

**SUBMISSION TO THE PRODUCTIVITY COMMISSION INDEPENDENT
ENQUIRY INTO JOB NETWORK, OCTOBER 2001**

JobNet

T A S M A N I A

Working for you.

Purpose

To discuss the effectiveness of Job Network in the context of the Productivity Commission review, and in particular, to explore the implications of the Commonwealth as regulator rather than purchaser of Job Network services.

Summary

Job Network, established in 1998, is a new industry that replaced the Commonwealth Employment Service and Contracted Case Management organisations servicing unemployed jobseekers and employers recruiting staff in Australia.

The Job Network was established as a "purchaser - provider" relationship. That is, the Commonwealth specified in a request for tender what services it wished to purchase on *behalf of taxpayers* (Australian jobseekers and employers), and then contracted with successful tenderers to deliver those services to taxpayers.

While the Job Network has been an outstanding success, this "purchaser - provider" relationship, as it currently stands, has a major flaw in its logic that has created a number of significant, costly and inefficient problems:

- Because the Commonwealth has purchased under contract services for taxpayers (the consumers) the Job Network does not work as a free marketplace and competition has only been partially successful in driving performance.
- One service (Job Search Assistance) has a high degree of consumer resistance or apathy because the service is aimed at satisfying the demands of the purchaser (the Commonwealth) rather than the consumer.
- The mechanism for renewing contracts (roll over or re-tender) is clumsy, and has the potential to cause significant disruption in the industry every three years.

An alternative approach is to consider the Commonwealth principally as "regulator" of a market where consumers (ie, jobseekers and employers) are the true purchasers of the services they consider will satisfy their needs. Such a model has the following advantages:

- Demand for services from consumers (rather than Commonwealth contracts) determine market share. This is a truly competitive industry where consumer demand leads to product effectiveness and efficiency.

- The Commonwealth retains a strong regulatory role to ensure budget management and social obligations (equity) are met.
- Roll over and re-tendering disappear as issues and continuity for providers that deliver the service consumers want is a natural progression.

Discussion - current system

Job Matching

As currently structured, the Commonwealth purchases Job Matching services via a large and complex tendering process, leading to service delivery contracts between the Commonwealth and provider. The contracts specify the type of service to be delivered (standard for all providers), the price (determined in the tender process), and the market share allocated to a provider (determined in the tender process).

The specification of market share has become problematic in the delivery of Job Matching. The consumer (in this case, employers) should be the determiners of market share. In a competitive market, it is the consumer that drives efficiency and effectiveness by "shopping around" and selecting the provider that best meets their needs.

By contracting with providers to deliver a fixed number of Job Matching outcomes, the Commonwealth is "second guessing" what consumers will want, and this has a number of unintended outcomes:

1. When the Department gets it wrong and a provider is too successful, contract variations need to be entered into. This is not efficient. Furthermore, there is no guarantee to a provider who is "too successful" that they will be paid for their success.
2. Where the Department gets it wrong, and a provider is a failure, a large "unmet" or "unfulfilled" demand is created. In other words, you have a disincentive to be too successful on the one hand, and potential to create unmet demand on the other. This builds in an inherent inefficiency in the industry.
3. Providers that fail to get near their Job Matching contract target are also potentially hard to control in relation to their social responsibilities (equity targets) because these are worked as ratios of the overall target and therefore virtually irrelevant in this situation.

Recommendation:

To improve the efficiency and effectiveness of Job Matching, the Department should:

1. Continue to specify the services it will pay for as part of Job Matching, and regulate to ensure that where payments are provided these services have been delivered.
2. Call for providers to give specified details so that they can be assessed as suitable to provide Job Matching services on behalf of the Commonwealth, and in effect "licence" successful applicants to operate.
3. Allow market forces (that is, employers) to determine the market share of licensed operators.

4. Control the Job Matching program budget by regulating demand through the application of equity performance indicators. For example, if providers in a labour market are exceeding budget projections the requirements of Job Matching placements are progressively tightened using equity indicators so that ultimately only payments are made for Job Matching outcomes that place long term unemployed into full time jobs.

Issues:

How would price be determined? At the moment Job Matching is provided as a cost competitive service. However, a significant number of providers are currently contracted to provide Job Matching at an average price for their labour market. This is where providers deliver either Job Search Training or Intensive Assistance, but not Job Matching in its own right. In most cases, providers will not have job Matching contracts because their tendered price was too high. In other words, they are delivering the service to the Commonwealth and running theoretically at a loss. In the system above, the price would be most likely to be fixed for all providers, determined by Government in consultation with the National Employment Services Association.

How do jobseekers benefit from this approach? In its current format, Job Matching does not serve jobseekers well, particularly in labour markets where there are many jobseekers and few jobs. Job Matching would still require providers to assist jobseekers with applications and resume preparation, however, it is the reforms to Job Search Training that will assist jobseekers the most.

Job Search Training

This program is provided to jobseekers who have been looking for work for at least three months, and most usually, at the six month unemployed stage. As with Job Matching, the service is purchased by the Commonwealth via a complicated tendering process, and successful tenderers enter into contracts to deliver specified numbers of Job Search Training places to eligible jobseekers.

