



Submission to the Productivity Commission inquiry into the Job Network model

Australian Council of Social Service, November 2001

Overview

The key changes to Australia's employment assistance arrangements ushered in by the Job Network were as follows:

1. The introduction of an *outcomes-based funding system* in place of previous employment programs;
2. A 50% (\$1 billion per annum) *reduction in employment assistance funding*;
3. A change in the *accountability* of Governments and service providers towards job-seekers and employers;
4. The expansion of the fledgling *monopsony "market"* in employment assistance services, including the introduction of price-competitive tendering and the extension of competition to publicly-funded basic job matching services.

It is important to analyse the effects of each of these changes as each had a distinct impact on the delivery of employment assistance services. This submission therefore deals with each in turn. It discusses the pros and cons of the Job Network model and proposes changes to address some of the problems identified.

We also offer brief comments on the appropriateness and implications of applying this model to other human services.

Recommendations

Our recommendations for change are as follows:

1. Intensive Assistance funding should have three components:
 - an up-front payment to assist providers with their costs during an initial "Gateway" period;
 - a service-based payment to enable providers to offer more substantial help to long-term unemployed people;¹ and
 - outcomes-based payments.

2. During recessions, payments to providers should be adjusted upwards, and a temporary subsidy made available to help maintain service infrastructure.

3. The overall public investment in employment assistance for long-term unemployed people should be substantially increased, to more accurately reflect the fiscal and social cost of prolonged unemployment.²

4. Governments and Job Network providers should disclose to the public the full details of Declarations of Intent, payment levels, and a general description of the kinds of services each provider offers to job-seekers. Further, a regular census of services provided should be conducted by an independent body³.

5. The Government should offer all long-term unemployed people in receipt of relevant income support payments an "Intensive Assistance Guarantee", as follows:
 - (1) Automatic access to Intensive Assistance services once they have been in continuous receipt of payments for more than 12 months, except where more specialised assistance is required to deal with a disability, or other personal or social barrier to employment ;
 - (2) A personal adviser located within the Intensive Assistance provider to assess their employment assistance needs, counsel them on strategies to secure a job, and to take responsibility to implement the following part of the Guarantee;
 - (3) Substantial personalised employment assistance (extending beyond the basic employment counselling, job search training and job matching assistance that most Intensive Assistance clients already receive) to help them overcome their particular barriers to employment.

6. The Government should guarantee all job-seekers and employers access to a free, personalised basic job matching service through the Job Network.

7. Job Network payments should be set by the funding body, taking into account the fiscal and social benefits of effective employment assistance services, and the costs involved in providing the services required by an "average" job-seeker (taking account of degrees of labour market disadvantage where appropriate) within each category of Job Network service.⁴

¹ See proposal for an Intensive Assistance Guarantee, below.

² This would be one outcome of the proposed Intensive Assistance Guarantee described below.

³ Along the lines of that produced by the Australian Institute of Health and Welfare on disability employment services, as recommended by the recent OECD report (OECD, 2000).

⁴ This would require higher levels of payment for Intensive Assistance services for job-seekers with substantial employment barriers.

8. A "managed competition" model should be adopted for the Job Network, with the following features:

(1) A simple set of service standards and benchmarks (including some service inputs and outputs as well as desired outcomes) should be negotiated between the funding body and Job Network providers, based on the existing tender requirements and the Service Guarantees proposed above.

(2) A transparent system of regular, objective performance review (based on some inputs and outputs as well as outcomes) should be introduced in place of the present "star ratings system". Providers should have the option to formally seek a review of their assessments. Providers who achieve satisfactory results in their reviews should not be required to tender for contracts in the next funding round.

(3) An independent, specialist statutory body should be established to regulate the employment assistance market and manage the system of performance review. It should adopt a pro-active, developmental approach to measuring and improving the quality and effectiveness of services as well as handling complaints from job-seekers and employers.

9. Consideration should be given to the provision of seed funding and basic infrastructure funding for not-for-profit Job Network providers, at least for new or smaller providers.

10. The "contracted capacity" limits should be relaxed, in conjunction with other measures (such as service infrastructure funding) to help smooth cash flow and to reduce financial risk without eliminating it in respect of poorly-performing providers.

11. Job-seekers should be able to change Intensive Assistance providers within the first four weeks of assistance, subject to agreement from Centrelink. This right should be well-advertised.⁵

12. Referrals to Intensive Assistance and Job Search training should be made by Centrelink on the basis of personal interviews in which the options available to job-seekers are clearly explained and understood.

⁵ This may require adjustments made to the system up-front payments. Any adjustments should be mindful of any cash-flow problems likely to be experienced by providers.

1. Outcomes-based funding

The main innovation and key advantage of the Job Network model is outcomes-based funding. This gives providers greater flexibility than in the past to adjust their services to the individual needs of job-seekers, and provides a clear incentive for them to improve employment outcomes. Few, if any, community services funding programs outside the employment services sector fund to outcomes.

Prior to the introduction of the Job Network, the bulk of the funding for employment assistance services was tied up in programs which offered job-seekers a pre-determined package of assistance, such as a wage subsidy or a training course. That is, the Government devoted most of its employment assistance budget to purchasing inputs. Case managers assisting long-term unemployed people were paid largely in accordance with employment outcomes, but these payments were too low to provide scope for intensive counselling and support for job-seekers, let alone more substantial assistance. The principal role of case managers was therefore one of referring job-seekers to programs.

A number of *advantages* flow from the shift from a "purchase of services" funding model towards a "payment for outcomes" model, particularly for Intensive Assistance services which have the greatest degree of flexibility within the Job Network funding system:

- Job-seekers usually receive more personalised attention from providers;
- They are less likely to be offered inappropriate assistance (for example a training course when they need work experience);
- The Job Network is more responsive to changes in the labour market and the needs of job-seekers and employers.

There are two main *problems* with the system of outcomes-based funding for Job Network services, which we elaborate below:

- sub-optimal investment in Intensive Employment Assistance; and
- fluctuations in funding arising from the volatility of the labour market in booms and recessions.

1.1 Sub-optimal investment in intensive assistance

The first, and most important problem is that the present funding arrangements discourage Intensive Assistance providers from making optimal investments in assistance to overcome workforce barriers for the most disadvantaged job-seekers. This is reflected in lower employment outcomes for long-term unemployed people, compared with the best of the former Working Nation programs⁶.

⁶ See ACOSS (2000), ACOSS (2001), Davidson (2001), Stromback & Dockery (1999), OECD (2001). Note that, although the OECD states in the summary of the latter document that the Job Network appears to be delivering similar outcomes to the Working Nation arrangements at a lower cost, their analysis of the available data is not comprehensive and they make two important caveats. First, they note that labour market conditions were different in the late 1990s to the mid 1990s. Second, they warn that Job Compact recipients may have been drawn from populations with greater labour market disadvantages. In any event, a more productive comparison for public policy purposes is that between the most effective Job Compact programs (in our view, Jobstart and Jobskills) and Intensive Assistance services provided through the Job Network. The OECD did not attempt this comparison.

