



**Pre-Budget Submission to
The Treasury
Commonwealth of Australia
2021-22**





About NESA

The National Employment Services Association (NESA) established in 1997 is the peak body of the Australian employment services sector. NESA is dedicated to a vision of opportunity for everyone through employment and inclusion.

Employment inclusion and participation are cornerstones of the economic and social health of society. For the individual, employment participation is more than a means to income; it provides connection, purpose and inclusion. Employment participation and productivity are key drivers of economic growth and underpin the quality of life of all Australians enabling access to such things as a well-functioning health system, quality education and strong social safety net.

The Australian employment services sector plays a critical role in preparing Australians to participate productively in the labour market and connecting them to employment opportunities.

NESA's mission is to lead a sustainable, effective and diverse employment services sector to support individual job seekers and employers and to contribute to our nation's achievement of employment participation objectives.

NESA membership encompasses the breadth of Australia's diverse labour market assistance programmes including jobactive, Disability Employment Services (DES), the Community Development Programme (CDP) and all complementary programs and services. A large proportion of NESAs members deliver multiple programmes.

Our membership is extensive and diverse, and open to all contracted providers (for-profit, not-for-profit and public). To illustrate, of providers of Australia's largest employment programme – jobactive – NESAs members have a collective footprint covering 100% of Employment Regions.

NESA delivers intensive policy, operational and capacity building support to member organisations. NESAs works collaboratively with Government Departments, agencies and non-government stakeholders to support the effective delivery of labour market assistance and social policy. Our extensive membership and intensive member and stakeholder interaction provide unique insight into the policy and operational settings that underpin effective labour market assistance.

Executive Summary

Unemployment is a phenomenon with serious economic and social impacts throughout the fabric of a nation and which has huge social and economic costs including limiting the economy's productive potential and economic growth¹.

Unemployed people are among our most vulnerable citizens. The experience of unemployment and underemployment can have a profound effect on an individual with the psychosocial stress involved having a strong impact on physical and mental health and wellbeing². Research indicates unemployed people have more illness and disability than those of similar age who are employed and are at higher risk of death including through self harm³. In contrast being engaged in quality work is health-protective, providing positive personal development, self-esteem, sense of identity and social connection.

Unemployment is more often experienced by people with no or few qualifications or skills, those with disabilities or mental health issues, those with caring responsibilities, culturally and linguistically diverse groups or those who are socially excluded for other reasons⁴. However, in times of economic decline, such as has been experienced as a result of the COVID-19 pandemic a broader range of people become unemployed. A socially inclusive society is one in which its members are afforded the resources, support and opportunity to fully participate in the social and economic life of the community. Active labour market policies and programs play a critical role in providing these supports with early intervention to assist displaced workers regain employment minimising the scarring effects of unemployment and reducing potential growth in long term unemployment. Inadequate action on unemployment results in significant cost socially and economically in higher social assistance, health and welfare costs with research suggesting the return on investment in employment assistance can be considerable⁵ and is cumulative rather than one off value creation⁶.

Ensuring Australians have access to quality employment assistance should be an economic priority as supported by the International Labour Organisation which has recommended that "given the critical role labour market policies and employment services have played in this and past crises, countries should maintain or increase funding for Public Employment Services and Active Labour Market Program providers as lockdowns are eased and recovery begins, to support effective transitions in the labour market"⁷. In contrast there have been continued reductions to investment in employment assistance in Australia including efficiency measures announced as part of the Commonwealth Budget 2020-2021 representing a \$1.2 billion dollar reduction in investment in employment assistance.

NESA's submission is focused on arrangements related to employment services policy and active labour market programs. Summary of recommendations:

1. A Full and Inclusive Recovery

- A. The Government should commit to striving to achieve full employment and an inclusive recovery.
- B. Include the promotion of disadvantaged job seekers as part of all employment and job creation initiatives to ensure those most disadvantaged and less likely to gain employment without additional assistance are prioritised, for example higher subsidies for long term unemployed and other vulnerable job seeker cohorts.
- C. Job seeker classification and service eligibility criteria should be reviewed to ensure they properly reflect increased risks of long term unemployment faced by various cohorts.
- D. Introduce Initiatives targeted at reducing involuntary underemployment and strengthen underemployed workers access to adequate employment assistance

¹ Sila U. & V Dugain 2019, "Income poverty in Australia: Evidence from the HILDA survey", OECD Economics Department Working Paper, No.1539, OECD Pub Paris, <https://doi.org/10.1787/322390bf-en>

² Health and Unemployment D Dooley, J Fielding, and, and L Levi Annual Review of Public Health 1996 17:1, 449-465

³ The health consequences of unemployment: the evidence C Mathers, D Schofield Medical Journal of Australia (168/4) 1998

⁴ Australian Institute of Health and Welfare 2015. Australia's welfare 2015. Australia's welfare series no. 12. Cat. no. AUS 189. Canberra: AIHW

⁵ Parliament of Victoria Legislative Assembly Economy and Infrastructure Committee Inquiry into sustainable employment for disadvantaged jobseekers 2020

⁶ Hetherington, D (2008) Unlocking the value of a job: market design in employment services, Per Capita: Australia

⁷ ILO - Labour market policies and employment services are critical ingredients of the COVID-19 policy responses 18 Aug 2020

2. Establishing New Employment Services

- E. The Government renew its commitment to redirecting efficiencies gained through digitalisation and self servicing of more 'job ready' job seekers into Enhanced Services for those more disadvantaged.
- F. The Government renew the commitment made in 2018 to redirect but not reduce investment in the provision of employment services to Australian citizens and at minimum, restore investment.
- G. The Government consider the concerns expressed by the sector prior to approving the New Employment Services – Enhanced Services payment model.
- H. Provide greater transparency regarding the investment approach for Enhanced Services to achieve understanding of the rationale for the proposed payment model.
- I. Provide NESAs as the peak body detailed assumptions underpinning Enhanced Services payment model to enable a comprehensive financial modelling tool to be developed and released prior to commencement of purchasing and reduce the risks of market and/or provider failure.
- J. The current level of upfront investment in services to job seekers should not be diminished in the implementation of New Employment Services. The Engagement fee should be:
 - Increased to be equal to 100% of 4 current jobactive Administration payments plus CPI to maintain real investment levels in Enhanced Services
 - Paid every two years the job seeker remains in service rather than being a one-time payment
 - Include Regional Loadings on Engagement and Outcome Fees
- K. In proposing to use the Job Seeker Classification Instrument (JSCI) score to determine Outcome payment levels the sector strongly urges commitment to:
 - Transparency of the JSCI thresholds set for payments
 - Transparency and consultation with the sector regarding any proposed change to thresholds
 - Use of a transparent evidentiary approach to probability of achieving an employment outcome (not budget) to set and review thresholds
 - Use of the job seekers highest JSCI score during their period of service to determine outcome level eligibility
- L. Outcome definitions should be reviewed to reflect the disadvantage of the target cohort, the prevalence and importance of part-time and casual employment to break the cycle of entrenched unemployment. This may include reducing required rate reduction from 100% and/or other mechanisms to introduce greater tolerance for variation of earnings.

