



**SUPPLEMENTARY SUBMISSION TO
PRODUCTIVITY COMMISSION REVIEW OF JOB
NETWORK**

Department of Employment and Workplace Relations

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1. Introduction

This is the Department of Employment and Workplace Relation's (DEWR) second submission to the Productivity Commission's Inquiry into Job Network. It represents DEWR's main response to the Commission's draft report which was released on 7 March 2002.

The Department regards the draft report as an extensive assessment of the performance of Job Network, which alongside the OECD's assessment of Australia's labour market (OECD 2001) and the Department's own comprehensive Job Network evaluation (DEWRSB 2000 and 2001c), contributes significantly to understanding the impact and effectiveness of labour market programs and the most appropriate means of program delivery. The Department broadly endorses the overall thrust of the report, noting, in particular, that the Commission regards the purchaser/provider model as a suitable basis for the delivery of active labour market programs and that Job Network is an improvement on previous labour market assistance arrangements.

The draft report contains some 48 recommendations relating to the future direction of Job Network and possible extension of the purchaser/provider model. The Department supports many of these recommendations—some are to be implemented in the context of changes to Job Network for the third employment services contract (ESC3) and others are supported in principle, worthy of further consideration as Job Network evolves. The draft report also contains a number of recommendations that the Department is not prepared to support at this time.

This submission includes DEWR's comments against the draft report's key recommendations, including those that the Department does not support. The submission also responds to other issues raised in the report which are not necessarily reflected in the recommendations.

2. Key recommendations

Recommendations supported

A number of the Commission's recommendations are under consideration as part of proposed changes to Job Network for ESC3. Other recommendations, while not yet government policy, are supported in principle by the Department. These are discussed below.

5.1 The Commission recommends that DEWR collect further information on compliance effects, the longer term effects of participation on a job seeker's employment history and the quality or suitability of the jobs obtained.

The Department supports this recommendation. DEWR collects a substantial amount of information that allows compliance and longer-term program effects to be analysed. A detailed assessment of compliance net impacts relating to employment outcomes for Job Search Training and Intensive Assistance participants, for example, will be included in the Job Network Stage 3 Evaluation Report.

Recently, the Department released the findings of a longitudinal survey of Job Matching participants which measured employment outcomes 15 months after placement (DEWRSB 2001a). Similar surveys designed to analyse the longer-term outcomes of IA, JST and WfD participants are now in the field. The panel nature of these data will provide information on individual job seeker's longer-term improvements in terms of labour market status, income and promotions, hours of work, employment tenure, skill-level and occupation type.

Changes being introduced as part of the evaluation of the *Australians Working Together* (AWT) package will also enhance DEWR's capacity to examine compliance effects and longer-term outcomes. Under the AWT evaluation framework DEWR and FaCS are developing a joint longitudinal data set that will include comprehensive information on job seekers' program participation as well as details of their types and levels of income support. This data set will allow short and long-term tracking of job seekers' income support payment levels and pathways following program participation.

5.2 The Commission recommends that consideration be given to establishing an independent panel of researchers to advise on the data needed to evaluate the Job Network programs.

This recommendation is supported. The Department recently moved to establish an independent panel of researchers to provide peer review. It is intended that this group will meet periodically to discuss research related matters relevant to program evaluation. The Department also solicits the views of overseas experts to help inform the development of research methodologies.

5.3 The Commission recommends that all de-confidentialised data on Job Network programs be made available for independent scrutiny by other researchers as soon as is practicable after they are produced.

The Department supports this recommendation in principle. To a limited extent DEWR data have been made available in the past for research purposes, but privacy issues have constrained the scope for this.

It is important to note that establishing and maintaining de-confidentialised administrative data available on demand carries considerable resource implications. The Department proposes to consider the issues raised by this recommendation in more detail in the context of addressing transparency concerns and future evaluation priorities.

7.3 The Commission recommends reducing the period of assistance afforded to Intensive Assistance clients to six months.

This recommendation is supported. Changes currently under consideration by the Government for ESC3 include restructuring Intensive Assistance to focus more on intensive activity over shorter periods. This is consistent with the Department's first submission to the Productivity Commission's inquiry which raised the issue of increasing the effectiveness of Intensive Assistance, and noted the scope for improving "the performance of Intensive Assistance by shortening the period of assistance but increasing the intensity of activity undertaken by the job seeker during this period" (DEWR 2002, p. 63).

The Department's evaluation of Job Network has found that activities within Intensive Assistance decrease as the length of assistance increases (although towards the end of assistance there is some rise in activity levels) (DEWRSB 2001c). Reducing the length of Intensive Assistance is likely, therefore, to increase its intensity. The Department also considers that a reduction in the length of Intensive Assistance ought to be accompanied by an increase in activity levels for participants. This could be achieved by ensuring that Activity Test requirements are applied equally to participants as they are to job seekers who are not participating.