The reduction of Australia's high levels of long-term unemployment and joblessness should be a very high priority for any employment assistance regime. The level of long-term unemployment, when measured on the basis of receipt of unemployment payments⁷, has not declined as it should given the solid employment growth over the past four years. Unemployment has shown clear signs of persistence in the economic recovery of the 1990s. Skills deficits and weak connections with mainstream employment among long-term unemployed people appear to be major factors. Effective employment assistance services must address both these problems.

Payments to Intensive Assistance providers are divided into an up-front component and two larger payments based on outcomes (predominantly employment outcomes). There are no payments for inputs. This has been referred to in the sector as a "black box" funding model.

This funding model shifted most of the risks associated with investment in employment assistance to disadvantaged job-seekers from government to providers. A degree of risk-shifting is appropriate in a system that devolves most of the decision-making from Government to service providers. However, this can have adverse consequences where providers are unable to accurately predict in advance whether a given level of investment will deliver significant returns.

That is the case with Intensive Employment Assistance. Although in theory, outcome payments are calibrated to the needs of job-seekers using the Job Seeker Classification Instrument, it is not possible for Centrelink to accurately assess each job-seeker's needs in advance.⁸ Accurate assessment is a dynamic process that requires the establishment of a relationship of trust and the actual delivery of employment assistance services (such as employment counselling and job referral). This can only be done by the service provider, which raises issues of moral hazard.⁹

Even after the provider has assisted a job-seeker for some time, a substantial investment in employment assistance is a gamble. A large investment in a disadvantaged job-seeker might not yield any return, while on the other hand another less disadvantaged job-seeker might secure employment with minimal assistance. The present funding arrangements provide incentives for providers to:

- Keep their average level of investment in job-seeker assistance below an optimum level and bid conservatively for tenders;
- Invest relatively more in job-seekers who appear to be easy to place, but would benefit from further help;
- Avoid a large commitment to job-seekers who appear to be hard to place, especially if they are funded at Level "A" only.

⁷ See OECD (2001), Davidson (2001).

⁸ Although there are two funding levels for Intensive Assistance based on degree of disadvantage, the assessment system is not sensitive enough to accurately distinguish between those who need modest levels of help and those who need more substantial assistance. For this reason, the previous three-tier assessment system was collapsed into two.

⁹ That is, providers would in effect determine their own payment levels.

For the most part, providers appear to have responded to the risks associated with substantial investment in employment assistance by making only modest investments. In the first funding round they had little choice. Payments for Intensive Assistance providers were set at levels that were too low to justify substantial investment in assistance to overcome employment barriers, even at the highest level of funding.¹⁰ In the second round, prices were set by competitive tender but we understand that the majority of providers bid at or near to the Department's floor price (which was significantly lower than the previous fixed rates of payment).

Official evaluations and independent studies¹¹ indicate that only a minority of Intensive Assistance clients receive substantial training (apart from training in job search) and very few receive subsidised employment experience. Assistance is largely confined to counselling, coaching, job search training, and short vocational training courses (of a few weeks duration). This is contrary to the expectations of the Government when the Job Network was introduced. The expectation at that time was that providers would invest in assistance to overcome employment barriers, including training and employment subsidies.¹²

In the first tender round, the problem of under-investment in employment assistance was exacerbated by the relatively high up-front payments. This meant that providers did not have to rely heavily on outcome payments to remain in business. The Government acknowledged this problem and adjusted the balance between up-front and outcome payments in favour of the latter in the second round. However, it is not clear that investment has substantially increased as a result.¹³

One option to address this problem within the existing funding system is to substantially increase outcome payments.¹⁴ However, if outcome payments were dramatically increased, deadweight losses¹⁵ would be considerable. The reason for this is that it would not be possible to accurately target the increase towards those job-seekers who would benefit most. In particular, the significant proportion of Intensive Assistance clients who would obtain a job without any intervention would attract large outcome payments. Higher outcome payments would also intensify present public concerns about accountability for employment assistance funds. It is doubtful that such a system would survive the processes of political scrutiny for very long.

Another option, proposed by the OECD¹⁶, would be to fund positive employment outcomes only at the margin. However, this would require an accurate assessment of the employment prospects of each provider's client base, which would need to be updated regularly in accordance with regional labour market conditions. This is beyond the capacity of any feasible assessment instrument. Even if this were not the case, it would introduce considerable financial uncertainty for providers, and impose high transaction costs.

¹⁰ Webster (1998).

¹¹ DEWRSB (2000), DEWRSB (2001), Eardley et al (2001).

¹² Vanstone (1996), p67.

¹³ ABS (2000) provides some indication of average levels of expenditure on services by employment assistance providers.

¹⁴ The cost of such increases could be minimised by withdrawing up-front payments. However, this would give rise to severe cash flow problems for providers, especially small locally based services and new entrants to the market.

¹⁵ That is, the Government would make substantial payments to providers for outcomes that would have achieved in the absence of Intensive Assistance.

¹⁶ OECD (2000).

In conclusion, given the uncertainties associated with investment in employment assistance for disadvantaged job-seekers, a pure "black box" model of funding to outcomes without any reference to inputs cannot deliver optimal results for job-seekers and Governments. It will either lead to under-investment in services (to the disadvantage of job-seekers) or high deadweight losses for Governments.

Outcomes-based funding that ignores inputs is a blunt instrument. For this reason, the Department has moved away from the "black box" approach and now pays much more attention to the quality of inputs. However, it has done so in ways that raise compliance costs (for example, the introduction of Declarations of Intent and Intensive Assistance Support Plans) without overcoming the basic problems outlined above.

Apart from the outcomes-based payment system itself, the only effective sanction available to the Department to deal with serious deficiencies in the quality of Intensive Assistance services is the denial of funding in the next tender round. This is also a blunt instrument, since tenders are awarded on a three-year basis and (as was demonstrated last year) any large turnover of providers in a tender round is extremely disruptive for providers, job-seekers and employers.

These problems are acute in cases where job-seekers require a sequence of assistance to progress to employment, for example where a job-seeker has a disability. Under these circumstances, funding based purely on employment outcomes would give providers powerful incentives to concentrate their attention on the easiest to place job-seekers and neglect the remainder. An outcomes-based funding system for these job-seekers would require a series of intermediate outcomes such as an improvement in a job-seeker's physical capacity to work or commencement in subsidised or supported employment.¹⁷ Such a system may be an advance on present funding arrangements for these job-seekers, but a system of intermediate outcomes would be a challenge to design.