3 Disability Employment Services

- M. Withdraw the proposed measure to amend DES eligibility, and retain eligibility arrangements based on assessment of need of specialist employment assistance
- N. Extend eligibility for JobMaker Hiring Credit to young people in receipt of the Disability Support Pension

4 Stewardship of Australian Employment Services & Competitive Neutrality

- O. Establish an independent body to provide oversight, regulation, evaluation and funding of Online Employment Services and contracted employment services with the Department of Education, Skills and Employment maintaining its role of Steward with a focus on policy and program design
- P. Review the Departments' role as a service provider as part of the human services market with contracted providers and determine appropriate measures and reporting to ensure competitive neutrality is maintained.

5 Promoting Excellence in Employment Assistance and Labour Market Policy

- Q. In consultation with stakeholders establish a comprehensive employment services caseload demographic data set which is released on a regular basis (quarterly)
- R. Actively promote and support independent research of labour market policy, programs and employment services
- S. Support the Professionalisation of the employment services workforce through investment of seed funding to establish the Employment Services Institute

Introduction

Unemployment is a phenomenon with serious economic and social impacts throughout the fabric of a nation and which has huge social and economic costs including limiting the economy's productive potential and economic growth⁸. Unemployed people are among our most vulnerable citizens. Long-term unemployment is considered to be one of the most significant public health risk factors. On the balance of evidence, unemployment causes, contributes to or accentuates a wide range of negative health impacts at a significant cost to individuals, families and society.⁹ The experience of unemployment and underemployment can have a profound effect on an individual with the psychosocial stress involved having a strong impact on physical and mental health and wellbeing¹⁰. Research indicates unemployed people have more illness and disability than those of similar age who are employed and are at a higher risk of death including through self harm¹¹. In contrast being engaged in quality work is health-protective, providing positive personal development, self-esteem, sense of identity and social connection.

Unemployment is more often experienced by people with no or few qualifications or skills, those with disabilities or mental health issues, those with caring responsibilities, culturally and linguistically diverse groups or those who are socially excluded for other reasons¹². However, in times of economic decline, such as has been experienced as a result of the COVID-19 pandemic a broader range of people become unemployed. A socially inclusive society is one in which its members are afforded the resources, support and opportunity to fully participate in the social and economic life of the community. Active labour market policies and programs play a critical role in providing these supports with early intervention to assist displaced workers regain employment minimising the scarring effects of unemployment and reducing potential growth in long term unemployment. Inadequate action on unemployment results in significant cost socially and economically through higher social assistance, health and welfare costs with research suggesting the return on investment in employment assistance can be considerable¹³ and is cumulative rather than one off value creation¹⁴.

It is this value of employment to all facets of the economy and community that highlights the importance of Australia's employment services. It further reinforces the importance of providing individuals who are disconnected from workforce assistance to enable their participation. Ensuring unemployed and underemployed Australians have access to quality employment assistance should be an economic priority.

Background

Following the Global Financial Crisis Australia experienced steady employment growth. Employment increased by 1,196,400 (or 10.4 per cent) from 2013 to October 2018, to stand at a record high of 12,665,800 in October 2018.¹⁵ The Department of Jobs and Small Business Employment Outlook 2018 to May 2023¹⁶ in summary, projected:

- Total employment to increase by 886,100 (7.1 per cent or 1.4% per annum) over the five years to May 2023 with growth expected in every region of Australia with three quarters concentrated in metropolitan areas.
- Health Care and Social Assistance industry, Construction industry, Employment in the Education and Training industry, Professional, Scientific and Technical Services industry and Accommodation and Food Services were collectively expected to contribute approximately 5.3 of the projected 7.1 percentage points total employment growth.
- Cafés, Restaurants and Takeaway Food Services within the Accommodation and Food Services industry, Australia's largest employing industry sector, was projected to make the largest contribution to growth over the five years to May 2023 (up by 74,700 or 11.9%), supported by both domestic demand and continued increases in international visitor arrivals.

⁸ Sila U. & V Dugain 2019, "Income poverty in Australia: Evidence from the HILDA survey", OECD Economics Department Working Paper, No.1539, OECD Pub Paris, <https://doi.org/10.1787/322390bf-en>

⁹ Journal of Insurance Medicine (2007) 'Work and Common Health Problems' Waddell G, Burton K & Aylward M, Vol 39, 2, pp. 109-120

¹⁰ Health and Unemployment D Dooley, J Fielding, and, and L Levi Annual Review of Public Health 1996 17:1, 449-465

¹¹ The health consequences of unemployment: the evidence C Mathers, D Schofield Medical Journal of Australia (168/4) 1998

¹² Australian Institute of Health and Welfare 2015. Australia's welfare 2015. Australia's welfare series no. 12. Cat. no. AUS 189. Canberra: AIHW

¹³ Parliament of Victoria Legislative Assembly Economy and Infrastructure Committee Inquiry into sustainable employment for disadvantaged jobseekers 2020

¹⁴ Hetherington, D (2008) Unlocking the value of a job: market design in employment services, Per Capita: Australia

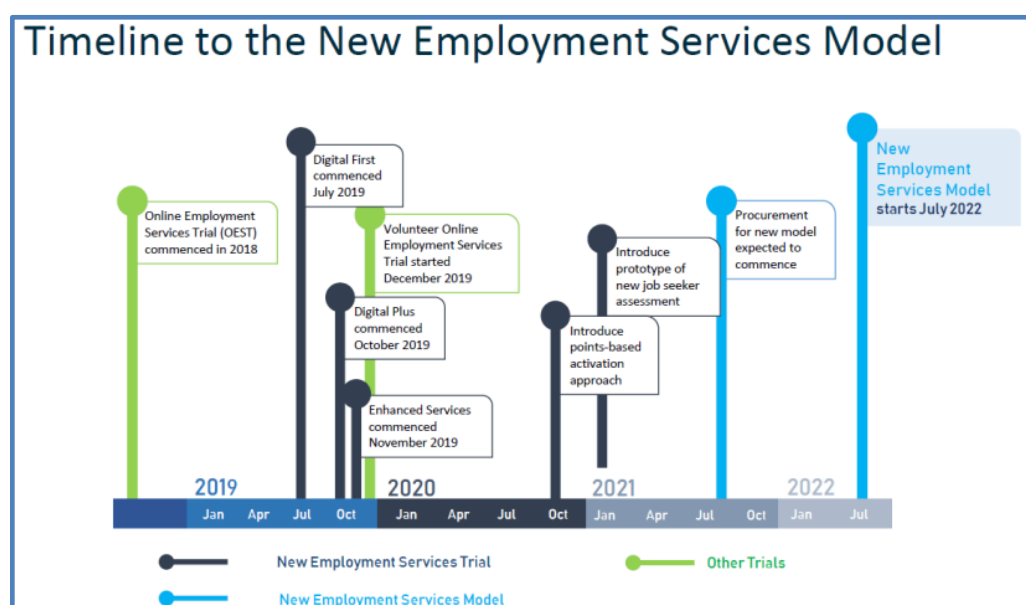
¹⁵ Source: Mid-Year Economic and Fiscal Outlook 2020-21 - The Commonwealth of Australia

¹⁶ Employment Outlook to May 2023, Department of Jobs and Small Business, ISSN 2202-6916 December 2018

- 90% of employment growth in skill levels 1-4, with occupations classified to the highest skill level making up almost half of the projected employment growth over the five years to May 2023.
- Below average employment growth projected for skill level 2, 3, and 5 with the effects of automation contributing to projected employment decline.
- Employment opportunities in skill level 5 occupations, providing career platforms for job seekers and those looking to enter the labour force were projected to come from roles including Kitchenhands (up by 16,100 or 11.7%), Sales Assistants (General) (7400 or 1.4 %), Security Officers and Guards (6300 or 9.9%), Shelf Fillers (6300 or 8.6%), Commercial Cleaners (6200 or 3.7%) and Building and Plumbing Labourers (6000 or 9.2%).