7.6 *The Commission recommends that the Self Employment Development program be terminated.*

This recommendation is supported in principle. The Department will consider whether the resources associated with the Self Employment Development program could be used more effectively in the New Enterprise Incentive Scheme.

9.2 *The Commission recommends that the Job Seeker Classification Instrument not be used to manage the workload within the Job Network.*

This recommendation is supported. The Job Seeker Classification Instrument (JSCI) has been used in a limited way to adjust the flow of job seekers to Intensive Assistance. In the early days of Job Network it was important to maintain provider viability by ensuring providers had a sufficient pool of job seekers. Small adjustments to the JSCI bandwidths helped achieve this. Under changes being considered for ESC3, the instrument would no longer be used in this way.

9.7 *The Commission recommends that consideration be given to mechanisms that prevent wasteful recurring participation of job seekers in programs that have proven ineffective for them.*

This recommendation is supported. It raises the issue of appropriate policies for handling the significant numbers of job seekers who remain unemployed after participation in labour market assistance. This issue is not unique to Australia or its current labour market assistance arrangements and is one of the factors driving changes to Job Network for ESC3. The issue is discussed further below.

9.9 *The Commission recommends the continued use of an evidence-based system—such as the Job Seeker Classification Instrument—as the basis for determining the outcome payments that should be attached to particular groups of job seekers.*

This recommendation is supported in part. The JSCI is currently used to determine eligibility for Intensive Assistance. Job seekers whose JSCI score is not high enough for them to be eligible for Intensive Assistance can be referred to Job Search Training. Within Intensive Assistance, the JSCI score is also used to distinguish between those attracting a funding level A and those attracting a funding level B. Outcome payments for level B job seekers are higher than those for level A job seekers. The Commission argues that the JSCI should continue to be used in this way in relation to outcome payments, although it notes that fine gradations in client risk may be beyond the scope of an instrument like the JSCI. The Department agrees with this view and recognises the need to further refine the instrument and to test its predictive capabilities.

The reforms proposed under ESC 3 envisage outcome payments based partly on a streamlined JSCI tool and also unemployment duration (the longer the duration, the higher the outcome payment). This recognises that the application of the instrument is not perfect, and in particular, may understate the degree of labour market disadvantage because some job seekers are not prepared to disclose information to Centrelink in the JSCI interview. Failure by job seekers to disclose this information has the potential to reduce their chances of being referred to the most appropriate form of assistance, which in turn may reduce their chances of finding employment.

The particular issue of non-disclosure could be addressed by seeking ways to reduce the likelihood that job seekers are unwilling to provide information they perceive to be sensitive. It

may be possible to facilitate greater disclosure by adjustments to the interview process, including the timing of the interview and its structure. The Commission notes that job seekers may be more willing to disclose information if there is a relationship of trust between job seeker and service provider. This relationship is unlikely to develop at the very beginning of an episode of unemployment, when the initial JSCI interview occurs. DEWR and Centrelink have also introduced a Quality Assurance Program to monitor and improve the application, accuracy and consistency of the JSCI by Centrelink. Key elements of this program include:

- a JSCI training package for Centrelink Customer Service Officers, implemented in December 2001, designed to improve understanding of the JSCI interview process and job seeker disclosure; and
- changes to six JSCI questions, introduced in March 2002, to improve disclosure by job seekers in a range of areas, including disability, stability of residence and language and literacy.

Improved assessment arrangements under AWT will also assist in the disclosure of information to support correct application of the JSCI and appropriate services delivery:

- Intensive Support, which will be introduced from July 2002, includes an assessment period prior to Intensive Assistance. In this period, the Intensive Support/Intensive Assistance provider will determine whether the job seeker has foundation skills (eg, language, literacy or numeracy) barriers, motivational or work experience barriers or severe or multiple personal barriers to employment, which must be addressed before the job seeker can benefit from Intensive Assistance. While the majority of job seekers are expected to progress directly to Intensive Assistance others may, depending on their barriers, first undertake language, literacy and numeracy training, participate in Work for the Dole or be referred for assessment for the Personal Support Programme.
- from September 2002, Personal Advisers in Centrelink Offices will provide case-by-case assessment and assistance for particular income support recipients.

In addition, for ESC3 DEWR is examining ways to sustain closer engagement between job seekers and their Job Network member so that information disclosed over time about personal circumstances can be taken into account in service delivery.

11.4 The Commission recommends the retention of the star rating model as a basis for assessing the performance of Job Network providers, but it should be subject to continuing refinement.