1.2 A mixed funding model

Our preferred solution is a "mixed" funding model for Intensive Assistance that rewards outcomes while at the same time mandating certain minimum levels and standards of service and directly subsidising those services required by each disadvantaged job-seeker to overcome employment barriers (up to a limit, as discussed below). These services would address substantial barriers such as vocational skills deficits, literacy, a lack of recent employment experience, or locational disadvantage. They would not be prescribed in advance by Government (as was substantially the case with the Job Compact), but providers would be accountable to the funding body to deliver them.

The proposed system could be implemented in a number of different ways. The following model represents our preliminary thinking.

¹⁷ These are sometimes referred to as "soft outcomes". See Dewson et al (2000).

Under this *mixed funding* model, the precise mix of services offered by Intensive Assistance providers to each long-term unemployed person would be determined by the provider following a three-month assistance and assessment period, similar to the United Kingdom's "Gateway". During this period providers would offer a range of services similar to current Intensive Assistance services, including job search training and "coaching". This would enable providers to make a more accurate assessment of job-seeker needs than Centrelink can using the JSCI. It would also help ration access to the more costly services that are offered after completion of this stage.¹⁸

At the expiry of this three month period, each long-term unemployed job-seeker would be offered substantial help to overcome his or her particular workforce barriers, pursuant to an Intensive Assistance Support Plan. These particular services (as distinct from "lower-level" services such as counselling and job search training) would be financed by a cost-sharing arrangement between the provider and the Department. For example, the provider might be required to commit 25% of their cost, drawing the other 75% from an annual funding pool established for this purpose, based on the provider's client profile over that year.

The funding pool could comprise either a fixed amount for each job-seeker, or a pool of funds for all intensive assistance clients who pass through the "Gateway" without securing employment or needing referral to specialist services such as the Personal Support Program. The latter option would give providers more flexibility to vary their level of investment according to the different needs of job-seekers. The main disadvantage is that it would be more difficult to guarantee that each long-term unemployed job-seeker would receive help of a substantial nature.¹⁹ Whichever option is chosen, providers would be required to account to their clients and the funding body for the expenditure of funds drawn from the pool, pursuant to their Intensive Assistance Support Plans.

The proposed system would therefore combine up-front, outcome, and input-based payments, with the latter payments targeted towards those long-term unemployed people who remain in Intensive Assistance for at least three months. This system would have to be carefully designed to minimise moral hazard problems and deadweight loss. However, it would be likely to allocate employment assistance resources more efficiently to meet individual needs than either a program based funding system or a pure outcomes-based system.

Adjustments could also be made to up-front and outcome payments. However, since the main problem with the present arrangements is under-investment, these payments should not be substantially reduced to meet the cost of the input or service-based payments.

¹⁸ A significant proportion of job-seekers leave Intensive Assistance within the first 3 months, usually to commence employment. This is also the case in the UK, where a majority of job-seekers in the "New Deal for young people" leave the system before they have completed the three month Gateway period.

¹⁹ This depends to some extent on the market power of job-seekers as the final "consumers". See section 4.5 below.

Recommendation 1

Intensive Assistance funding should have three components:

- **an up-front payment to assist providers with their costs during an initial "Gateway" period;**
- **a service-based payment to enable providers to offer more substantial help to long-term unemployed people;²⁰ and**
- **outcomes-based payments.**

1.3 Labour market volatility

A further problem with the present outcomes-based funding model for Job Network services is that payments do not adjust to major fluctuations in demand conditions in the labour market. The impact of severe economic down-turns or employment booms on the job prospects of most job-seekers is likely to outweigh the net impact of most forms of employment assistance. Outcomes-based funding should therefore be adjusted to take account of major shifts in labour demand, especially recessions. To avoid distortions in the allocation of funds during periods when few paid outcomes will be achieved, and a major loss of service infrastructure, the adjustment should include "input" funding to sustain service infrastructure.

Recommendation 2

During recessions, payments to providers should be adjusted upwards, and a temporary subsidy made available to help maintain service infrastructure.

2. Global reductions in employment assistance expenditure

Another reason for sub-optimal investment in employment assistance for disadvantaged job-seekers was the large reduction in the global budget allocation to employment assistance from 1997. These cuts were implemented to help restore the Federal Budget to surplus.

These expenditure cuts distorted the fee structure within the new employment assistance regime from the outset. At that stage, outcome fees for Intensive Assistance providers were fixed by the Government, as a transitional measure. These fees were fixed at levels well below the payments required to sustain investments in substantial subsidised employment experience or training.²¹

In the second tender round, fees were set by competitive tender, with a minimum floor price to prevent providers from making non-viable bids.²² As far as we are aware, providers generally bid close to the floor price, which was significantly lower than the previous fee schedule. This reflected the downward pressure of price-based competition on fees (see below), and the lowering of expectations arising from the expenditure cuts and the previous payment schedule.

²⁰ See proposal for an Intensive Assistance Guarantee, below.

²¹ Webster (1998).

²² This was a problem in the first tender round, especially in respect of Job Matching assistance.

We do not agree with arguments that the large reduction in employment assistance resources for the most disadvantaged job-seekers (where most of the savings were made, given abolition of the Job Compact) was optimal. Although there was some wastage of funds in the previous system, the withdrawal of \$1 billion per annum has significantly reduced employment outcomes for the most disadvantaged job-seekers, compared with outcomes that would have been achieved if the best of the previous programs were maintained (as noted above).

Further, we believe that there is considerable scope to improve employment outcomes for disadvantaged job-seekers, if service providers are able to invest more substantially in Intensive Assistance for long-term unemployed people. For reasons outlined above, the incentives structure of the outcomes-based funding system has not delivered the optimum level of resources to help each job-seeker. It has entrenched the cost savings announced in the 1996 Federal Budget, even though these were arbitrary.

The Job Network model has the potential to improve the efficiency of employment assistance expenditure, but the present level of expenditure falls well short of what is required to substantially improve the employment outcomes of the most disadvantaged job-seekers, especially long-term unemployed people.

Recommendation 3

The overall public investment in employment assistance for long-term unemployed people should be substantially increased, to more accurately reflect the fiscal and social cost of prolonged unemployment.²³

3. Accountability for services provided

The present Job Network model reduces the direct accountability of Governments to job-seekers (and the public) for the delivery of employment assistance services. The reasons for this are:

- the shift towards outcomes-based funding;
- the interposition of an employment assistance "market" between the Government and employment assistance consumers.

A reduction in direct accountability for the expenditure of public funds is one of the trade-offs that has been made to achieve the flexibility of outcomes-based funding. Any shift towards greater flexibility in funding arrangements that increases the discretion of service providers and reduces direct government control over the manner in which services are delivered is likely to reduce the accountability of Government. This may be a desirable outcome, in overall terms. The real issue is whether the benefits of greater flexibility outweigh the loss of accountability, and whether an acceptable level of accountability is still achieved.²⁴

²³ This would be one outcome of proposed Intensive Assistance Guarantee described below. For a more detailed discussion of *how* fees should be set, see Section 4, below.

²⁴ See Mulgan (1997) for a more in-depth discussion of these accountability issues.