In the context of this labour market outlook the Government initiated in 2018 an extensive consultation process to design the Next Generation of Employment Services¹⁷. The jobactive program was implemented in 2015 and had been achieving more employment outcomes than its predecessor programs. However, opportunities for improvement were identified particularly in regard to the need to strengthen services for disadvantaged job seekers who were prone to or already experiencing long or very long term unemployment. A considerable investment of time and expertise by a range of stakeholders including an Employment Services Expert Advisory Panel, 560 participants in consultation sessions and 451 written submissions contributed to the development of a new model of employment assistance. The consultation process culminated in the release of the I Want to Work report¹⁸ in 2018 which provided a blueprint for New Employment Services.

The I Want to Work report was clear in its intent that the new model of employment services should be focused on directing more resources to those job seekers who need the most assistance through implementing smarter and more targeted investment. This would be supported by leveraging digital technology to create efficiencies that would enable greater investment in job seekers who required more assistance than the architecture of the current jobactive program afforded them. The implementation of New Employment Services involves significant reform which will affect many stakeholders including job seekers and employers. Some re-engineering of the broader employment service framework is also required to ensure that policies and functions such as those delivered via Services Australia are aligned to the new model. In recognition of the risks associated with such significant reform and commitment to rigorous trial and evaluation of New Employment Services prior to national rollout, the Government extended jobactive contracts due to expire in June 2020 to June 2022.



¹⁷ The next generation of employment services discussion paper, Department of Jobs and Small Business 2018

¹⁸ I want to work, Employment Services 2020 Report, Department of Jobs and Small Business 2018

New Employment Services includes two significant service elements Online Employment Services (OES) and Enhanced Services. OES aims to assist job seekers who are job ready and capable of independent job search and provides online recruitment support to employers. Enhanced Employment Services aims to provide case management to disadvantaged job seekers requiring intensive assistance to overcome barriers to employment as well as those who lack digital capacity to self manage their job search in OES.

In 2018 the trial of the OES commenced with a narrowly selected cohort of job seekers. Trialling of Enhanced Services commenced in November 2019 with the plan to progressively roll in new service elements over the trial period to deliver a fully tested model in time for national implementation in July 2022. The sector understands that the trials have been significantly disrupted as a result of the national bushfire crisis and the COVID-19 pandemic. At this time there have been no published evaluations and significant elements of the proposed new model have yet to be fully developed and incorporated into the trial.

Much has changed since the I Want to Work report was released as the accepted blueprint for New Employment Services, particularly as a result of the COVID-19 pandemic. The imperatives that drove design recommendations for New Employment Services however are still relevant and now even more critical. There is now higher unemployment, higher underemployment and increasing numbers of people leaving the labour market than when I Want to Work was released in 2018. Critically, a major priority in seeking reform of employment services was to address the persistent and growing problem of long and very long-term unemployment and the COVID-19 pandemic has increased the risk of a long-term unemployment crisis.

In stark contrast to previous projections; the onset of the COVID-19 pandemic saw significant and immediate impacts on employment. The ABS April issue of Labour Force, Australia (21 May) shows the magnitude of the impact on the Australian labour market between March and April, including:

- Employment falling by almost 600,000;
- Unemployed people increasing by 100,000;
- Participation rate decreasing by 2.4 pts to 63.5%
- The number of people working fewer than usual hours ('No work/not enough work available/or stood down') up 286%
- Those who 'Began, left or lost a job' increased over nine-fold (up 847%).

Additional estimates produced by the ABS delve beneath headline unemployment rates to provide further understanding of impacts on the Australian labour market¹⁹ and the quantum of citizens that have lost all or some of their work obscured in the official measure of unemployment.

Table 1: Additional Estimates Unemployment

Additional Estimates of Unemployment	Mar-20	Apr-20	March to April change
Australia - unemployment rate	5.2% (718,800)	6.2% (823,300)	+1.0 pts
Australia- unemployed people + Group 1	5.3% (727,600)	9.3% (1,232,800)	+4.0 pts
Australia- unemployed people + Group 2	5.4% (746,500)	11.7% (1,544,700)	+6.2 pts

Source: ABS, Statistics 'Group 1' refers to employed people working zero hours who indicated they were 'stood down'.

'Group 2' refers to group of employed people working zero hours who indicated they had 'no work, not enough work available or were stood down'.

¹⁹ 6202.0 - Labour Force, Australia, Apr 2020 14/05/2020

Australians who were either not looking for work or not available for work during the period are classified as not in the labour force (NILF), rather than being unemployed and are not included in the above estimates. According to ABS data NILF climbed to 7.5 million people, increasing by a record 500,000 in April 2020. Of the 7.5 million NILF, 3.4 million are people who are permanently not intending to work or permanently unable to work²⁰. Of the remaining 4.1 million 5% either passively looked for work or actively looked for work but were not available for an immediate start. It is understandable that fear of the virus and social restrictions (including home schooling) influenced both the availability of employment and citizens' job search activity. Of particular concern is that almost half of the recent increase to the NILF population was by people aged 15 to 24.

Significantly, of the jobs lost, more than half were from the Accommodation and Food Services, Retail, Construction, Health Care and Social Assistance; and Manufacturing sectors. These sectors have traditionally accommodated a diverse workforce and provided significant opportunity for job seekers supported by Australian employment services and in 2016-17 more than 50% of all jobactive job placements were in these five industries.

As outlined in the Mid Year Economic and Fiscal Outlook, labour market conditions have improved faster than expected alongside recovery in economic activity. Uncertainty will continue until the COVID-19 pandemic is contained and potential of further outbreaks are a risk to economic recovery²¹. While the recovery has been stronger than anticipated a quarter of employment and a third of hours lost at the peak of the pandemic are yet to be recovered. Unemployment was lower than forecasted however is expected to peak at 7.5% in the March quarter 2021 and remain elevated for some time. The withdrawal of Government support via JobKeeper may expose businesses that are unsustainable under current conditions and see further closures and unemployment.

Experience gained during the 1990-1991 recession and the Global Financial Crisis (GFC) suggests that both unemployment and underemployment will not decline in unison with broader recovery. Table 1 shows unemployment continuing to rise in the two years immediately after the recession of 1990-1991, despite economic growth recovering to 4% per annum in both 1992 and 1993. Table 2 shows unemployment failing to return to its pre-GFC level, despite three years of increased growth from 2009-2011.