The Department supports this recommendation. It is recognised that refinements to the star ratings may be required over time. The Department has adopted an evolutionary approach to what is a relatively innovative system of measuring performance. The recently completed review of the star ratings reflects this.

DEWR commissioned Access Economics to review the star rating system following concern by some Job Network providers that the model may not, among other things, sufficiently account for different labour market conditions and job seeker characteristics. The review examined the potential for improvement in the control of these factors and the potential impact on relative performance scores of any changes to the way Intensive Assistance secondary outcomes are

counted. The review was also aimed at improving Job Network members' understanding of the assessment model and the way it is used to monitor performance. The review confirmed that the methodology behind the star ratings was sound and recommended a number of refinements (Access Economics 2002), which DEWR is implementing. The latest release of ratings includes, for example, additional adjustment for regional factors, as recommended in the review. The findings of the review were publicly released in March 2002.

11.5 The Commission recommends that DEWR generally publish:

(a) star ratings at the Employment Service Area level and at the site level where the estimates are reliable; and

(b) some indication of the reliability of the published estimates.

This recommendation is agreed in principle. Employment Service Area ratings were publicly released in April 2002. In relation to part (b), the Department will consider publication of some indication of the reliability of the published estimates. As a general rule, the Department would be reluctant to publish estimates which were statistically unreliable. If this occurred, such estimates would be accompanied by a warning as to their level of reliability.

11.6 The Commission recommends that:

(a) no weight in the star ratings be given to interim education and training outcomes, but that final outcomes continue to be recognised; and

(b) secondary outcomes receive a lower weight in the star ratings than primary outcomes, consistent with the payment system.

This recommendation is agreed in principle. Both parts are consistent with changes under consideration for ESC3.

The issue reflected in part (a) of this recommendation was considered in the review of the star ratings system by Access Economics. Access Economics found that reducing the weight on interim educational outcomes in the KPIs for Intensive Assistance would affect the star ratings of 45% of Job Network members, mostly by half a star (Access Economics 2002). They also found some evidence that providers in metropolitan areas would receive higher star ratings, while a very few non-metropolitan providers would lose 1 or 1.5 stars. It did not appear that specialist providers would fare worse than other providers. Generally, removal of interim education and training outcomes from the star rating system could be expected to have a greater impact in locations with labour markets where job opportunities are poorer and a job seeker's chances of securing employment lower.

11.7 The Commission recommends that the full details of the star rating model be made publicly available, including any assessments made of its technical validity.

The Department agrees in principle with this recommendation. As noted above, the star ratings methodology was reviewed by Access Economics. The findings of this review were released in March 2002. Consideration is being given to the release of further detail of the star ratings model.

12.1 The Commission recommends that in developing a risk management approach to contract monitoring and compliance that encourages innovation and minimises costs, DEWR adopt and apply the following principle in round three of the Job Network:

- *monitoring and compliance activity be the minimum necessary to ensure accountability in the expenditure of public funds and the achievement of clearly specified objective outputs and outcomes.*

This recommendation is supported in principle.

The Department's National Contract Management Framework (NCMF) is a principles-based framework, which takes a risk-managed approach to contract monitoring and compliance activities. The Framework was adopted in November 2001 and promulgated to Job Network members in February and March 2002 and on the Department's Employment and Community Services Network (ECSN) website (www.ecsn.gov.au) for contracted providers.

Under the NCMF, the Department has reviewed its contract monitoring tools, including risk assessment and monitoring checklists, to reflect the importance of risk analysis in guiding day to day contract administration. The NCMF also involves the Department's senior contract management staff engaging with Job Network members to identify performance and practice issues and improvements for attention, at the organisational and site level. More streamlined contract management instruments were trialled in early 2002 and are being rolled-out following discussion with providers in May 2002.

In addition, as part of the NCMF, greater use will be made of data analysis to guide risk-managed contract monitoring and compliance. It is expected that ESC3 will provide an opportunity to further examine operational design, systems and practices to ensure compliance needs are kept to those necessary to protect public expenditure and to maintain high standards of conduct and integrity.

This said, the Department takes seriously its responsibilities and accountability for the expenditure of public funds and the integrity of Job Network services and will maintain its commitment to appropriate program assurance and monitoring. A level of random, as well as targeted, program assurance activity is necessary to achieve this.

12.2 The Commission recommends that DEWR openly negotiate all contract variations with relevant providers, or their industry associations. Providers should be financially compensated for any significant additional administrative or compliance burdens placed on them by the Department.

Agreed in principle. From time to time over the life of the current employment services contract, the need has arisen to offer a general contract variation, such as to account for developments in government policy under AWT.