Recent controversies over the abuse of outcomes-based funding arrangements by some providers have raised concerns about whether an acceptable minimum standard of accountability has been achieved in the Job Network. These issues are beyond the scope of this submission. However, ACOSS believes that it is in the public interest for Governments and providers to disclose basic information on funding levels and services provided. On a more pragmatic note, if this is not done public support for the Government's \$1 billion per annum investment in Job Network services is likely to be called into question.

Recommendation 4

Governments and Job Network providers should disclose to the public the full details of Declarations of Intent, payment levels, and a general description of the kinds of services each provider offers to job-seekers. Further, a regular census of services provided should be conducted by an independent body²⁵.

The main focus should be on whether the right overall balance has been struck between accountability for actual services provided and the flexibility of outcomes-based funding within a competitive environment. This is particularly important in regard to Intensive Assistance. Unlike the other two levels of Job Network services, there are few requirements for Intensive Assistance providers to offer specific services or a particular level of service. This is in keeping with the Government's desire to delegate decisions to service providers, who are arguably in the best position to assess individual needs of disadvantaged job-seekers.

In principle, we agree with this argument. However, since the replacement of the Job Compact with Intensive Assistance, job-seekers have lost any guarantee from Government of a minimum level of assistance to help them overcome barriers to employment. Many long-term unemployed people receive too little help of this kind, as noted above. This seriously undermines the legitimacy and effectiveness of the system of mutual obligation, according to which governments and job-seekers have obligations towards each other.

It is worth noting that a system of outcomes-based funding without service guarantees would not be accepted in "mainstream" human services assisting consumers who are in a more politically powerful position than unemployed people (for example, users of public health services).

Prior to 1997, long-term unemployed people were guaranteed a period of appropriately-paid employment experience pursuant to the Job Compact. This was the centrepiece of the Working Nation model and its system of "reciprocal obligation" between Government and job-seekers.

²⁵ Along the lines of that produced by the Australian Institute of Health and Welfare on disability employment services, as recommended by the OECD report.

However, we consider that the Job Compact was too inflexible, as this form of assistance was not appropriate for all job-seekers.²⁶ The guarantee also distorted the delivery of services in counter-productive ways. In the mid 1990s, a large number of subsidised jobs was quickly generated²⁷ to fulfill the requirements of the guarantee, without due consideration of the quality of the employment experience provided or the individual needs of job-seekers.

Nevertheless, the Job Compact at least guaranteed some form of substantial help for long-term unemployed people to overcome barriers to employment. This meant that the Government of the day could at least be held accountable to invest substantially in employment assistance for the most disadvantaged job-seekers. An equivalent commitment is lacking in the Job Network model. The introduction of Declarations of Intent and Intensive Assistance Support Plans fill this gap to a limited extent, but neither is explicitly backed by public funding, they only bind the providers (not the Government), and they appear to have had little impact on service delivery on the ground.

Recommendation 5

The Government should offer all long-term unemployed people in receipt of relevant income support payments an "Intensive Assistance Guarantee", as follows:

(1) Automatic access to Intensive Assistance services once they have been in continuous receipt of payments for more than 12 months, except where more specialised assistance is required to deal with a disability, or other personal or social barrier to employment ;

(2) A personal adviser located within the Intensive Assistance provider to assess their employment assistance needs, counsel them on strategies to secure a job, and to take responsibility to implement the following part of the Guarantee;

(3) Substantial personalised employment assistance (extending beyond the basic employment counselling, job search training and job matching assistance that most Intensive Assistance clients already receive) to help them overcome their particular barriers to employment.

Funding for the last part of the Guarantee should be built into the Intensive Assistance payment system in ways that leave providers sufficient scope to tailor assistance to individual needs.²⁸

Governments should also guarantee *all* job-seekers access to free personalised basic job matching services through the Job Network.

²⁶ It was based on the previous Swedish system of employment guarantees for long-term unemployed people which was designed in part to renew their entitlements to unemployment insurance within a mutual obligation framework. Another key objective was to renew their relationship with mainstream employment and improve skills. The former objective is not relevant to Australian conditions. The latter is important, but it is not the best strategy for all long-term unemployed people. It is worth noting that Swedes have since replaced their previous job guarantee for long-term unemployed people with a broader employment assistance guarantee.

²⁷ Predominantly through the New Work Opportunities program, which performed poorly.

²⁸ As described earlier.

Access to personalised job matching services is presently restricted for the most part, to recipients of certain social security payments and young people. This is cheaper than providing free job matching services for all who want them. However, it fails to take account of the important role of publicly-funded job matching services in improving the overall efficiency of the labour market, and the need for providers to reach wider segments of the job market to better assist disadvantaged job-seekers.²⁹

It is also arguably unfair to exclude people not in receipt of social security payments from this basic form of employment assistance service, since this could have the effect of limiting participation in the labour market for people whose partners are in full-time employment. Participation in the labour market should be encouraged regardless of a person's family status.

Recommendation 6

The Government should guarantee all job-seekers and employers access to a free, personalised basic job matching service through the Job Network.

4. The operation of the employment assistance "market"

The Job Network model expanded the emerging case management "market" within the Working Nation model of employment assistance.

The major changes were the extension of competition to basic job matching services, the removal of most "programs", and the introduction of price-based competition. The replacement of programs with outcomes-based funding (see above) substantially opened up competition within the employment assistance "market". Previously, the practice of case managers was to a large extent dictated by program-based funding arrangements.

The new employment assistance "market" has a number of features peculiar to monopsony markets in the provision of publicly-funded services for disadvantaged people. There is single purchaser - the Government - which shapes the market through tender guidelines and (from time to time) direct intervention. Further, in contrast to textbook market models, the final consumers of the service - unemployed people - have little market power in their own right and must rely on Government to purchase services on their behalf.

Cutting across this quasi-market in employment assistance services is the system of mutual obligation between Government and job-seekers. As a condition of receipt of income support, job-seekers are *required* to consume employment assistance services. Governments, in turn, have obligations to ensure that they receive assistance that is appropriate to their needs (even though this obligation has been diluted, as noted above).

These distortions lie at the heart of the publicly-financed employment assistance market. Governments will always shape the operation of this market and the market power of job-seekers will always (ultimately) be limited. The real issues for debate are *how* Governments can best shape the market and *how* they can maximise the choices and outcomes available to job-seekers.

²⁹ The Netherlands experimented with targeting job matching assistance from its Employment Service to beneficiaries, but later restored the system of universal free access to this service after the Employment Service lost market share.