Table 1: GDP growth and unemployment in Australia: 1989-1994

Year	GDP Growth (%)	Unemployment Rate (%)
1989	3.6	6.2
1990	-0.4	7
1991	0.4	9.7
1992	4	10.8
1993	4	11
1994	3.8	9.8

Source: OECD

Table 2: GDP growth and unemployment in Australia: 2006-2011

Year	GDP Growth (%)	Unemployment Rate (%)
2006	3.7	4.9
2007	3.7	4.3
2008	1.9	4.3
2009	2.1	5.7
2010	2.5	5.3
2011	3.9	5.2

Source: OECD

Prior to the national bushfire crisis and the onset of the COVID-19 pandemic competition for employment was strong with an average of 21 applicants per vacancy²² with the highest number of applications being for lower skill level occupations such as Sales Workers, Clerical and Administrative Workers, Machinery Operators and Drivers. Australian employment services program participants most often compete for roles in these lower skilled occupation categories (for example ANZSIC Levels 4-5) where on-the job training or minimal formal qualification is a suitable form of entry. The Department of Education, Skills and Employment data shows that prior to the COVID-19 pandemic employment services participants were more likely to find work in occupations and/or sectors that have incurred amongst the highest job losses during the coronavirus pandemic including retail, hospitality and accommodation, construction, manufacturing, and health care and social assistance²³.

²⁰ 6291.0.55.001 - Labour Force, Australia, Detailed - Electronic Delivery, Apr 2020

²¹ Source: Mid-Year Economic and Fiscal Outlook 2020-21 - The Commonwealth of Australia

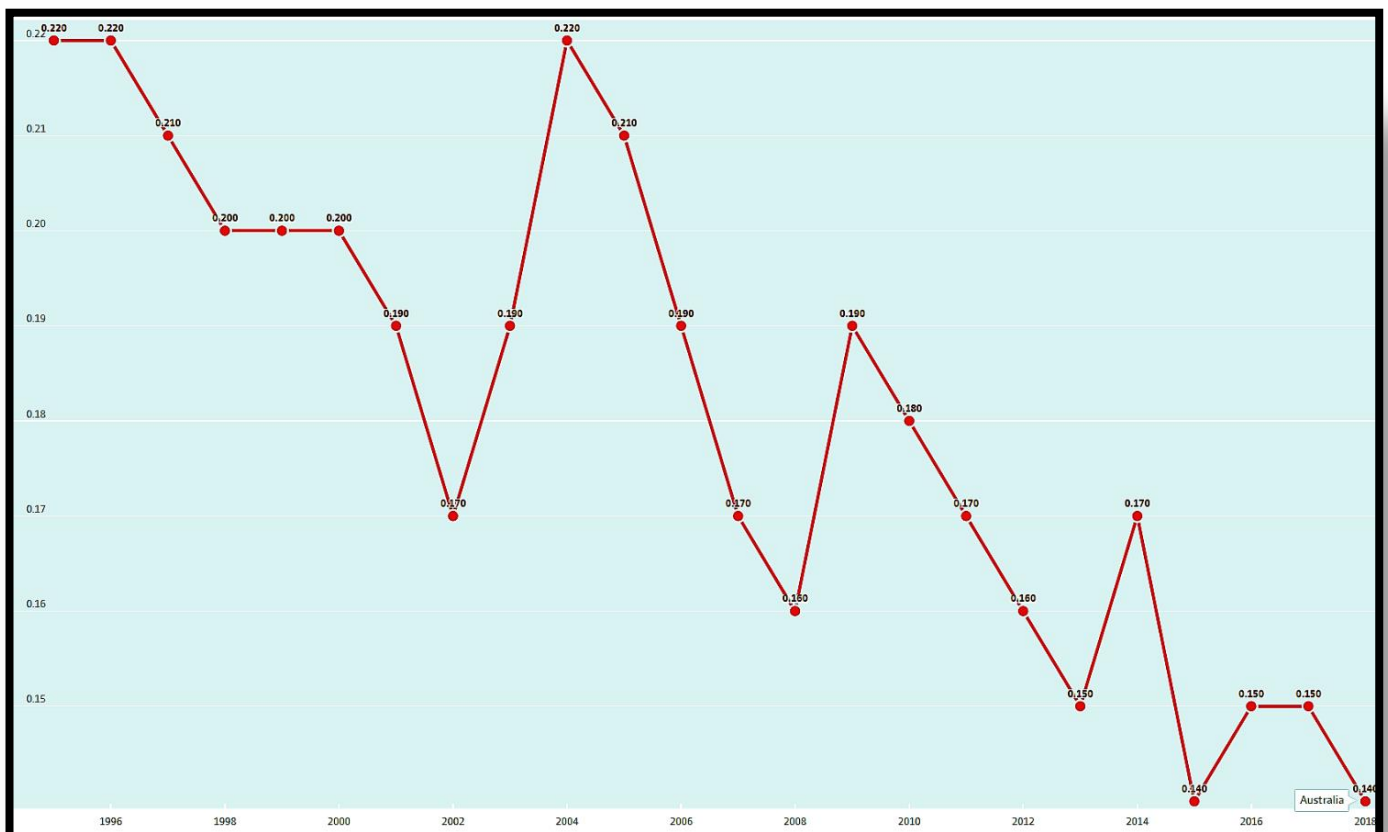
²² National Skills Commission, Survey of Employers' Recruitment Experiences, SNAPSHOT 2019

²³ Employment Services Outcomes Report (jobactive) March 2019

As such the expected continued elevation in the unemployment rate will see increased competition for employment and those job seekers with skill, qualification and experience deficits will find conditions challenging. The scarring effects of unemployment are significant. Consistent with a body of evidence the Reserve Bank²⁴ acknowledges that workers who first enter the labour market during a downturn are especially affected and can suffer long-term income and employment consequences. The negative effects of joblessness are significant and with its duration, the probability of workforce re-entry declines. Skills atrophy can occur quickly, particularly in context of the rapid technological advancement currently occurring. In this regard it is important that labour market programs are enabled to curtail skills atrophy amongst unemployed citizens to assist them to maintain, build skills or reskill. This will be particularly important during the recovery from the COVID-19 pandemic to assist job seekers to understand and align capacity development with changing labour market dynamics.

The International Labour Organisation has recommended that “given the critical role labour market policies and employment services have played in this and past crises, countries should maintain or increase funding for Public Employment Services and Active Labour Market Program providers as lockdowns are eased and recovery begins, to support effective transitions in the labour market”²⁵. In contrast there have been continued reductions to investment in employment assistance in Australia including efficiency measures announced as part of the Commonwealth Budget 2020-2021 representing a \$1.2 billion dollar reduction in investment in employment assistance.

Australia Public spending on labour markets: Public employment services & administration % of GDP 1995 – 2018



OECD (2021), Public spending on labour markets (indicator). doi: 10.1787/911b8753-en (Accessed on 27 January 2021)

²⁴ Reserve Bank of Australia Statement on Monetary Policy May 2020 (material finalised on 7 May 2020).

²⁵ ILO - Labour market policies and employment services are critical ingredients of the COVID-19 policy responses 18 Aug 2020

Key Areas and Recommendations for Budget Consideration

1. A Full and Inclusive Recovery

Research has consistently shown that unemployment is a strong predictor of poverty and those reliant on income support are heavily featured amongst those experiencing deprivation in Australia. The OECD working paper *Income Poverty of Households in Australia* (OECD, 2015)²⁶ reflected “Australia is a successful developed economy with high living standards. It has had an impressive track record of economic growth in recent decades, and, the 2008-9 global financial crisis affected it less adversely than most other OECD economies. Yet, not everyone has shared equally in this success. Quite a significant share of people live in poverty. This is detrimental from a social perspective and can have negative consequences for social cohesion. Furthermore, it detracts from the economy’s productive potential and economic growth”.