To enable the greatest possible provider input, the Department's practice is to consult extensively with industry representatives and providers at large, prior to settling the terms of the contract offer. In the case of AWT changes, for example, three major national rounds of briefings and consultations were conducted for interested providers, with most of the suggestions and feedback raised accepted by Government for inclusion in the final contract offer. The timing

and extent of consultation will vary, for example, where variations are required to comply with statutory law or while matters are confidential to government or budget processes.

The Department is mindful of the contractual relationship that requires the consent of the contracting organisation before a variation may be effected. Of the six general contract variation offers made over the life of the current employment services contract, three have included the offer of funding to compensate providers for additional activities or costs incurred.

With respect to ESC3, it is intended to provide existing Job Network providers, and prospective new entrants to the market, with extensive briefings and to consult on detailed implementation arrangements to operationalise the Government's approved policy framework. The Department has also announced its plans for consultations on the exposure draft of the ESC3 Request for Tender, and for information sessions when the final Request for Tender is released later in 2002.

The Department does not provide specific financial compensation for Job Network members to meet compliance costs, inasmuch as compliance with contractual requirements including record keeping is inbuilt into providers' tendered prices. As indicated under Recommendation 12.1, the NCMF provides for a risk-managed approach to ensure that future compliance activities are not disproportionate to the risk.

12.3 The Commission recommends that when dealing with identified unsuitable behaviour or unintended consequences, DEWR avoid, to the extent possible, imposing additional compliance costs on providers whose behaviour has been acceptable.

The Department agrees in principle with this recommendation and seeks to apply this approach in its existing practices. Where issues of non-compliance are limited to a specific site or organisation, such matters are dealt with on a bilateral basis between the Department and the provider(s) concerned. This is the case in the great majority of compliance matters handled by the Department.

Infrequently, broader issues arise such as practices that have the potential to bring the integrity of Job Network into disrepute or which affect the appropriate expenditure of public funding.

When this occurs it is incumbent on the Department to take appropriate action to address identified risks systemically. In such cases, the Department considers the least onerous approach necessary, for example, by undertaking data analysis to identify higher risk sites or organisations for follow-up; addressing the risk within scheduled monitoring visits; and/or considering if the issue can be addressed adequately by raising awareness of existing contract provisions. Where possible, providers whose practices are not problematic are unaffected. On an exception basis, it has been necessary to address material risks through changes to the Department's IT recording systems. In one case, matters initially identified in respect of a single organisation required the issuing of a general contract variation (GCV Number 4).

The Department continues to engage in dialogue with providers and the industry association to apply a risk managed approach to such issues, now and in ESC3.

12.4 The Commission recommends that DEWR collect and publish relevant data about the nature, extent and cost of its contract and compliance monitoring activities, as well as information about provider behaviour (such as cases of fraud found and errors made in claims).

The Department agrees in principle with this recommendation. The Department routinely publishes details of fraud cases and the costs of compliance activities in its annual report and regularly uses provider communication channels, such as the Job Network Bulletin, to alert providers of common errors to guard against. All findings from quality audits are communicated back to the provider concerned.

The Department appreciates the need for greater transparency in regard to compliance monitoring. This is a complex area, however, where the definition and content of compliance information may be open to different interpretations. It is recognised that there is a need to be flexible in this area, particularly in regard to:

- providing details of invalid claims by Job Network members; and
- providing information on deviations from existing compliance monitoring practices.

There may be practical difficulties in separating out the cost of contract compliance monitoring from the overall contract administration regime. This is because contract dealings with providers will, typically, include performance feedback, information briefing and compliance checks in varying proportions based on the circumstances of the particular site or organisation.

Under the NCMF, the Department will produce aggregate information about quality audit findings for the information of the industry, as well as information to support practice improvement. The latter commenced with industry events and information on the ECSN provider site in February and March 2002. Stronger data analysis tools and skills under the NCMF will enable local contract management staff to discuss with providers, for example, any recurrent errors detected in their operations.

15.2 The Commission recommends that DEWR and Centrelink negotiate an appropriate set of key performance indicators on which a substantial proportion of payment from the Department to Centrelink should be based.

The Department supports this recommendation. DEWR moved towards payment based on performance in the 2000–01 Business Partnership Arrangement. Performance pay was linked to the achievement of a number of key performance indicators (KPI) in this agreement. For a given KPI, Centrelink was rewarded for exceeding the designated performance benchmark and penalised when performance fell below the benchmark. The Commission's recommendation builds on this initial step and will be taken up in the context of the development of the arrangements to apply from July 2002.