In reality, many jobseekers resent Job Search Training as "too little too late". Many feel that the training should have been provided earlier in their experience of unemployment, and when it is provided the service is patronising in its approach. This unintended outcome is, once again, the result of Government "second guessing" what the consumer wants (in this case, the jobseeker) and then seeking to contract a supplier to deliver it. The outcome is a service ordered and paid for by the Commonwealth in which the consumer has had little say and usually not much interest. If the service is not meeting the expectations of the consumer the Department must undertake a relatively complicated contract management approach to improve it, and even then, tends to focus on through put rather than outcomes.

Recommendation:

To improve the efficiency and effectiveness of Job Search Training, the Department should:

1. Continue to specify the services it will pay for as part of Job Search Training, and regulate to ensure that where payments are made the appropriate services have been delivered.
2. Advertise for organisations to be licensed to deliver Job Search Training, and accredit providers that meet Commonwealth standards for this service.
3. Issue all Job Network eligible Job Seekers on Newstart allowance with a "voucher" to purchase Job Search Training services within the first month of unemployment. The voucher will "empower" jobseekers to act as consumers and shop around the accredited Job Search Training providers for assistance that they feel will meet their needs.
4. Require that all jobseekers use their vouchers by the time they have been unemployed for six months.

Issues:

It will cost more to make Job Search Training available immediately on becoming unemployed. Three factors will prevent this program from costing more than it currently does:

1. A jobseeker that finds employment one or more weeks quicker than they would have otherwise done so without Job Search Training will realise savings in income support payments.
2. Competent jobseekers who will not benefit from Job Search Training, and are likely to find employment quickly, will "self select" out from using the assistance unnecessarily. If a jobseeker misjudges their competence, they will be "roped in" by the six month stage, as is already the case.
3. Where costs are exceeding program budgets the Commonwealth can regulate access to the program by tightening up on equity targets to ensure that the most needy receive assistance first.

The service will be less efficient because it will be delivered at a fixed cost rather than be price competitive. On the surface this is true, but the efficiency of competition on price will be replaced with greater effectiveness in meeting the needs of consumers and gaining outcomes as consumers begin to drive demand for the service.

Intensive Assistance

This service is currently the best structured in terms of being driven by consumer demand. Jobseekers are provided with a range of providers and can select the one that, in their opinion, best meets their needs. Services are then provided to clients in negotiation with them, maximising customer input into what they consider to be the most effective option for them. The introduction of a "Declaration of Intent" has added a further refinement to Intensive Assistance binding providers to specific service obligations.

However, the contract nature of Intensive Assistance still interferes with the market in two significant areas:

1. The Commonwealth, not the consumer, determines market share of providers. This means that highly successful providers may have unmet demand for their service, and less successful providers are guaranteed clients even if those clients are not confident that the provider will meet their needs.
2. Contracts have a time limit, and the Commonwealth is faced with roll over or re-tender issues at the end of a contract.

Recommendation:

To improve the efficiency and effectiveness of Intensive Assistance, the Department should:

1. Continue to specify the services it will pay for as part of Intensive Assistance, and regulate to ensure that where payments are made the appropriate services have been delivered.
2. Advertise for organisations to be licensed to deliver Intensive Assistance, and accredit providers that meet Commonwealth standards for this service.
3. Allocate Intensive Assistance numbers to Employment Service Areas, as is currently done, and allow eligible jobseekers to select the provider of their choice via the current methodology administered by Centrelink.
4. Allow providers to determine their caseload limits at each of their sites. A provider could take as many or as few clients as their business plan can accommodate. Rules to prevent a monopoly developing may need to be introduced (eg, caseloads limited to 50% of available places).

Issues:

The main change to this service from the current arrangement is to remove the contract capacity of each provider. The market determines demand for Intensive Assistance services that best meet the needs of the consumer.

Rather than generating issues, the main advantage of this system is that it removes completely the need to "re-tender" or "roll over" contracts: successful providers will continue in business because they are both getting outcomes, and being chosen by consumers; new providers can be accredited by the Department from time to time and build market share; and unsuccessful providers will eventually be driven out of the marketplace by competition and market forces.

At the moment, Intensive Assistance is partially price contestable - the Government sets a minimum price, and tenderers can tender above the minimum. This methodology could continue to work with providers offered accreditation negotiating a price with the Commonwealth based on their Declaration of Intent. This negotiated price may be subject to re-negotiation at future milestones.

Other benefits

As outlined above, accreditation and regulation by Government empowers consumers (taxpayers) to choose the service they consider meets their needs. This approach takes away the potential disruption caused by calling for tenders at three year intervals, and the problems associated with "rolling over" existing contracts. The approach allows new players to enter into the industry at any point, and begin to develop market share as would occur in any industry. And finally, demand - or lack of it - will eventually drive poor performers out of the industry.

In this context, the DEWRSB star ratings will have greater meaning and a more appropriate place in improving the effectiveness of the Job Network.

Rather than being the mechanism for the Department to roll over contracts, it will be one of the mechanisms consumers will inform themselves about the quality of the services they can access.