Of those Australians experiencing poverty a significant proportion are those citizens reliant on Government allowances such as JobSeeker payment²⁷. Given the impacts of the COVID-19 pandemic on employment and labour markets more Australians are at risk of falling into entrenched unemployment and poverty.

Long-term unemployment is officially defined as the situation of those who are unemployed for 12 months or more with very long term unemployed considered 24 months or more. Long term unemployment has been persistent and growing for some time. DSS Demographic data as at December 2019 indicates:

- Average duration on Newstart payment 164 weeks
- 67% of Newstart recipients had received this payment for more than 12 months
- 45% of Newstart recipients had received this payment for more than 24 months
- 20% of Newstart recipients had received this payment for more than 60 months
- Average duration on Youth Allowance (other) payment 74 weeks
- 49% of Youth Allowance (other) recipients had received this payment for more than 12 months
- 27% of Youth Allowance (other) recipients had received this payment for more than 24 months

(Note: due to the transition of Newstart and Youth Allowance to JobSeeker payment data on duration of payment reset to 0 from January – March quarter 2020).

Concern regarding long term unemployment and recognition that more resources were needed to be targeted at job seekers experiencing long term unemployment and those most at risk were cited as foundational motivation for reform of jobactive. The jobactive program and many of its predecessor programs were designed to operate in growth economies with program architecture most suited to frictional unemployment.

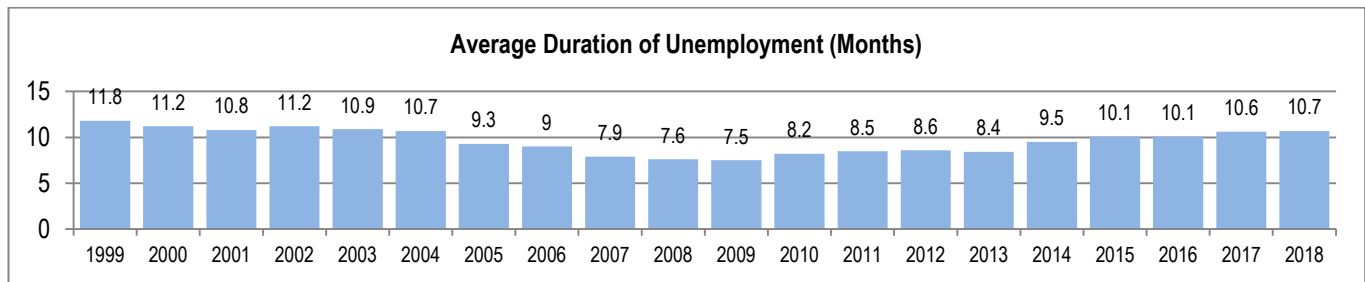
Long term unemployment is more critical in the current context of economic downturn, with job seekers facing greater competition, fewer available job opportunities and changing skill demands.

The labour market impacts of the COVID-19 pandemic have increased the risk that long term unemployment which was problematic pre the pandemic may evolve into a crisis that has lasting social and economic consequences. While the economy is recovering faster than expected, we have learnt from both the 1991 recession and GFC that marked increases in the average duration of unemployment can occur and remain persistent beyond the recovery phase.

²⁶ Sila U. & V Dugain 2019, "Income poverty in Australia: Evidence from the HILDA survey", OECD Economics Department Working Paper, No.1539, OECD Publishing Paris, <https://doi.org/10.1787/322390bf-en>.

²⁷ Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), *Poverty in Australia*, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS

Average Duration of Unemployment in Australia 1999-2018



Source: OECD

As can be seen in the graph, average duration of unemployment was in decline prior to progress being disrupted by the GFC and which has continued to trend upward despite economic growth and the unemployment rate decreasing.

As was reflected in the Mid Year Economic and Fiscal Outlook, a wider range of job seekers are likely to face challenges gaining employment despite improvement in economic conditions, including young people and those in areas and industries most affected by COVID-19 containment measures²⁸. The employment services sector also notes lessons from past economic shocks indicate that other particularly vulnerable job seeker cohorts also identified in the I Want to Work report include the long term unemployed, Mature Aged (55+), job seekers in jobless households and one parent families, women and Indigenous Australians. Additionally, jobactive outcome data also indicates that job seekers with less than a year 10 education, people with a disability, homeless and refugee job seekers had greater difficulty achieving and sustaining employment even during periods of economic growth. Further noting that people with mental health conditions face considerable barriers and for many, the social restrictions necessary for containing the spread of COVID-19 have been particularly difficult.

In the environment post-COVID-19 those job seekers with a broader range of skills are likely to be more competitive leaving those job seekers already marginalised pre-COVID-19 to be further removed from the labour market.

The degree to which sustained labour market transformation may occur post the COVID-19 pandemic is also difficult to estimate. Technology, that was largely non-existent five years ago, is allowing 'work from home' on a scale never seen before and allowed businesses to rapidly transition to an online market. This crisis has forced many businesses to adapt and innovate and this experience will underpin a 'new-normal' post COVID-19. Businesses have re-organised and streamlined and it is likely that some positions will become redundant, and increases in outsourcing and/or automation are already being experienced. Adjustments to work conditions and arrangements will have flow on impacts. If, for example, work from home arrangements become more common, those Australians on the wrong side of the digital divide are also likely to fare poorly in a 'new normal' that has greater emphasis on having access to and using technology.

Underemployment, measured at 8.5% in the pre-COVID-19 economy, rose sharply peaking at 13.8% in April 2020 and subsequently declined to 10.4% by October 2020. Sectors employing high levels of casual and part-time staff experienced amongst higher rates of job losses. Significantly, of the jobs in Australia lost to date more than half were from the Accommodation and Food Services, Retail, Construction, Health Care and Social Assistance; and Manufacturing sectors.

Underemployment has also been a persistent issue in Australia obscured by a relatively low official unemployment rate. Underemployed workers often live pay cheque to pay cheque and frequently have little, if any, reserves. The Australian Taxation Office reported that by 2nd April 2020, 361,000 registrations of interest for access to superannuation were received with Rice Warner estimating workers from hard-hit sectors like tourism, retail and hospitality will be the most common applicants²⁹. This signals longer term concerns for social assistance expenditure with potential for increased reliance on income support in retirement for those Australians who have drawn on their superannuation or that become

²⁸ Source: Mid-Year Economic and Fiscal Outlook 2020-21 - The Commonwealth of Australia

²⁹ ABC News More than 360,000 Australians apply for early release of superannuation under coronavirus assistance scheme, 6 April 2020

caught in long-term unemployment/underemployment as a result of this crisis. The employment sector notes that many underemployed job seekers struggle to increase hours with their existing employer or transition to other roles without support. The current weighting attributed to recent labour market experience in determining service eligibility results in a large proportion of job seekers recently displaced from or maintaining a tenuous attachment to the labour market being allocated the lowest levels of service designed for the 'job ready' and arguably frictionally unemployed. The sector contends that in the context of COVID-19 and the resulting impact on the labour market, recency of work is no longer a reasonable proxy for work readiness and failure to provide early intervention may contribute to growth in entrenched unemployment/underemployment.