Recommendations not supported

While the Department supports the overall thrust of the Commission's draft report, a number of key recommendations are not supported. This part of the submission details DEWR's response to those recommendations.

7.1 The Commission recommends that the payment of a job matching placement fee for 15 or more hours work be terminated at the conclusion of the second contract period.

The Commission recommends that the role of Government in job matching for non-disadvantaged job seekers be limited to the continued maintenance of an internet website

and Centrelink touchscreens for access to Job Search Australia (the vacancy database) and other simple self-help facilities such as fax, resume and photocopy services.

Job matching for disadvantaged job seekers should remain an integral part of the assistance provided to job seekers eligible for Intensive Assistance, but should no longer attract a separate fee.

This recommendation is not supported. The Government has made a commitment to expand the delivery of paid Job Matching services in ESC3.

Meeting the needs of employers and disadvantaged job seekers

The Department considers that there is merit in having a Job Matching service which caters for as many job seekers and employers as possible. By servicing employers with a range of job seekers with various skill levels, Job Network members are able to secure a larger share of the vacancy pool. Having a wider pool of vacancies improves the scope for providers to place a full range of disadvantaged clients, thereby enhancing the viability of the market.

The capacity to refer the more disadvantaged job seekers to employers has been shown to be one of the factors that distinguish higher performing providers from lower performing providers. High performing Job Search Training and Intensive Assistance providers were much more likely than lower performing providers to refer their disadvantaged job seekers to job interviews (DEWRSB 2001c).

The ability to attract vacancies is a function of the relationship between individual providers and employers. From the employer's perspective this relationship depends to a large extent on the experience with previous referrals. It is in the provider's interest, therefore, to ensure that all referrals are appropriately screened to ensure maximum compatibility with the vacancy, irrespective of the level of disadvantage faced by the job seeker.

It is important to note in relation to Job Matching that job seekers who do not qualify for Job Search Training or Intensive Assistance can still face barriers to employment. They may, for example, lack knowledge of opportunities in the local labour market or have limited resources for job search activities. The service received through Job Matching can assist these job seekers in overcoming these barriers. Without such a service, many of these less disadvantaged job seekers may remain unemployed, thereby increasing the flow into long-term unemployment. It is not currently possible to establish, however, the extent to which Job Matching contributes to the employment prospects of those assisted. To do so would require estimating Job Matching's net impact, which is not feasible in the absence of a valid control group against which to compare the performance of Job Matching. Nevertheless, research indicates that the overwhelming majority of the job seekers who are placed into jobs through Job Matching, nevertheless, are also employed in the longer term, and in many cases the quality of job outcome improves over time in terms of job tenure, skill levels and earnings (DEWRSB 2001a).

International Labour Organisation commitments

Australia is committed to a publicly funded labour exchange under the International Labour Organisation's Employment Services Convention. This convention requires the provision of a free and readily accessible employment service to all citizens. This is provided through a combination of Job Matching and Australian JobSearch, the Department's employment website (www.jobsearch.gov.au). While improved technology and universal access to this technology may mean that obligations under the convention can eventually be met from a subsidised

centralised vacancy database, limiting Job Matching to disadvantaged job seekers at this time may call into question Australia's commitment to this convention.

7.7 The Commission recommends that subsidies be removed for Project Harvesting Services.

This recommendation is not supported. The Department considers that the Government has a role in supporting the operation of this segment of the market.

The Productivity Commission report draws heavily on the recommendations of the National Harvest Trail Working Group Report *Harvesting Australia*. As the Commission rightly notes, the Working Group saw that separate project contracting may not be required if the other specific report recommendations were implemented. One of these recommendations is to establish a National Harvest Labour Broker to co-ordinate, promote and market harvest jobs.

The Government is in the process of considering the recommendations of the Harvest Working Group. For ESC3, however, the Government is committed to project harvesting contracts.

8.2 (b) The Commission recommends that entry into Intensive Assistance should be voluntary for eligible benefit recipients rather than mandatory, provided they participate in some activity that meets mutual obligations.

The Department does not support this recommendation. The Productivity Commission argues that voluntary entry to Intensive Assistance would increase competition between providers (because they would no longer have a guaranteed market) and increase effectiveness because job seekers without the capacity to benefit (either those who do not need assistance to get a job and those with very low probability of employment) would not attend. It would also, the Commission argues, engender more positive attitudes to Job Network and increase the assistance options for disadvantaged job seekers.

As noted earlier, the Department considers that the current performance of Intensive Assistance could be improved by increasing the intensity of personalised assistance over shorter periods. Options for increasing the level of servicing canvassed in its first submission to the Productivity Commission's inquiry included better tailoring to the needs of the individual job seekers and local job opportunities through "greater use of 'tied funding' and the concept of a 'Job seeker Account'" (DEWR 2002, p. 64). The Department is also sympathetic to the view that job seekers who are unlikely to benefit from Intensive Assistance should not be 'recycled' through this service (an issue discussed further below).

