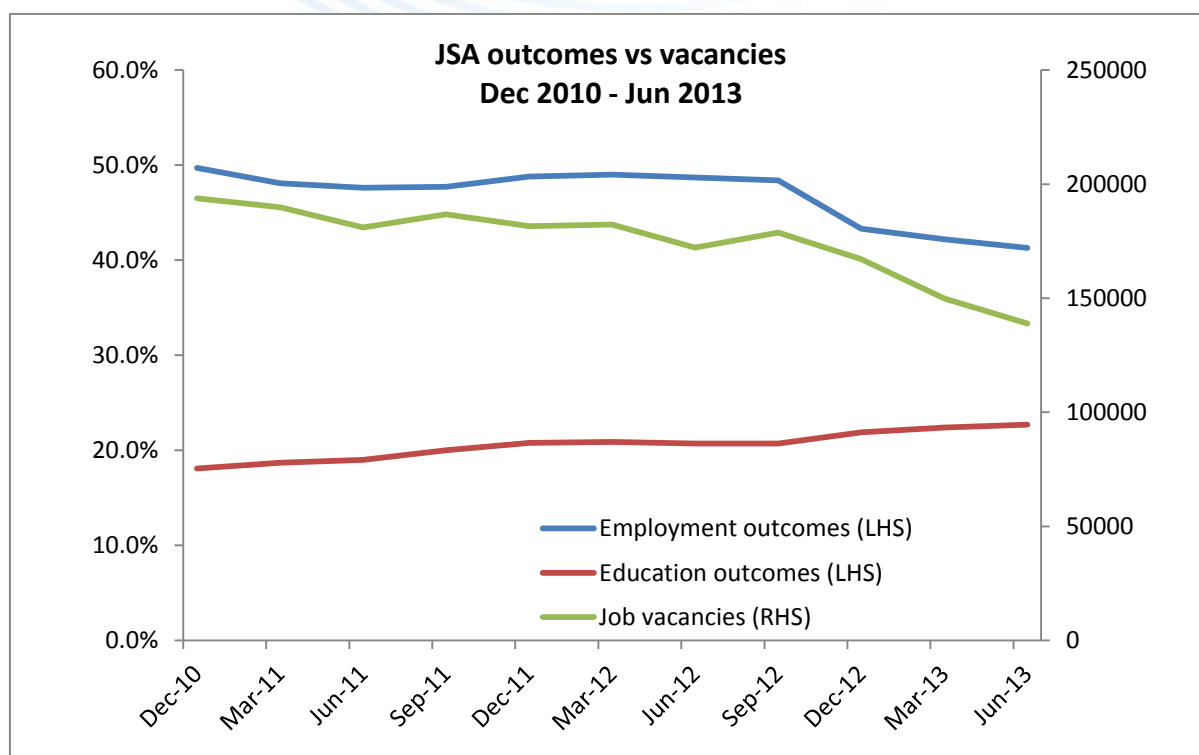
#### Box 1: Department of Employment – evidence to Senate Estimates, 21 November 2013

**Ms Kidd:** We know there is a very strong correlation between the job placement rates from Job Services Australia and other indicators such as our internet vacancy index. We know that the internet vacancy index at 13 September showed an annual drop of 13 per cent, so that correlates pretty neatly with the figures that you mention around job placement decrease.

**Senator SIEWERT:** So your analysis is that there is no job, so you cannot place people.

**Ms Kidd:** Pretty much, yes.

This is supported by outcomes data, which shows that employment outcomes have dropped as vacancies have dropped, particularly through the past 12 months. When providers find it more difficult to obtain employment outcomes, they increase reliance on educational outcomes, which are paid at a lower rate. This can be seen in the chart below.



Sources: ABS Vacancies Survey; Department of Employment Labour Market Assistance Outcomes reports.

This is significant because without the income from Outcome Payments, providers will be running at below the break-even point. That forces them to cut costs, generally by reducing staff levels, increasing caseloads and standardising their services. As a result, the system tends to be less flexible and most providers will lack the surplus funds to trial new approaches and innovate.

#### 10.1.2 Funding has not kept pace with costs increases

Even without taking into account the additional costs resulting from additional administrative and compliance requirements, the funding envelope for JSA has not kept pace with increases in the cost of servicing job seekers.

The fees payable under the contract were last increased in 2009 – nearly five years ago. Prices could have been expected to be adjusted for a new contract, but, when the 2009 contract expired in 2012, it was rolled over rather than re-tendered. That meant providers missed out on any fee increases they might have expected, with no prospect of adjustment until the next procurement in 2015.

And naturally enough, inflation has been eating into the value of the fees payable to providers under the contract. The Consumer Price Index (CPI) has averaged about 2.6% each year between June 2009

and June 2013<sup>7</sup>. However, inflation has been even higher for some of the goods and services that JSA providers tend to spend their money on.

For example, the inflation rate for education has averaged 5.9% per annum between June 2009 and June 2013. The compounding effect means that what used to cost \$1 in 2009 now cost \$1.26. With fixed fee levels, inflation means providers just can't buy as many services as they could before.

Education and training is the biggest single category of expenditure from the Employment Pathway Fund.

#### Box 2: Inflation - Education

	% increase	Buying power	Costs
<b>Jun-2009</b>	5	\$1.00	\$ 1.00
<b>Jun-2010</b>	5.8	\$0.95	\$1.06
<b>Jun-2011</b>	5.9	\$0.89	\$1.12
<b>Jun-2012</b>	6	\$0.84	\$1.19
<b>Jun-2013</b>	5.7	\$0.80	\$1.26

Source: ABS

#### 10.1.3 Budget cuts

There have been some minor funding cuts to the sector which, although each is relatively minor, have had some collective impact.