Recommendation(s):

- A. The Government should commit to striving to achieve full employment and an inclusive recovery.
- B. Include the promotion of disadvantaged job seekers as part of all employment and job creation initiatives to ensure those most disadvantaged and less likely to gain employment without additional assistance are prioritised, for example higher subsidies for long term unemployed and other vulnerable job seeker cohorts.
- C. Job seeker classification and service eligibility criteria should be reviewed to ensure they properly reflect increased risks of long term unemployment faced by various cohorts given changed labour market conditions.
- D. Introduce initiatives targeted at reducing involuntary underemployment and strengthen underemployed workers access to adequate employment assistance.

2. Establishing New Employment Services

As has been said many times, the best form of welfare is a job. Australia's employment system is founded on the principal of mutual obligation with the expectation that job seekers being supported by the social safety net will undertake activities to improve their capacity for and search for work. Ensuring job seekers receive adequate support to undertake such activity and build their capacity for, find and sustain employment is part of the social contract and should be an investment priority.

The I Want to Work paper³⁰ outlined the rationale and commitment to the new model of employment assistance stating: *"The future employment services system will ensure that funds are invested in smarter, more targeted ways. It is smarter to invest in a digital and data ecosystem which helps all job seekers look for work, with many being able to self-service. This creates cost efficiencies. It is smarter to invest in automating business processes and administration. This creates time efficiencies. It is smarter to invest in a data ecosystem which analyses what works and what doesn't for job seekers. This creates outcome efficiencies. **It is smarter to spend this time and money on job seekers who need the most help. It is the best chance we have to break cycles of welfare. It's the best chance we have to cut entrenched unemployment. This is how we will invest"**.*

Of the top ten things the I Want to Work paper stated that should not be done is to cherry pick recommendations and not to pocket savings from the efficiencies gained through digitalisation rather than reinvesting in those who need it most.

³⁰ I want to work, Employment Services 2020 Report, Department of Jobs and Small Business 2018

Given the commitments made it is concerning that in addition to the 1.2 billion dollars announced in the most recent budget there has been a number of other efficiency measures applied following the release of the I Want to Work paper that have significantly reduced investment in services for unemployed Australians. For example, in addition to recent measures another significant cut was withdrawal of the demand driven wage subsidy pool established as part of the jobactive model as outlined in the Request for Tender. This wage subsidy pool enabled the provision of incentives of up to \$10,000 to employers to provide employment opportunities to eligible disadvantaged job seeker cohorts. While the government maintained employer incentives funding responsibility was transferred to the Employment Fund. This placed pressure on the Fund reducing capacity of providers to invest in other job seeker supports and necessitating a decrease in promotion of employer incentives. Despite the Governments promise of more help for disadvantaged job seekers the approach to resource allocation for New Employment Services – Enhanced Services appears to be shifting.

Australian employment services have been cited by the OECD as being the most efficient model of OECD countries with investment levels under the average of all OECD countries. Contrary to the impressions many people form reviewing the payment schedule; and the overall quantum of the funding envelope in absence of consideration to the community service obligations tied to funding and the level of investment and financial risk involved in the pay for performance model, funding allocated to jobactive is modest.

The jobactive program is a pay for performance model with the payment structure having two main elements Administration Fees and Outcome Fees. The jobactive program was designed to operate in an economic climate of growth. In particular, the funding structure, being pay for performance ensures the majority of funding available when providers achieve the requirements of a claimable outcome. A minimal administration payment is paid upfront every six months for which providers must deliver all contractual requirements and maintain required infrastructure, resources and accreditation.

To illustrate, the Administration Fee that applies to the vast majority of job seekers in jobactive (regardless of the Stream) is approximately \$270 per six months, which equates to approximately \$10.00 of service and facility access per week. Regional services receive an additional 25% loading and a slightly higher fee is allocated to job seekers under 30 years of age, who have additional prescribed service requirements under the Stronger Participation Incentive. As one would reasonably expect, with consideration to the cost of delivering services, infrastructure and accreditations providers are required to maintain, without outcome revenue employment services operate at a loss. Typically many providers do not recoup up front investment in employment services until mid to late contract given the time it takes performance to mature with most outcome revenue weighted to 26 week sustained full time employment.

Cost per employment outcome is used as the measure of efficiency in jobactive and it is the average sum of money spent per employment outcome. Cost per outcome is calculated by using total expenditure and includes administration fees, outcome payments and support provided from the Employment Fund. Employment outcomes are estimated as the number of participants employed three months after participating in jobactive as measured by the post-program monitoring survey which is typically more than the number of employment outcomes paid to providers. The cost per employment outcome for jobactive has been approximately \$2,500 over recent years. To put this into perspective recruitment firms who typically focus on candidate screening to employer requirements charge approximately 15% of the wage being offered for the role they are filling which for a \$40,000 a year position equates to approximately \$6,000 for an outcome.

The sector has long advocated that the service level classification system based on relative disadvantage, inadequately aligns a large proportion of job seekers with service levels reflective of the actual assistance they need. This is reflected in the large proportion of long and very long-term unemployed job seekers in Stream A which is designed for 'job ready' job seekers with minimal support requirements and capacity for independent job search. Further, the sector considers that this has contributed to rising long-term unemployment despite economic growth.

Program settings for jobactive have been designed for a different economic context and the level of assistance that people require in a depressed labour market is more intensive. Providers invest resources above that provided by the Administration Fee in services to assist employers and prepare and place job seekers into employment in order to maximise outcomes for job seekers and their performance. While job seekers receive the services outlined in the Deed, it is not financially sustainable to invest in excess of funding allocation for every job seeker.

If New Employment Services - Enhanced Services is to achieve the stated goal of breaking cycles of welfare and reducing entrenched unemployment the investment must be fit for purpose. As the Competition Review stated, funding is and will continue to be the most important part of both human services policy and governments' role as market stewards³¹.

Market and/or provider failure are significant risks in any major reform and have destabilising effectiveness and efficiency consequences. The delivery of Australian employment services requires significant upfront and ongoing investment in infrastructure, resources and mandatory accreditation requirements. To commit to such investment it is critical that potential new and existing employment service providers are able to produce a reliable financial model to assess with a level of confidence whether they have the financial capacity and risk appetite to participate in New Employment Services.

The proposed payment structure for New Employment Services - Enhanced Services was the subject of recent consultation initiated by the Department of Education, Skills and Employment (the Department). A webinar presentation delivered by the Department on 10 November 2020 provided overview of a proposed payment model for New Employment Services.

As was outlined in the presentation, the payment model for Enhanced Services has some significantly different elements to the existing jobactive arrangements. Given the significant differences in the service models and expected size and nature of the caseload in Enhanced Services compared to jobactive a simple comparison of proposed payments is insufficient to provide genuine understanding of the business model. As was reflected in our response to the payment model consultation insufficient information has been made available to model potential total revenue based on caseload and performance scenarios. The Competition Review recommended that part of good Stewardship in human services was to fund community service obligations in a transparent and contestable manner³². In the case of New Employment Services greater transparency and more detailed information are required to enable indicative modelling to achieve well informed input into the payment model and reduce risks of market failure upon implementation. To illustrate:

To fully assess the adequacy of the proposed Engagement Fee it is necessary to understand what assumptions have been made about factors such as (but not limited to) the indicative flow of job seekers into Enhanced Services, the expected average duration of service and transfer rates.