In the context of changes to Intensive Assistance proposed for ESC3, however, the Department does not support voluntary participation for most job seekers on activity-tested allowances.¹ Job seekers on activity-tested allowances have an obligation to improve their job readiness and to attempt to reduce their dependence on income support. The Department believes that participation in Intensive Assistance can improve job readiness, thereby assisting to meet this obligation. For voluntary participation in Intensive Assistance to meet Government objectives of increasing the economic participation of income support recipients, a number of conditions would have to be met. All job seekers would have to be well-informed consumers regarding the most appropriate assistance options for them and they would have to be motivated to make this choice. Some job seekers, if given a choice of whether or not to participate in Intensive Assistance may choose not to. In addition to having well-informed and motivated job seekers,

¹ Voluntary participation in Intensive Assistance currently exists for job seekers who are not on an activity-tested allowance.

there would have to be enough information in the market place on provider services and performance to inform these job seekers' decisions. Notwithstanding significant improvements in the availability of information on the performance of Job Network members, through initiatives such as the star rating system, it is not currently possible for these conditions to be met.

Voluntary participation in Intensive Assistance would, as the Commission suggests, increase competition between providers and encourage them to put more effort into marketing their services to job seekers. This objective could be achieved, however, by other means. Relaxing the current undertaking to maintain Intensive Assistance providers' point in time capacity at 85%, as also recommended by the Commission (Recommendation 11.2) (Productivity Commission 2002), would contribute to increased competition between providers.

8.3 The Commission recommends that there be some scope for job seekers to change their Intensive Assistance Job Network provider, but that portability should be limited to:

- (a) a short period at the commencement of program participation; or*
- (b) where a Job Network provider has failed to meet reasonable obligations to the job seeker; or*
- (c) where mutual consent is given by the job seeker and current and prospective Job Network providers.*

This recommendation is not supported. The Department considers that the extent to which job seekers can change their Intensive Assistance provider should remain limited. Recommendation 8.3, if adopted would provide too many opportunities for movement between providers. Currently, job seekers have the opportunity to change Intensive Assistance providers where there is an irreconcilable breakdown in the relationship. This seems to reflect the situation envisaged in part (c) of the recommendation. Allowing job seekers to change shortly after commencement, however, (as suggested in part (a)) would create administrative complexity (for both providers and the Department) regarding the management of provider payments (eg, recovery of payments) and would lead to increases in costs when a further payment is made to providers.

Part (b) of the recommendation could act as a disincentive for Job Network members to invest in appropriate assistance on behalf of a job seeker. As a part of modifications to Intensive Assistance currently being considered, services to job seekers would be underwritten by a service guarantee, thereby strengthening obligations on the provider to deliver appropriate assistance and helping to avoid the need for job seekers to move to an alternative provider.

11.1 The Commission recommends that competitive tendering be abandoned as the method for provider entry and contract renewal in the Job Network. It should be replaced by a licensing system that allows:

- (a) free entry at any time to any supplier that meets DEWR's accreditation standards; and*
- (b) automatic licence renewal, subject to a requirement that providers achieve a certain performance standard.*

This recommendation is not supported at this time. For ESC3 the Government is committed to rolling over around 60% of the highest performing providers in the current contract with the balance of business to be awarded on the basis of competitive tender. This should not be taken to imply, however, that a licensing and accreditation system is ruled out as a future option for allocating Job Network business. As indicated in its earlier submission, DEWR has reviewed the second tender with a view to developing options for purchasing Job Network services beyond 2003 and alternative options for purchasing future Job Network business have been canvassed with Job Network members (DEWR 2002). For ESC3, Job Matching services will operate under a licensing approach. Whatever the model for employment services adopted in the future, however, it must provide equity of access to assistance for job seekers, irrespective of their level of disadvantage, a choice of provider, reflect value for money, involve a purchasing process that is transparent and reward good performers.

A licensing and accreditation system would clearly make entry to and exit from the market easier than is the case in the current tendering system. The disruption to business levels and placement activity associated with tendering would be avoided, as would the administrative costs of putting together a tender selection team. The possibility of such a system at some stage in the future, however, raises a number of significant service quality issues which would need to be resolved before a licensing and accreditation system could be introduced. As indicated above, these issues include maintaining a quality service over time and avoiding the situation where providers focus their efforts on the easiest to assist and refuse or minimise the service to those who are hard to assist. Resolving these issues is crucial to ensuring protection of the Commonwealth interest.