The Job Network is qualitatively different from most other human services funding regimes, including many that make use of market instruments:

- The funding Department's discretion to intervene in the market is curtailed by a formal tender system based on competitive neutrality principles, and an (almost) automatic system of up front and outcome payments;
- Payments are tied exclusively to the number and characteristics of clients assisted (an increasingly common feature of human services funding), and are mainly tied to outcomes rather than inputs or outputs (an unusual feature of the Job Network). These features also curtail discretionary intervention by the funding body in the market, and shift risk from Government to the providers.
- These factors both increase contestability. Providers know that they could be replaced in the next tender round, and have greater latitude to determine how they achieve payable outcomes.
- Providers must also compete (within set limits) for job-seekers and employers.

According to this model, the funding body has much less discretion to address market failure than is the case in most other community services funding regimes. Yet the funding Department has increasingly intervened to correct what it perceives to be adverse effects of the funding model, for example by:

- offering additional funding for Job Matching providers in the first tender round, to ensure their viability or assist them to leave the market, especially in cases where the bids for Job Matching tenders were unrealistically low;
- introducing "Declarations of Intent" and "Intensive Assistance Support Plans" in the second tender round to encourage Intensive Assistance providers to raise their investment in services for disadvantaged job-seekers; and
- removing the requirement for providers who are achieving acceptable employment outcomes to tender in the third round, to reduce the very high transaction costs and disruption to services associated with the tender process.

These interventions represent more than a response to teething problems in the transition to a new market. They are a sustained attempt to "micro-manage" the market in response to flaws in the incentive structure and other parameters of the funding system itself.

These and other interventions were necessary and desirable to improve outcomes for job-seekers and employers. However, they reveal tensions between the ideal of a largely self-regulating market driven by a sound system of incentives and the reality that Governments cannot achieve the best outcomes for job-seekers by adopting a hands-off approach.

We offer brief comments below on the impact of these new "market" arrangements on job matching and Intensive Assistance services specifically, before turning to broader issues.

4.1 Job matching services

The major change in relation to job matching services was the removal of the public sector monopoly on publicly-financed basic job matching services.

Consumers of job matching services report that the quality of these services has improved, and costs have apparently been reduced. However, it is not clear whether job matching outcomes have actually improved, since comparisons between the Job Network and CES arrangements are clouded by different labour market conditions, differences between the kinds of job-seekers and job vacancies that were targeted (and accounted for) under the old and new systems, and other unresolved methodological issues.

In addition, there are three substantial (though largely hidden) costs associated with these improvements.

First, price competition led to a bidding downwards of Job Matching fees to levels that can only be sustained by very large providers, or by cross-subsidisation from Intensive Assistance funds. Given the high overhead costs and low fee structures associated with Job Matching, it seems inevitable that just two or three large providers (and only one in many regions) will dominate the Job Matching market over the medium term.³⁰ An economic downturn will accelerate this process. It is not clear that the benefits of this limited form of competition outweigh the other costs described below.

Cross-subsidisation is not necessarily a bad thing. One of the positive features of the job matching funding arrangements is that Intensive Assistance providers are able (and required) to offer a comprehensive service for disadvantaged job-seekers that includes job matching. This means that Intensive Assistance providers are more responsive to the needs of employers than they would otherwise be. However, cross-subsidisation is problematic when Intensive Assistance funds are used to support job matching services for less disadvantaged job-seekers, reportedly a widespread practice in the first tender round.

Second, the fragmentation of publicly-subsidised job matching services has raised transaction costs for job-seekers and employers. Job-seekers must physically visit a range of local providers in order to obtain access to vacancies, and there is a greater risk under this system than a "one stop shop" such as the previous Commonwealth Employment Service that the vacancy will be filled by the time they do so. These costs are highly significant for people on low incomes, especially those who are not skilled in dealing with service providers. There are no specific public subsidies (apart from limited public transport concessions and a discretion for Job Network providers to provide assistance with their own funds) to help with the extra transport and telephone costs.

Employers may benefit from competition among providers for their vacancies, but they also face additional costs in responding to canvassing for business by providers, and the listing of vacancies with more than one provider.

³⁰ It should be noted that neither the CES nor the Job Network controlled access to the majority of job vacancies. Private placement agencies have played a major role in this market for many years, and many employers advertise directly. However, the job matching market is highly segmented, and it is very likely that most of the positions available to most unemployed people are either offered through Job Network providers or directly by employers.

Third, there is considerable duplication of costly job matching infrastructure. This is likely to raise the overall cost of these services to the public purse, whether overtly, or by cross-subsidisation.

4.2 Intensive Assistance

Price-based competition has also given rise to problems within Intensive Assistance services. Price based competition is such a powerful force that it appears to have blocked signals from the funding body that other factors, such as quality of service, will be taken into account when awarding tenders. Thus, we understand that most bids for Intensive Assistance services were made at close to the floor price in the second tender round.

As the OECD report argues, there is a strong case for Governments to set prices based on the fiscal and social returns from a reduction in unemployment and long-term reliance on social security payments. This is in keeping with the principles of mutual obligation and the social responsibilities of government. Over the long-term, this also represents sound fiscal management. As the McClure report³¹ emphasises, a substantial up-front investment in employment assistance and other services is needed if governments wish to reduce reliance on social security in future years.

If this approach were adopted, Intensive Assistance payments would be much higher on average than current Intensive Assistance payments for long-term unemployed people.³²

If tenders were awarded on a fixed-price basis, competition could then focus on improving quality.

Recommendation 7

Job Network payments should be set by the funding body, taking into account the fiscal and social benefits of effective employment assistance services, and the costs involved in providing the services required by an "average" job-seeker (taking account of degrees of labour market disadvantage where appropriate) within each category of Job Network service.³³

The proposed Intensive Assistance Guarantee, and the input-based funding attached to it, would also help prevent the levelling-down of Intensive Assistance to the lowest possible price at the expense of service quality.

4.3 Choice, contestability and regulation

The power to choose between different service providers is very important for consumers of human services, especially those such as unemployed people who are economically and politically marginalised. There are many instances of poor quality service provision by organisations that occupy monopoly positions in the provision of human services for vulnerable people.

³¹ Reference Group on Welfare Reform (2000)

³² The OECD report argues along these lines, but suggests that these higher payments should only be paid for employment outcomes at the margin (beyond those that would be achieved in the absence of Intensive Assistance). Although this is theoretically attractive, such a system would fail in practice for two reasons. First, it is too difficult to accurately assess the probability that a given job-seeker will obtain employment in the absence of intensive assistance (as noted above). Second, the proposed system would greatly increase instability and transaction costs within the funding system, at the expense of the service infrastructure.

³³ This would require higher levels of payment for Intensive Assistance services for job-seekers with substantial employment barriers.

However, *choice* is not the same thing as *contestability*, as this is understood in the literature on market based provision of human services. In this context, contestability implies a potentially large regular turnover of service providers, as poor performers are exposed to the rigours of competition. This can happen in one or both of two ways:

- through the choices exercised by the final consumers of the service, in cases where funding "follows" these consumers (for example, child care services); and/or
- through some form of tender process, in cases where funds are allocated directly by Government.