The adequacy of the payment model also needs to be assessed in the context of service requirements and provider obligations. At this time for example there is no or little information regarding service requirements including in relation to mutual obligation and annual activity requirements such as Work for the Dole. While the presentation mentioned the Employment Fund will have a regional loading it was silent as to the level of credits that will be made for job seekers, and to support activities such as Work for the Dole and wage subsidies.

The reform will include major change to existing arrangements through introduction of outcome payments based on Job Seeker Classification Instrument (JSCI) scores. While information has been given about payment levels for moderate and high scores there has been no detail of what will constitute a moderate or high score or any underpinning assumptions such as the indicative proportion of job seekers likely to have a moderate or high score; or what the

³¹ Source: The Australian Government Competition Policy Review Final Report 2015

³² Source: The Australian Government Competition Policy Review Final Report 2015

historical outcome types and rates achieved for job seekers with such scores. As was stated in the Department's presentation Stream is not a proxy for JSCI scores and while providers can consider the outcome fee level per individual, they are unable to confidently assess what this translates to in terms of potential total revenue based on their capacity to perform and deliver outcomes.

The sector also notes that while the New Employment Services Trial (NEST) is underway and allows some testing of the model it has been disrupted and is of insufficient duration to enable robust understanding of the adequacy of the payment model over the life of the program. NESAs notes the trial was introduced cooperatively with negotiation around infrastructure and additional upfront payments. Many trial providers report these negotiated elements have been instrumental in the viability of the trial however they are not proposed for the full implementation.

During previous major employment service reforms the Department has provided NESAs with underpinning assumptions to enable it to engage appropriate expertise to build a sector funded financial modelling tool. These financial modelling tools, such as that built for the transition of Job Network 2 to Job Network 3 - Active Participation Model which involved similarly significant reform as New Employment Services, enabled providers to manage risk and prepare tender bids that were aligned with their financial capacity and sustainability reserves.

While noting again that in the absence of assumptions to confidently model the proposed funding arrangement; on face value it appears that the proposed payment structure represents a further decline in investment in assistance to Australia's more disadvantaged job seekers. NESAs's key rationale and response to the Department on the proposed payment schedule are as follows:

The I Want to Work paper stated that the Enhanced Services payment structure would include higher up-front payments to enable early intervention with capacity to immediately invest in support to job seekers. In addition the paper outlines the intent for Enhanced Services to provide more assistance than is currently provided including job seekers receiving more service time enabled by a model that provided lower job seeker to consultant caseload ratios. Capacity to lower job seeker - consultant ratios is welcomed however this involves an increase in the cost of service delivery that needs to be accounted for in funding arrangements.

The sector strongly supports the premise that higher upfront payments are critical to ensure intensive and quality case management services are available to job seekers and realising the full intent of the reform. Enhanced Services will focus on job seekers with the most complex barriers to employment requiring more intensive and longer duration of assistance to achieve employment. It is expected the Enhanced Services caseload will comprise predominately long-term unemployed, with a high proportion being very long term, and a small proportion of more recently unemployed job seekers with significant barriers to employment.

The sector considers the proposed Engagement Fee of \$1000 as a one-time payment per job seeker falls very short on the commitment and intent outlined in the I Want to Work paper. The following outlines the reasons for this view:

1. It is proposed Enhanced Services will include a **once only** Engagement Fee of \$1000 for each job seeker per period of unemployment replacing current jobactive arrangements where an Administration fee is paid every 6 months the job seeker remains in service (pro rata). Noting the once only nature of the payment means once claimed by a provider it is not available to any subsequent provider who may service that job seeker such as if the job seeker changes address, opts to transfer to another provider or their provider withdraws from the market. Given the intended job seeker cohort for Enhanced Services the sector has considerable concerns about a once off payment discussed further in the submission.

2. The Payment Model webinar stated that the proposed Engagement Fee equated to approximately 2 years of the current Administration Fee. The sector notes that this claim is based on the lowest current Administration Fee 'All Other Stream Participants' at the metropolitan rate. The extent that the proposed fee represents a significant reduction in up-front funding to invest in services to job seekers across the life of the Enhanced Services is illustrated in the following tables:

Table 3: Metropolitan Funding comparison – jobactive 6 mthly Admin Fee – Proposed NESM \$1000 Engagement Fee

Current Administration Fee		2 Year Funding Comparison		3 Year Funding Comparison		4 Year Funding Comparison	
Job Seeker Type	6 monthly Admin Fee	jobactive Admin Fee 2 Years	Proposed Fee % of Current	jobactive Admin Fee 3 Years	Proposed Fee As % of Current	jobactive Admin Fee 4 Years	Proposed Fee As % of Current
SPI Participants	\$377	\$1,508	-34%	\$2,262	-56%	\$3,016	-67%
All other Stream Participants	\$270	\$1,080	-7%	\$1,620	-38%	\$2,160	-54%

Data Source: Jobactive DEED Table 2A: Administration Fees (with January 1 2018 Mid Contract Fee Increase included)

Table 4: Regional Funding comparison – jobactive 6 mthly Admin Fee – Proposed NESM \$1000 Engagement Fee

Current Administration Fee		2 Year Funding Comparison		3 Year Funding Comparison		4 Year Funding Comparison	
Job Seeker Type	6 monthly Admin Fee	jobactive Admin Fee 2 Years	Proposed Fee % of Current	jobactive Admin Fee 3 Years	Proposed Fee As % of Current	jobactive Admin Fee 4 Years	Proposed Fee As % of Current
SPI Participants	\$472	\$1,889	-47%	\$2,833	-65%	\$3,777	-74%
All other Stream Participants	\$337	\$1,350	-26%	\$2,024	-51%	\$2,699	-63%

Data Source: Jobactive DEED Table 2A: Administration Fees (with January 1 2018 Mid Contract Fee Increase included)

3. The absence of regional loading on the Enhanced Services Engagement Fee represents a reduction in the current overall investment in upfront fees compared to jobactive and further compromises employment services in Regional communities. The removal of loading on the Engagement fee for Regional Enhanced Services will increase providers' reliance on Outcome payments to be financially sustainable. In a media release on the launch of jobactive the then Prime Minister the Hon Tony Abbott MP stated one of the features on the model was the introduction of a new regional loading recognising that labour market conditions vary across Australia (March 31 2015). There is a prevalence of depressed labour markets with limited job opportunities in Regional Australia generally and many regional economies have been severely impacted by the recent bush fire crisis, drought as well as the COVID-19 pandemic. Additionally, NESM understands that many regional areas have a higher proportion of part time and seasonal work more prevalent than full time permanent opportunities in these areas. The difference in regional labour markets has traditionally been accounted for in the performance model with the removal of a regional loading the sector holds concerns that we may see the re-emergence of high performing regional providers becoming financially unsustainable.
4. The economies of scale in jobactive will not exist in Enhanced Services which will have smaller caseloads comprised of the most disadvantaged job seekers. In jobactive providers are able to and encourage to direct revenue to more intensive services to those more disadvantage. The proposed Engagement Fee while based on current levels fails to account for the adjusted caseload and loss of the revenue used to support more disadvantaged job seekers. For example, a proportion of revenue generated from jobactive Stream A cohorts who are intended to be more independent in job search and have lower support needs is invested in Streams B and C.