Maintaining service quality

Under licensing systems, quality of service is maintained by accrediting provider organisations that demonstrate a capacity to achieve a certain standard of service and competition between providers. Where market forces do not lead to their removal from the market, the market's purchaser and regulator has the power and responsibility to apply sanctions to poor performers. This ultimately may include revoking a licence to operate within the market (in this case Job Network). Under a tendering system, poor performers can be removed more readily from the market at the end of each contract round.

A key difference between the two systems is where the onus of proof lies. In a tendering system the onus is on service providers in the market to demonstrate through performance and subsequent re-tendering that they should be retained. A licensing system, however, shifts the onus more to the purchaser who has to demonstrate that a provider has not achieved the performance standard before that provider can be removed from the market. If the purchaser lacks the will to intervene and market forces do not operate sufficiently (in locations, for example, where there are few providers), poor performers may remain in the market. This situation seems a less likely outcome under a tendering system.

Access to services

Job Network includes incentives and contractual requirements to ensure access of services within a framework of flexibility which allows services to be tailored to individual needs. Incentives include the fee structure (a combination of upfront fees and outcome payments, and higher fees in Intensive Assistance for more disadvantaged job seekers), the star rating system to encourage higher performance and the prospect of future business. Job Network contracts require that

providers accept all job seekers referred to them (in the case of providers of Job Search Training² and Intensive Assistance), while Intensive Assistance Support Plans and provider declarations of intent represent accountability measures to ensure services are provided to the more disadvantaged job seekers. A monitoring and compliance framework is in place to support these contractual requirements.

There is no reason to believe that a similar incentive structure could not operate under a licensing system. The conditions currently set out in Job Network contracts, such as the requirement for providers to accept all job seekers referred to them, could also be included within the terms and conditions of any licence.

3. Other issues raised in the report

Churning or recycling of job seekers through ineffective programs

The report raises the recycling of job seekers through ineffective programs as a major labour market assistance issue and tackles it through a number of remedial recommendations, particularly in relation to Intensive Assistance (7.3, 8.2 to 8.4 and 9.7). These recommendations include limiting the duration of assistance and making entry to Intensive Assistance voluntary (discussed above). The Commission also proposes an intensive milestone-based program outside Job Network. Payments for such a program would be based on overcoming barriers to employment. The report seeks feedback on such a program.

Many job seekers do not achieve employment or positive outcomes after participating in labour market assistance. As noted earlier, this is not unique to Australia, nor is it a function of current labour market assistance arrangements. It contributes, however, to many job seekers having multiple episodes of assistance with no apparent improvement to their employment prospects. While in some instances repeat episodes of labour market assistance are justifiable and in the longer-term interest of the job seeker, the scale at which it currently occurs raises questions about the effectiveness of labour market interventions for some job seekers. Indications are that about 50% of current Intensive Assistance participants have previously participated in this form of assistance.

The current Community Support Programme (to be replaced by the Personal Support Programme) provides assistance to job seekers who have non-vocational barriers to employment which need to be addressed before these job seekers can be referred to Intensive Assistance. Changes to Job Network as part of the AWT should help to reduce the extent of repeat episodes of assistance. These changes include additional support for training in the form of the Training Account for Indigenous and mature aged job seekers participating in Job Search Training or Intensive Assistance and providing Intensive Support providers with the option of referring participants to other forms of assistance where the need can be established.

Changes to Job Network for ESC3 are designed to prevent repeat episodes of ineffective assistance. To achieve this assistance will be better targeted, more intensive and tailored to individual needs and to the local labour market. Job seekers who require assistance will receive ongoing support.

² Job Search Training providers may refuse to take a job seeker referred to them if they can demonstrate the job seeker will not benefit from the assistance.

Measuring service quality

Chapter 6 of the draft report examines service quality and includes an analysis of service quality data collected by DEWR in surveys of job seekers. The survey data are supplemented by material collected in Centrelink offices using 'Value Creation Workshops' and anecdotal evidence presented to the Commission. The Department considers that the focus of the discussion of service quality should be issues based rather than collection based. It does, moreover, consider that the report relies excessively on the findings of the Value Creation Workshops which have little statistical reliability.

While the discussion of the workshops includes a basic disclaimer that they "are not intended to be a valid statistical summary of concerns and ideas of job seekers as a whole" (Productivity Commission 2002, p. 6.4) and cautions against the possible non-representativeness of the job seekers who attended the workshops, there is no mention of the possible biases in the results which arise as a result of this methodology. In particular, there is no mention of how many job seekers were approached before they were able to secure the limited sample of 100 job seekers or a description of the characteristics of the resultant population and any known differences between attendees and the overall population.