Both forms of contestability operate within the Job Network. Providers bid for defacto "licenses" to deliver services, to which a quota of job-seekers is attached. At the same time, they compete for job-seeker clients (within their contracted capacity) and for vacancies from employers.

At present, the former process is much more important in determining the survival of providers, and this is the main focus of this section of the submission. Competition to attract job-seekers is limited in practice for reasons explored in Section 4.5 below.

Contestability implies that poorly performing providers may be closed down and that there are other providers with spare capacity ready to pick up any job-seekers affected. In practice, turnover rates vary substantially across different funding models. They are much higher than average in the Job Network, due to the formal "arms-length" nature of the tender process, the lack of infrastructure funding, and the extra risks associated with outcomes-based funding.³⁴

Most "traditional" funding programs in human services³⁵ (with the exception of grants targeted to specific organisations) have an element of contestability. Service providers can always be passed over in the next funding round. However, these programs are distinguished from the Job Network model by the high level of administrative discretion (or "micro-management") exercised by the funding body, and relatively low levels of turnover.

These factors are linked. In funding models where the funding body exercises a high degree of discretion, it usually attempts to work with poor performers to pressure or assist them to improve, so that the disruption associated with closure of services can be avoided. Turnover is more often associated with changes in funding rules (or closure of whole programs) or decisions by providers to withdraw from service provision, rather than deliberate decisions by funding bodies to withdraw funding.

Major problems with these traditional funding models include their failure to eventually replace poor performers with organisations that could offer a better service, and the arbitrary and non-transparent nature of many discretionary funding decisions.

³⁴ This was borne out early in the first tender round (when a number of Job Matching services folded) and in the second tender round (when a number of existing providers, including some major ones, were excluded from Intensive Assistance).

³⁵ That is, programs that are based on the purchase of a specific service by Government. For a broader discussion of funding typologies, see Lyons (1995).

One problem with "micro-management" by funding bodies³⁶ is that it creates a new set of expectations among provider that the funding body will intervene in future, leading to attempts to second guess the Department's (or the Government's) thinking rather than pursue better employment outcomes.

However, a high turnover of services is not an end in itself. In fact, it has major drawbacks including a loss of stability and skilled personnel within the service network. The high turnover of services after the second tender round of the Job Network caused so much disruption to services that the overall performance of the system was significantly impaired. It was also very disruptive for the large number of clients, many of whom were in a vulnerable position, who had to switch providers.

Moreover, a funding environment in which services constantly face a high risk of closure distorts decision-making in counter-productive ways. It discourages innovation, and substantial investment in assistance for the most disadvantaged people. It can lead to a short-term focus on payable outcomes at the expense of assisting the "whole person" (a traditional strength of non-Government human services). For example, it may lead to a greater reluctance to tackle personal barriers to employment, unless the provider is certain this will improve payable outcomes.

The threat of loss of funds is too blunt an instrument to improve service quality and address deficiencies in service provision. The funding body (or better still an independent regulator) should have a capacity to work with providers to improve their capacity to deliver high quality services³⁷ before a loss of funds is threatened (for example, before the next tender round).

A balance must be struck between the principles of market competition (contestability within a fixed set of "rules" determined in advance, and a hands-off approach by funding bodies) and the need for Governments to "micro-manage" programs to ensure the best possible outcomes for job-seekers and employers.

A model of *managed competition* with the following features is likely to work best.

First, a simple, transparent system of *service standards and benchmarks* could be negotiated between the funding body and providers, preferably with consumer input. This could build on the present tender requirements, and take account of the proposed Service Guarantees. This system should *not* prescribe in detail the nature of the services to be provided or the manner of their provision.

³⁶ Including the interventions listed earlier in this submission to deal with problems identified within the Job Network.

³⁷ See Kazis et al (2000).

Second, a more sophisticated system of *outcomes and quality assurance* could be instituted. This could be based on a more transparent and reliable version of the present "star rating system".³⁸ Satisfactory performance (as measured by this system) would remove the need for a provider to tender for contracts in the next funding round.³⁹ The net effect should be to reduce compliance costs for providers (by comparison with the previous system of "universal" tenders) and to increase stability within the Job Network without compromising service standards.

Third, an *independent statutory body* should be established to both regulate competition within the employment assistance market and to manage the outcomes and quality assurance system. The manager of competition in this model should not be the funding body, as this could distort the operation of the market in unproductive ways. There is a very strong case for an independent, specialist regulatory body to which all service consumers have ready access, and which works in proactive way with providers to assess and improve service quality and outcomes.

The present system of outcomes-based funding is too blunt an instrument to maximise positive outcomes for job-seekers and employers. Therefore, the funding body (and Governments) will need to continue to micro-manage the Job Network, whether or not this is done in a transparent fashion that is properly negotiated with providers and independently regulated. The latter option is best from a range of stakeholder perspectives.

Recommendation 8

A "managed competition" model should be adopted for the Job Network, with the following features:

(1) A simple set of service standards and benchmarks (including some service inputs and outputs as well as desired outcomes) should be negotiated between the funding body and Job Network providers, based on the existing tender requirements and the Service Guarantees proposed above.

(2) A transparent system of regular, objective performance review (based on some inputs and outputs as well as outcomes) should be introduced in place of the present "star ratings system". Providers should have the option to formally seek a review of their assessments. Providers who achieve satisfactory results in their reviews should not be required to tender for contracts in the next funding round.

(3) An independent, specialist statutory body should be established to regulate the employment assistance market and manage the system of performance review. It should adopt a pro-active, developmental approach to measuring and improving the quality and effectiveness of services as well as handling complaints from job-seekers and employers.

³⁸ It is very likely that this system makes too many demands on the available outcomes data. In this sense, the system suffers from the same problem as the "black box" outcomes based funding model outlined earlier. It is a very blunt instrument that should be complemented by objective data on inputs and outputs.

³⁹ The star rating system already performs this role within the present system. A satisfactory rating generally means that the provider will be offered a tender in the next funding round. Ideally, the removal of a "license" to operate as a Job Network provider should be a last resort and the disruption associated with substantial turnover of services should be minimised.

4.4 Social capital

The most effective employment assistance services for disadvantaged job-seekers are likely to be those which are motivated by factors beyond organisational survival and expansion, or material rewards.⁴⁰ A commitment to certain social objectives and ethics, and an ability to mobilise "social capital" (for example, local community concern about unemployment) is important in the delivery of services to disadvantaged job-seekers.

There is a danger that a competitive employment assistance market will weaken these forms of social capital by substituting a single-minded emphasis on the cost-effective attainment of payable outcomes for wider social objectives. This risk is greater if there is a disjuncture between the incentives in the payment system and the basic social objectives of the Job Network scheme - to reduce unemployment and assist disadvantaged job-seekers into sustained employment.

