

# INDEPENDENT REVIEW OF JOB NETWORK

## SUBMISSION BY EMPLOYMENT NATIONAL

### Executive Summary

The establishment of the Job Network has had a positive impact on the way that employment services are provided in Australia. The move to a competitive market for supply of services has resulted in improved service delivery through greater levels of innovation and efficiency and a stronger focus on high priorities and outcomes.

This impact has been felt most strongly in terms of placing long term unemployed in work. The number of people unemployed for more than 12 months (seasonally adjusted) has declined from 235,600 in April 1998 to 141,300 in September 2001. The long term unemployed now represent only 21.5% of all unemployed persons, compared with 32.5% in April 1998.

The Job Network is not characterised by the normal elements of a transaction between buyer and seller; and as a result, does not offer the flexibility for which markets are traditionally noted. As an example, employers can pay a supplier of Job Matching services a fee in addition to the Government's fee, in order to obtain a different or enhanced service. However, the unemployed person, who is also a party that should have an interest in the transaction, is much more dependent on the fee structure (and market response from Job Matching businesses) set by the Government.

Employment National believes the following adjustments could improve the operation of the Job Network to the benefit of job seekers, potential employers and the Government as purchaser of employment services:

- Unwinding of cross subsidies between Intensive Assistance and Job Matching activities;
- Greater differentiation in the Job Matching fee structure for achievement of more difficult outcomes in job placements;
- Greater service differentiation in particular segments of the Job Matching market to improve delivery of public policy benefits of providing employment services;
- Refinement of key performance indicators for Job Matching, including greater recognition of the relative difficulties in meeting higher volume placement targets; and
- Removal of placement caps in Job Matching contracts and tied Job Matching to create greater freedom in supplying services.

Our Submission expands on these issues in greater detail.

## 1. Employment National's Role in the Job Network

Employment National is a 100% Commonwealth owned company. Our business can be divided into 2 segments:

- Servicing Government contracts, trading under the brand Employment National Services; and
- Fee for service work in the private sector, trading under the brand OzJobs.

Government contracts include Job Network contracts (Job Matching, Intensive Assistance and Project Contracting (Harvest Labour Services)) and New Apprenticeship Support Services. Employment National services 22% of the Job Matching market through 143 locations nationally and the Intensive Assistance market through 3 sites in southern Western Australia. Fee for service work includes permanent and temporary recruitment, project recruitment and HR services.

To date in Job Network 2, Employment National has made more than two and a half times as many Job Matching placements as any other individual Job Network provider.

In 2000-01 Employment National provided the following services on behalf of our customers:

- 80,000 job placements
- 18,000 new apprenticeship commencements
- 12,000 harvest placements
- Intensive Assistance support to 1,500 long term unemployed job seekers.

Employment National has the potential to be the safety net provider in the Job Network. The objects of the company as set out in our Constitution allow for the provision of “such employment services as are identified by the Minister as services to be provided in the public interest, and in respect of which the reasonable costs of which will therefore be met by the Commonwealth of Australia”. Employment National considers that such public interest services or Community Service Obligations would arise in circumstances where market based solutions do not adequately address price, capacity or service quality issues such that the Government needs to take more direct intervention in the provision of employment services.

Employment National operates in accordance with the Government's competitive neutrality principles.

## 2. Benefits of the Job Network

Employment National considers that the benefits of the Job Network compared to previous arrangements include:

- Innovation: The Job Network has increased choice associated with both service providers and services provided (to employers), allowing both employers and job seekers to select the best provider to meet their individual needs. Providers have

significant autonomy in delivering employment services which can lead to innovative local approaches and solutions;

- Effectiveness: The Job Network has changed the culture of publicly funded employment services from one where solutions are developed centrally to one where providers are able to determine the most effective and cost efficient solution at the point of service delivery;
- Introduction of incentives to focus on groups most in need: Employment Services contracts offer incentives to providers to achieve the best possible outcomes for job seekers who qualify for Intensive Assistance; and
- Outcome focussed: Payments under Job Network contracts are based largely on outcomes - placing job seekers in work - not merely for engaging in a process. This provides a strong incentive for achieving outcomes for job seekers.

Since the establishment of the Job Network the Government has linked the greatest reward with the most intractable employment problem - placing the long-term unemployed (and those at risk of becoming long term unemployed) into jobs. This aspect of the Job Network policy framework has been the most successful.

Previous arrangements administered by the former Commonwealth Employment Service for assisting long-term unemployed and other disadvantaged job seekers tended to be input focussed and process driven. Strong centralisation of service delivery mechanisms combined with pressure to expend funds on training and wage subsidy programs resulted in insufficient consideration being given to the appropriateness or cost effectiveness of such assistance at a local level, or to whether the assistance was directly beneficial to individual job seekers.

By contrast, the current arrangements allow flexibility for Intensive Assistance providers to develop individualised strategies for moving job seekers into sustainable employment. This is supported by incentives provided in the Employment Services Contract, both in the fee structure and Key Performance Indicators.