In the 2012-13 Budget, there were changes that amounted to a reduction in services for Stream 1 job seekers, saving the government around \$40 million a year. The impact on providers was offset by the reduced effort required with Stream 1 clients, but nonetheless the cut means there is now less money available in the system.

Secondly, the 2012-13 Budget 'simplified' outcome payments. This was in response to an investigation into over-claiming of the Provider Brokered Outcome payment. The change replaced the Provider Brokered and Provider Assisted Outcomes, with a new, single outcome paid at the same rate as the former Provider Assisted Outcome. In essence, the change amounted to abolition of the Provider Brokered Outcome.

According to the budget papers, this was estimated to save around \$12 million per year. The impact of this cut falls entirely on providers, such that they are now effectively paid less for the same work.

Thirdly, the most recent budget included a change to the treatment of volunteer job seekers, removing payments for those who find work but have not met with their provider in the last three months and have not participated in a work experience activity. Essentially, it means providers are no longer paid if they fail to maintain engagement with the volunteer job seeker. This saves around \$12

<sup>7</sup> Australian Bureau of Statistics, *Consumer Price Index* <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>>

million a year, but providers can mitigate some of the impact by ensuring they meet with volunteer job seekers at least once every three months.

Each of these budget cuts is relatively minor, relative to the overall funding in the system, and each has a reasonable justification. In combination, however, they have the effect of reducing the overall funding envelope for the system.

It is worth noting that there have also been new programmes and new expenditure on employment related services. However, these have largely been parallel to, but outside of, the Job Services Australia contract.

#### 10.1.4 Increasing administrative burden ('red-tape')

'Red-tape' in the outsourced employment services system is now legendary. It has been noted as problematically high by every independent review that has been done, from the Productivity Commission *Independent Review of the Job Network* in 2002 to the Advisory Panel on Employment Services Administration and Accountability (APESAA) review in 2010. Recommendations for these reviews have been largely ignored.

There is always a balance to be struck between administrative burden and accountability, and it is appropriate that the Government is able to transparently account for the expenditure of taxpayer funds in the employment services system. There is no doubt, however, that successive Governments have increased the administrative burden such that the system is now so burdened with administration that it takes up as much as 50% of staff time.

#### Box 3: Department of Employment – evidence to Senate Estimates, 21 November 2013

**Ms Drayton:** A number of individual providers plus their representative peak organisations have raised issues of red tape over a period of time. The assistant minister, in his meetings with those peak organisations, also received some submissions from them documenting their experience of red tape. Those submissions go to a range of things, like the requirement to keep reams of paper as evidence and having to get the employer on the actual day to sign a piece of paper to enable an outcome fee to be paid. There is a whole raft of instances like that that they have highlighted. Some of the perception about red tape is genuine. Some red tape is there to mitigate risk. .... One large provider that I met with recently was talking about a whole range of things and the amount of staff devoted to complying with some of our requirements. What they did was talk me through from their perspective how many people they think could be freed up if red tape was reduced. Depending on what sorts of things happened, they were talking about two people per site, which is quite significant.

Despite some recent efforts to reduce red tape from the new Government<sup>8</sup>, which are commendable, the overall burden continues to increase.

<sup>8</sup> Luke Hartsuyker MP, 'Red tape reduction will renew focus on assisting job seekers find work', 7 November 2013, <<http://ministers.employment.gov.au/hartsuyker/red-tape-reduction-will-renew-focus-assisting-job-seekers-find-work>>

For instance, the Department has been trialling a new system for quality accreditation through the course of 2013, with a view to full implementation as part of the next contract in 2015, which seems to add, rather than reduce, the administrative requirements for providers.

Jobs Australia has previously supported accreditation as a means of reducing ongoing compliance, on the basis that an up-front assessment demonstrating an organisation's trustworthiness should allow for a lighter-touch approach to ongoing compliance.

However, instead of using an off-the-shelf standard, the Department has tacked on its own set of principles which incorporate their compliance requirements. The result is a standard that duplicates the ongoing contract compliance, rather than replaces it.

In response to the increases in red tape and the breakdown in trust, providers have centralised and expanded their compliance teams – some have even hired in-house lawyers. This necessarily reduces front-line service capacity.

In addition, the distrustful environment has introduced 'compliance fear' amongst providers, who would rather forgo income rather than face compliance activity from the Department of Employment and receive a 'black mark' in the lead up to a business reallocation or tender process.

The net effect of the increases in red tape is increased costs, reduced front-line capacity to support clients and reduced income.

#### 10.1.5 Future viability is a bigger concern

Individually, none of the factors presently affecting provider viability would represent an insurmountable problem. The factor with the biggest impact is most likely the subdued labour market. But it is all of these factors having an impact at the same time that means there is noticeably tighter financial environment for JSA providers.

The biggest concern, however, may be what is to come. The current contract runs until the middle of 2015 but the funding envelope for the next procurement will be set in the upcoming 2014-15 Federal Budget. The Federal Government has advised Jobs Australia that there will not be any increases to the existing funding envelope, despite the concerns viability and the Government's commitments around Work for the Dole. If Work for the Dole is expected to be administered by JSA providers from the existing funding envelope, then this will also add significantly to provider costs.