In relation to surveys carried out by DEWR, the Commission claims that "it is common for satisfaction surveys to reveal satisfaction levels of from 80 to 85%, irrespective of the topic" (p. 6.6). This view reflects a degree of overstatement. Satisfaction levels are frequently around 75%. It is also important to note that the overall measure provides an 'at a glance' indicator of quality. Of greater significance is movement from year to year in this measure. Other data collected in the surveys are in fact more significant than the 'top line' satisfaction level. The analysis of these data provide the basis for advice on service quality improvements and areas of possible concern as it is known that a high overall satisfaction score (such as those recorded for Intensive Assistance and Job Search Training) does not mean that no improvements in service delivery could be made.

The report also claims that a substantial positive bias may have resulted from 15% of Intensive Assistance participants who claimed to have had no contact with Job Network and were subsequently excluded from the 1999 survey. There are a variety of factors that contribute to the level of claimed 'no contact', not all of which are an indication of lack of service. Some of these job seekers may have quickly obtained employment or left Intensive Assistance for other reasons after a very short episode of assistance.

The report notes, in addition, that the use of screening questions can introduce bias to the survey results. The Department is aware of the potential for this type of bias and analyses the data accordingly. People in a survey cannot be asked to comment on a service if they do not recall receiving the service. The characteristics of this group relative to the characteristics of those who respond to the survey are used to inform any interpretation of the survey findings.

Estimating program net impact

DEWR's approach to measuring the net impact of labour market programs (ie, the contribution program assistance makes to job seekers outcomes) is discussed in Chapter 5 and Attachment E of the report. The report's treatment of the net impact methodology raises two issues:

- in the view of the Department, the report does not give sufficient recognition to redevelopment of the net impact methodology; and

- whether the Department's initial attempts to measure compliance overstate the impact.

New net impact methodology

Net impact is a key measure of program effectiveness because it controls for employment outcomes that would have occurred in the absence of assistance. It does this by comparing the employment rate of job seekers involved in a labour market intervention (a program group) with those of a group that (as far as possible) has not experienced this intervention (a control group).

In recent years the Department has revised its approach to measuring net impact. Initially, net impact was measured three months after participation in labour market assistance (see DEETYA 1997 for findings). While this approach provided an estimate of the benefits to the individual of participation in assistance, it did not measure compliance or motivational effects (derived from referral to assistance) or the attachment effect (the effect of a reduction in job search activity while participating in a labour market program). Improvements in the Department's administrative system have made it possible to measure compliance effects following the introduction of Job Network when details of job seekers referred to assistance were recorded in a consistent and systematic way. Compliance impacts in terms of off-benefit outcomes were first published by the Department in 2001 (DEWRSB 2001b).

The Department's most recent net impact studies (which will be reported in stage three of the Job Network evaluation) have measured impacts 12 months after referral to and commencement in assistance. This approach estimates the cumulative effect of compliance, attachment and program effects. While this approach is less than ideal because, in the presence of universal entitlement to assistance, the formation of a 'pure' control group is difficult, it does capture a greater range of program impacts than was possible in the previous methodology and provides a more comprehensive assessment of the benefits at an individual level from program participation.

Appendix E of the report discusses possible biases which can arise in the calculation of net impact. The Department does not disagree with most of the points raised in this discussion. The focus of Appendix E, however, is on previous approaches to measuring net impact and these have little relevance to current methodology.

Are compliance impacts over stated?

As noted above, measuring net impact from referral to assistance allows compliance effects to be estimated. In Chapter 5 of the draft report, the Commission claims that compliance impacts measured in terms of movements off activity-tested allowances are overstated in *Job Network: a net impact study* (DEWRSB 2001b). No evidence is presented to support this claim. For it to be true, there would need to be a different rate of movement to other benefits for those who were referred to a program (the program group) compared to those who were not (the control group). The evidence that is available does not support the Commission's claim. Across all programs measured, the exit rate from activity-tested allowances to other than employment (which would include movement to other forms of income support) ranged between 6 and 12%, and for any program the maximum variation between program and control groups was three percentage points (DEETYA 1997). Members of the control group were just as likely to move off benefits to destinations other than employment as members of the program group.

It is also important to note that there is a strong correlation between employment outcomes (and impacts) and off-benefit outcomes (and impacts). Outcomes data from the Post-program Monitoring survey show that around 80 to 90% of those who move off activity-tested allowances

achieve an employment outcome. Employment net impact is the preferred measure from the Department's perspective as it accords more closely with program objectives. Data on off benefit net impacts, however, are much more readily available. Off benefit impacts can be derived from administrative data while surveys are required to obtain estimates of employment impacts.

4. References

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