### **3. Potential Improvements to the Job Network**

#### **3.1 Fee Structures**

With almost all Job Matching providers also contracted to provide Intensive Assistance, it is standard practice to subsidise the costs of Job Matching from higher payments for Intensive Assistance activities. Providers do this because they believe it increases the chance of employers recruiting through them, thus opening up opportunities to place Intensive Assistance job seekers, for whom they can attract Interim Outcome fees. This is not in itself a bad thing, but it has resulted in the market price of Job Matching being driven down to such an extent that it is rarely, if at all, commercially viable for a provider to offer a Job Matching service only. If in future Job Matching can only be provided with the benefit of cross-subsidies available from Intensive Assistance, there seems little point in differentiating the two market segments.

Employment National considers that it is desirable to maintain the existence of Job Matching only providers given it encourages a greater number of market participants with different skill specialisations. Job Matching has been created as a separate category in the market under the Job Network arrangements, because it is the basic level of policy response to unemployment. Delivery mechanisms differ from those best suited to Intensive Assistance and Job Search Training activities (focus on building an individual's job readiness with delivery at the local level) by providing services to employers and deriving benefits from a coordinated approach over a much larger geographical area.

The incentive structure for Job Matching is not conducive to achieving diverse or market segment specific policy objectives. The current fee structure provides a flat payment per placement regardless of what type of job seeker has been successfully placed or for what time period (beyond a minimum of 15 hours per week). Consequently the incentives and standard of performance favour:

- high throughput of job seekers through casual or labour hire arrangements, rather than placement in permanent positions; and
- assistance to relatively simple to serve categories of job seekers, rather than more time consuming candidates like retrenched workers, school leavers and other groups with special needs.

Placement into permanent positions and placement of job seekers with special needs often requires greater effort than that required to put people into casual or labour hire positions. Employment National is keen to continue to put in that extra effort, but considers that if the Job Network is to work as closely as possible to a market, the purchaser of job services (which is the Government on behalf of job seekers), needs to direct its procurement strategy more towards those areas of the market which would not be fully serviced without direct support. There is currently no incentive structure to compensate for achievement of more difficult, sustainable outcomes.

The emphasis in the employment market on growth of labour hire and casual employment was evident before the advent of the Jobs Network and as such there is no criticism intended here of the natural progression of this in the economy generally. The question we raise is whether the incentive structure is effective, in the circumstances described above. Employment National notes that recent public announcements by the Government of their intention to allow Private Personnel Agencies to enter Job Network 3 may exacerbate this trend, given these agencies traditionally derive a significant proportion of their turnover from labour hire placements.

Employment National believes that consideration should be given to removing the minimum floor price for Intensive Assistance business. In any future tender processes this would place Intensive Assistance activity on the same conceptual basis as Job Matching and result in tender prices based on service delivery costs for individual providers. In our view tenders involving minimum floor prices do not provide the best value for money from a purchasers perspective.

### 3.2 Services Provided Through the Job Network

While the rationale for government intervention to assist long term unemployed job seekers is quite clear, the policy objectives in assisting some parts of the shorter term unemployed job seeker group are more complex.

A range of shorter term unemployed job seekers are able to secure employment without government assistance. For example, there does not appear to be an obvious public policy benefit in the Government making a Job Matching placement fee to a labour hire company, for example, when that job seeker could have secured employment through the same company without government assistance. By contrast, there are clear public policy benefits in providing early intervention assistance through targeted information and basic labour exchange services. Examples of this include:

- A job placement service for school leavers, to speed up their transition to work;
- Labour adjustment assistance for retrenched workers, particularly older workers who lack job search, resume preparation and interview skills;
- Assistance to job seekers in rural and remote locations who do not have access to the services of a private personnel agency;
- Offering an attractive no cost screening service to employers, helping to ensure that unemployed Australian residents are not overlooked in preference to overseas travellers on work visas or those who are currently working and seeking a change in position;
- Providing recruitment services for employers implementing diversity programs, who may otherwise have difficulty sourcing suitable candidates;
- Assisting the achievement of entry level training policy objectives by enabling employers to be provided with a no cost recruitment service for New Apprentices; and
- Notifying Centrelink of breaches of obligations relating to Unemployment Allowances.

There can be no assurance under current Job Matching arrangements that all of these policy objectives are achieved across all parts of Australia. Our view is that the placement fee structure of Job Matching should encourage greater focus on these areas. It is a commercial reality that all providers will direct themselves at achieving the highest possible revenue at the lower possible cost. In doing this, it is unlikely that policy objectives for different market segments will be addressed by providers under the current structure.

Under a contract structure, achievement of these objectives can only be assured if there is a separate focus on them. A new differentiated fee structure could in principle separate markets into:

- a series of outcomes focussed on Job Matching, which meet basic community expectations of the kind noted above; while
- a further market is developed offering specialised payments for services to high priority areas of the employment market from the public interest perspective for example Intensive Assistance. High priority areas could alter with community and policy shifts.