The inclusion of for-profit providers in the market is likely (all things being equal) to accelerate this process, since they bring a different management culture into the market. This does not mean that not-for-profit providers have, *by definition*, a wider social focus and greater capacity to mobilise "social capital" or that for-profit providers always focus exclusively on the bottom line. On the contrary, the employment assistance market is likely to bring these two management cultures closer together.⁴¹

However, those elements of "social capital" that add value to employment assistance services could be eroded in a market environment regardless of the balance in the market-place between for profit and not-for-profit providers. For example, if the incentive structure is not working as it should, providers could be forced to adopt counter-productive cost-minimisation strategies.

Moreover, large providers might adopt a strategy of rapid expansion (at the expense of smaller, locally based providers) in order to achieve sufficient economies of scale to ward off larger, well-resourced competitors. This could lead to a loss of critical local knowledge and connections.

Governments want the best of both worlds. They expect not-for-profit providers to act in an altruistic way and "go the extra mile" for their clients, while at the same time expecting them to trim costs to compete in a market which places a premium on cost effectiveness and includes for-profit providers with better access to capital. This is a major tension for smaller providers.⁴²

It is unlikely that a contestable employment assistance market in which providers are funded to outcomes will deliver both of these outcomes, especially where prices are determined competitively.

For these reasons, there is a case for directly subsidising start-up and basic infrastructure costs for not-for-profit providers. This would reduce barriers to entry for locally based not-for-profit organisations with limited access to capital. This was raised as an option, though for a different set of reasons, by the recent OECD report.

⁴⁰ Taylor-Gooby (2000).

⁴¹ Considine (1999).

⁴² See Eardley et al (2000).

These considerations also underscore the importance of a well-designed incentive structure that does not place too much emphasis on cost-minimisation.

Recommendation 9

Consideration should be given to the provision of seed funding and basic infrastructure funding for not-for-profit Job Network providers, at least for new or smaller providers.

4.5 Job-seekers as consumers

The proposals in 4.3 above would reduce turnover among providers. It would be desirable, therefore, to supplement those changes with measures to strengthen the other form of contestability within the employment assistance market: the capacity of job-seekers to choose their provider.

In theory, service consumers (employers and job-seekers) can influence the nature and quality of employment services by exercising their power to choose a provider. The Government stressed at the time of the Job Network's introduction that jobless people would be in the "driver's seat" of the new employment assistance system. In practice, however, their power is very limited for four main reasons.

First, information is critical to the functioning of an efficient market. Yet most job-seekers have very limited information on their labour market needs and prospects *before* they receive employment assistance services. Indeed, one of the main purposes of these services is to educate job-seekers about the labour market and inform them of the options available to them.⁴³

This will always restrict the capacity of job-seekers to effectively choose providers and influence the level of service they receive. While they are likely to patronise providers that appear to have a reputation for helpful personal advice and service, most are unlikely to comprehend *in advance* the range of services they need to overcome workforce barriers. Most need expert guidance to do so.⁴⁴

Second, once a job-seeker in receipt of Newstart Allowance chooses a provider, his or her market power is greatly weakened by the role of the provider in policing activity requirements relating to their income support.⁴⁵ This means that job-seekers are less likely to complain if they are not receiving the service they expect. This significantly limits another key requirement for efficient markets - voice.

It is difficult to completely divorce the roles of helping and policing in the employment assistance area. The provider who directly assists a job-seeker is usually in the best position to know whether they are making reasonable efforts to meet their requirements. An agency such as Centrelink that does not provide such services can only administer abstract requirements such as the number of jobs a person must seek each fortnight. The latter is an inflexible approach to benefit compliance.

⁴³ A related problem is that those job-seekers who know what kind of assistance they need have limited information with which to assess the range and quality of the services offered by different providers.

⁴⁴ This places them in a similar position to the patients of general practitioners.

⁴⁵ For a fuller discussion of our concerns about the benefit compliance regime, see ACOSS & Sydney Welfare Rights Centre (2001).

However, the present system of benefit compliance requires major reform to reduce the very high incidence of unfair and counterproductive penalties. The employment assistance system should be re-focused on activities that genuinely improve people's employment prospects, rather than the entangling people in a complex web of administrative requirements.

It would also help improve relations between providers and many job-seekers if providers had less incentive to "breach" hard-to-place job-seekers in order to make room for extra referrals within their contracted capacity.

Third, a job-seeker's choice of provider is limited by the "contracted capacity" quotas embedded in Job Network tenders. This means that providers are practically guaranteed a minimum number of referrals, and that high performing local providers who reach the limit of their contracted capacity cannot displace poor performers in their region.

These arrangements are designed to give providers a degree of funding certainty over at least a three-year period, possibly to compensate for the risks associated with outcomes based funding and the lack of infrastructure funding. In the absence of the latter, many providers could otherwise face severe cash flow problems as their client base fluctuates over time.

Recommendation 10

The "contracted capacity" limits should be relaxed, in conjunction with other measures (such as service infrastructure funding) to help smooth cash flow and to reduce financial risk without eliminating it in respect of poorly-performing providers.

Fourth, job-seekers cannot readily change providers once referred. This critical market issue of "capacity to exit" is especially critical in cases where there is a conflict between a job-seeker and his or her provider, or only minimal services are being offered over the 12 month Intensive Assistance period.

Recommendation 11

Job-seekers should be able to change Intensive Assistance providers within the first four weeks of assistance, subject to agreement from Centrelink. This right should be well-advertised.⁴⁶

Fifth, there are few (if any) enforceable guarantees that a certain level or quality of service will be provided to job-seekers, especially in regard to Intensive Assistance.

This problem is addressed earlier in this submission.

Despite all of the above difficulties, substantial improvements in the exercise of informed choice and market power by job-seekers could be achieved through straightforward administrative changes. High priority should be given to improving the referral process to employment assistance and the establishment of a pro-active, independent regulatory body (as advocated above).

⁴⁶ This may require adjustments made to the system of up-front payments. Any adjustments should be mindful of any cash-flow problems likely to be experienced by providers.

At present, the majority of referrals to Job Network providers are made without giving job-seekers the benefit of a personal interview at Centrelink to explain the options available to them. One outcome is low take-up rates (especially for Job Search Training, which operates on an "automated referral system" that largely by-passes Centrelink). This should be changed, for all referrals to Intensive Assistance and Job Search Training.

Providers should be required to make information on the range of services they offer publicly available, including to potential clients. The "star rating system" offers little guidance to assist job-seekers to make the right choice since it offers them minimal information on the actual services they will receive once they register with a provider, or how they will be provided.

Recommendation 12

Referrals to Intensive Assistance and Job Search training should be made by Centrelink on the basis of personal interviews in which the options available to job-seekers are clearly explained and understood.

5. Implications for human services programs generally

There has been a shift over the past two decades in human service funding models from providing grants to organisations towards funding services for consumers. Broadly speaking, this is a desirable change since it improves the equity and efficiency of the distribution of public funds and accountability for services provided. However there is also a strong case for an element of "service infrastructure" funding to strengthen the capacity of organisations to provide a more flexible range of services and adapt to change.⁴⁷

Over the past decade, there has also been a shift away from funding models in which Governments contract with specific providers to provide specific services towards models in which providers compete with others to win tenders to provide "outputs", in which they must often also compete for clients. These monopsony "markets" are very different from textbook notions of private markets. In particular, they usually involve a high degree of covert or overt regulation by the funding body.

The Job Network is a special case of the latter model, in which contestability is increased by funding to outcomes rather than inputs or outputs and by the administration of the tender process at "arms-length" by the funding body. Providers of Intensive Assistance services are not required to offer a specified set of services, and consequently there are no "service guarantees" for consumers.

It would be unwise to use any single funding model such as the Job Network model as a template for all human services programs. The effectiveness of the Job Network model in other contexts depends on the objectives and nature of the services provided.

⁴⁷ Industry Commission (1995), Lyons (1995).

To take an extreme example, two of the principles on which the Job Network model is based - outcomes-based funding and contestibility - would be completely inappropriate in a service such as Centrelink whose core function is to interpret and deliver legislative entitlements to social security payments. When the Parliament enacts social security legislation it intends this to be interpreted in a consistent fashion across the country. When it exercises discretion to determine a person's eligibility for payments, Centrelink acts as an agent of the Government. This particular function is best performed by a rules-based bureaucracy.

Funding models should be adapted to the objectives and characteristics of each program. Nevertheless, some broadly applicable lessons can be drawn from the Job Network experience.⁴⁸

5.1 Outcomes-based funding

A system of funding purely to outcomes is unlikely to work in most fields of human service delivery. As the former Industry Commission noted in its Report on Charitable Organisations⁴⁹, outcomes should not be confused with outputs. For example, the achievement of minimum standards of care in aged care services is an output, not an outcome. Positive outcomes from improved service standards might include better health, happiness, greater self-reliance or improved social interaction. The problem with funding to outcomes such as these is that they are highly subjective and personal, and difficult to measure. It is even harder to assess the service's contribution to their achievement.⁵⁰ This is the main reason that few human services programs fund to outcomes.

Employment assistance services are a rare example of a service that can realistically be funded predominantly on the basis of measureable outcomes.

At the least, the following conditions should apply before an outcomes-based funding system along the lines of the Job Network model is considered:

- The desired program outcomes are clear, and easily measured;⁵¹
- It is possible to predict with reasonable accuracy the probability that different clients will achieve them in the absence of the service;
- The net impact of an effective service on these outcomes is substantial and can be measured with reasonable accuracy;
- There is scope for different service delivery strategies to substantially affect outcomes.⁵²

⁴⁸ For a wider discussion of funding models, and the implications of competition policy in human services delivery, see ACOSS (1999).

⁴⁹ Industry Commission (1995).

⁵⁰ Moreover, many human services play a life-maintenance rather than a developmental role.

⁵¹ That is, the basic objectives of the program, such as to reduce unemployment.

⁵² That is, there is a substantial difference between the net impact of an effective service, an average service and a poor service. This implies that a wide range of service delivery strategies are available to providers and that fixed costs are not too high. Otherwise, there would be little point in adopting an outcomes-based funding system.

Key lessons from the Job Network experience with outcomes-based funding include the following:

- A pure or "black box" outcomes-based funding model is unlikely to effectively allocate public funds to meet the needs of service consumers, because the above conditions rarely apply.
- Governments should also care about the level and quality of services (inputs) actually provided and build *service guarantees* into program arrangements.
- Service guarantees are best implemented through the adoption of mixed funding models (in which inputs are funded as well as outcomes) rather than detailed regulation of service delivery through funding contracts.

5.2 Competition and regulation

Consumer choice in human services (whether through market mechanisms or otherwise) is important to ensure continuous improvements in services.

Contestability (at least in the sense that consistently poor performers are denied ongoing public funding) is also important, but a high level of turnover among human services has a destructive effect on service infrastructure, on the well being of clients, and on service planning and innovation.

The withdrawal of funding from a substantial proportion of providers on a regular basis (whether by administrative decision or the operation of the market) is a blunt and potentially destructive instrument with which to attempt to improve service performance.

There is also a danger that "social capital" will be undermined by funding systems that rely too heavily on competition among providers to deliver the best outcomes in a cost-effective way.

A better model of contestability is one in which poor performance is identified early, and the provider is actively assisted to improve services. However, such "managed competition" should be conducted on the basis of a transparent, agreed set of service standards and guarantees. It is best administered by an organisation that is separate from the funding body. An ongoing system of outcomes and quality assurance is a less destructive (and less costly) way to improve service standards than a regular tender process in which *all* providers face the prospect of a complete loss of funding.

At the same time, contestability should be strengthened by increasing the effective power of final consumers in the market.

Key lessons from the experience of the employment assistance "market" include the following:

- Price competition can have severe adverse consequences in human services, where the scope for genuine productivity improvements is relatively limited and other factors such as service quality are more difficult to measure and evaluate in tender processes.

- The quality of human services depends on a number of factors (we use the term "social capital" as a shorthand description for these factors) that cannot effectively be promoted (and may indeed be undermined) by market competition. They include an ethic of assisting disadvantaged people, dealing with clients as "whole people" rather than just one aspect of their lives, cooperative practice among providers, and involving the local community in solutions to social problems. Market-based funding models have the potential to erode social capital if attention is not paid to these factors in their design and implementation.⁵³
- Consumers from disadvantaged groups in the community usually cannot exercise their "market power" within such markets without Government and community support.
- Independent regulators with expertise in the relevant field of human services are needed where market based funding models are introduced. They should facilitate improvements in service delivery as well as formally regulating the market and handling complaints.

5.3 Managing change

Another key lesson from the Job Network experience is that dramatic changes to program structures and funding arrangements in human services should not be introduced without thorough evaluation of the existing arrangements or the active involvement of service providers and service users in the change process.

The introduction of the Job Network was a radical change in Australia's long-standing employment assistance program arrangements (most previous employment assistance reforms were incremental, building on previous systems). Yet the new model was announced before any substantial consultation was undertaken with employment assistance providers and before the previous Working Nation model was properly evaluated.⁵⁴

The result was substantial disruption of services and loss of skilled staff. The new employment assistance model (involving expenditure of \$1 billion in public funds) was untested, and developed without the benefit of broad consultation with service providers, labour market experts or consumers. This is a high-risk approach to social reform.

Broadly speaking, incremental change based on thorough evaluation of past and present systems, the piloting of new ones, and consultation with those who are expected to deliver services is a better approach - even where fundamental change is required.

⁵³ Especially if smaller local or specialist providers are pushed out of the market.

⁵⁴ A preliminary evaluation released *after* the decision was announced to fundamentally restructure employment assistance noted that it was "too early" to accurately assess the strengths and weaknesses of the Working Nation model. See DEETYA (1997).

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