Overall the system should ensure that it clearly specifies the areas of public policy that need to be met. Providers should be able to choose which market segments to operate in and be rewarded for results accordingly. Taking a specific focus like this should ultimately ensure that the system remains outcome-focussed, which is vital, but narrows its focus to providing services that will not be provided by the private market acting alone.

Current Job Network contracts cover a three year period and, when the tendering process leading up to contract commencement is taken into account, the policy settings for the Job Network are in practice established for a four year period. Medium term policy settings have been quite feasible in an economic environment where there has been sustained employment growth, declining unemployment and relatively stable labour market conditions. To date, the Job Network has given priority to placing the long-term unemployed into sustainable jobs. In a slowing labour market where the problem of long-term unemployed has been much reduced the Government may wish to ensure it has instruments at its disposal to respond to potential increases in the pool of short-term unemployed job seekers. These could include for example, responses to large-scale redundancies requiring adjustment assistance for retrenched workers.

### 3.3 *Key Performance Indicators*

Some of the key performance indicators for Job Matching do not, in Employment National's view, provide a rational measure of performance against the policy objectives of Job Matching. The General Information on Service Requirement section of the Employment Services Request for Tender 1999 states that the objective of Job Matching "is to get eligible unemployed people into sustainable jobs". We consider that there are two problems with the current performance indicators for Job Matching contracts:

- failure to measure degree of difficulty in meeting contract targets; and
- no measurement of sustainable job placements.

Employment National considers that the key performance indicators should be broadened to provide a more balanced assessment of performance by including the following additional elements:

- The measure 'Job Matching Outcomes achieved by provider as a percentage of all Job Matching Outcomes achieved by Job Network Members in the Employment Services Area' provides an indication of the extent to which the provider is creating outcomes in a macro sense, across the economy and the region as a whole, rather than just whether or not it is meeting the requirements of its contract.

- A measure of the performance of the provider in making placements which are of at least three months duration, or some equivalent measure of job sustainability, as required by the stated objective of Job Matching.

The current performance assessment methodology is heavily weighted towards contractual compliance, as opposed to assessing whether the Job Network as a whole is likely to meet its objective – placing people in sustainable jobs. This is reflected in the main key performance indicator in the current star rating system for Job Matching being "Percentage of Job Matching Outcomes against Milestone".

Employment National considers that greater recognition needs to be given to the degree of difficulty in meeting large contracts. The current performance assessment methodology favours providers with small milestone targets. It is debatable whether the success of a provider in achieving a small target should result in a rating that indicates it should be preferred in future to a large provider making large numbers of placements but with a less attractive percentage of quota filled. For example, a provider who achieves 700 placements out of an Employment Services Area target of 1,000 placements will be given a lower score than a provider who makes 40 placements out of a target of 50 in the same Employment Services Area, all other things being equal. Currently, it seems no consideration is given to degree of difficulty, in judging relative performance, nor to the logical implication of the preference being developed.

### *3.4 Capping of Job Matching Targets and Tied Job Matching*

Limits placed on the number of Job Matching outcomes that a provider can make in an Employment Services Area creates unnecessary limitations on the assistance provided to job seekers and on competition amongst service providers. Our view is that the market should determine the number of placements that can be made in an Employment Services Area. The cap appears to be a cost control mechanism put in place by the Government due to concerns about over-provision of placements. This may be linked to the growing utilisation of casual employment as satisfying the requirement to earn a Job Matching fee. If so, Employment National considers that a more sensible policy response is to cap casual placements, not overall placements.

Labour markets change over time and, even within a three-year contract, forecasts of market size may not be accurate making it inappropriate to set fixed market targets. There is also a need to maximise the benefits of a competitive market by allowing participants to compete for market share and thus determine over time, which is the provider of choice. Thus higher performing providers should be able to act from the outset of the contract to make placements beyond their contracted targets.

Under current Job Network arrangements Intensive Assistance providers are required to provide certain levels of Job Matching services. There doesn't appear to be a clear policy or commercial reason for this to be the case. Employment National considers that this requirement should be removed to allow service providers to tender for those segments of the Job Network where their skills best fit.

#### **4. Future Risks for Employment National**

As the largest provider of Job Matching services in the Job Network, Employment National's operations could be adversely impacted by the weaker domestic economy and slowing employment growth. Employment National anticipates lower notified job vacancies, including a higher proportion of requests for casual and temporary employees as employers react to economic and business uncertainty. Candidate registrations are expected to increase as the pool of short term unemployed job seekers grows.

Under direction from its shareholder, Employment National undertakes Job Matching activities at locations and at prices it would not elect to do on a commercial basis or which it would only do commercially at higher prices. The shareholder is providing equity support for the company for the duration of the second Job Network to underwrite this service delivery. In formulating future Job Network arrangements the Government may wish to consider moving to a cost reimbursement basis for the provision of these services. Further, competitive tendering for the provision of such services would create market pressure for efficient service delivery.