5. There are widespread concerns across the sector that the proposed one time only payment per job seeker will not support quality of services, particularly not over time and will contribute to increased potential risk of both provider and market failure. The sector notes the I Want to Work report indicated 64.9% of job seekers in jobactive were unemployed for more than 1 year and 19.6% for over 5 years. ABS Labour Force Data at October 2020 indicates approximately 25% of all job seekers were unemployed more than 104 weeks. A key concern identified in jobactive was that over reliance on outcome funding has potential to weaken quality and effectiveness of services. The one time payment will make providers increasingly dependent on outcome fees. Additionally, this is likely to be more problematic in depressed and disadvantaged labour markets where the average duration of assistance is higher.

It is proposed that if a job seeker changes provider the receiving provider will be expected to meet the cost of service without an upfront Engagement Fee. NESAs understand from trial providers that for the limited time the trial has run this arrangement has been 'manageable', noting the extended period of time mutual obligation has been suspended due to bushfires and COVID-19 and the number of transfers has generally been low. However, there is a strong view that as the caseload matures that there is likely to be less capacity to absorb such costs and maintain delivery of intensive services as intended and needed by the target cohort.

Additionally, as Enhanced Services matures and providers exit and new entrants join the market the one-time payment will be very problematic. Under this scenario a new provider has the potential to inherit an entire caseload for which they will receive no Engagement Fee to invest in services to job seekers. Further under current and previous arrangements there has been the opportunity to drive and reward high performing providers with additional market share. Under the one-time payment model high performers could potentially be punished financially if they accept additional market share made up of job seekers without Engagement Fees, and in turn this has potential to undermine their capacity to maintain high performance.

6. The proposed Employment Outcomes and Very Long Term Unemployed (VLTU) bonus payment model provided at consultation as indicated earlier contains insufficient information of which to assess the adequacy of these payment arrangements.

The presentation noted that most of the proposed payment levels were greater than currently available in jobactive. However, as detailed earlier in this submission without adequate information it is not possible to confidently assess the adequacy of the model. While the payment levels on an individual basis are transparent the potential outcome revenue is not.

For example, the trial outcome data presented in the webinar provides total outcome numbers with no breakdown by moderate or high JSCI score. In the absence of evidence to the contrary, it is reasonable to assume a small proportion of job seekers will have a high JSCI score. It is apparent that regional providers will have less outcome revenue with the removal of regional loading on outcome fees.

Further, the webinar indicated that approximately 30% of 12 and 26 week outcome claims made in the trial thus far had attracted the VLTU bonus. As indicated previously the sector requires the underpinning assumptions to fully understand and provide informed feedback into the outcome model. However, in the absence of data to the contrary, it is difficult not to conclude that while individual payment rates may be similar (for non-regional jobactive), a lower proportion of job seekers will be eligible for higher level payments in Enhanced Services compared to jobactive Streams B & C and given the reduction to economies of scale less overall investment in employment assistance than is currently provided to jobactive will be received.

7. Use of the Job Seeker Classification Instrument (JSCI) as basis for setting outcome payment levels is of concern to the sector. NESAs question how the JSCI which is subject to change with job seeker circumstance or adjustment by the Department; will interact with payment eligibility. To illustrate when providers assist job seekers to overcome barriers this may result in a reduced JSCI score. It would be counterproductive to financially disadvantage providers for being effective in improving the employability and job readiness of job seekers.

There were a number of questions regarding the JSCI and how it will interact with the proposed assessment framework to ensure job seekers circumstances are fully considered. Providers noted the prevalence of disclosure post commencement into services and the increase of this since the introduction of self-completion of the snapshot in the OES.

8. The proposed Enhanced Services Payment Model references comparisons to existing fees and there was no reference to indexation over the life of New Employment Services (potential of up to 10 years) to ensure real investment is sustained over time. Current jobactive contract arrangements include a mid term fee increase which was last applied in January 2018. To maintain real value at current investment levels the sector would reasonably expect that a fee increase would occur of at least equal to CPI at July 2022 when Enhanced Services is due to be implemented and then periodically throughout the life of the program. According to the Reserve Bank of Australia as at September 2020 CPI has increased by 3.6 percentage points since December 2017.
9. The current definitions for full and partial employment outcomes are basically the same as they were at the commencement of Job Network in 1998. As was strongly put forward in the Next Generation of Employment Services much has changed in the world of work and employment services must keep pace with such change.

The Reserve Bank of Australia noted that one of the most significant changes to the Australian labour market in recent decades has been the rise in the share of part-time employment to account for nearly one-third of total employment³³ with Australia having the highest rate of casualisation in the OECD. Similarly, a statistical snapshot from the Department of Parliamentary Services indicated a significant feature of the labour market in the past two decades has been the strong growth in permanent part-time employment for both men and women, and strong growth in casual part-time employment for men³⁴.

Sectors such as retail, food and accommodations services, health, administrative services and education have a high share of part-time and casual workers. These sectors have created significant opportunity for the employment of disadvantaged job seekers. As stated by the Reserve Bank unemployed workers commonly transition to part-time (particularly casual) jobs rather than full-time work, providing some evidence that part-time work can be used as a stepping stone into full-time employment. The employment services sector concurs with this finding and emphasises the importance of part-time and casual employment for the Enhanced Services cohort which has been reflected in the trial outcomes to date.

The challenge for employment services has been that outcome definitions understandably prioritise substantial employment, but are rigid. The differentiation in payment between full and partial outcomes does not adequately reflect the value of significant part-time/casual work. While a 60% rate reduction in income support is a reasonable benchmark for partial outcomes, 100% rate reduction for the entire outcome period for Full Outcomes offers little flexibility.

Providers note that it is not uncommon for job seekers hours to change in one fortnight sufficiently to drop an outcome tracking at full outcome to partial. The Parliamentary Services paper found casual workers are much more likely to face irregular hours of work and fluctuations in earnings, with around 53% in 2016 experiencing variable earnings from one pay period to another. Employment in the Health Care and Social Assistance sector which employs more Australians than any other sector, offers a substantial proportion of roles on a casual and part-time basis only. These roles are particularly vulnerable to slight variations in rosters and earnings often resulting in partial outcomes because of variation in a single fortnight. This reduces the incentive for employment services providers to invest in strategies to engage job seekers interest and build their capability for this sector. In addition, changes to income support settings can also impact full and partial outcomes. For example, feedback from the sector in relation to recent changes to the taper rate indicated that up to 70% of pending Outcomes were affected.

³³ The Rising Share of Part-time Employment Reserve Bank of Australia 2017

³⁴ Characteristics and use of casual employees in Australia Department of Parliamentary Services 2018

In the context of the target cohort for Enhanced Services, impacts of COVID-19 on the labour market and elevated levels of variable work hours Enhanced Services will potentially receive lower investment through outcome revenue.

Recommendation(s):

- E. The Government renew its commitment to redirecting efficiencies gained through digitalisation and self servicing of more 'job ready' job seekers into Enhanced Services for those more disadvantaged.
- F. The Government renew the commitment made in 2018 to redirect but not reduce investment in the provision of employment services to Australian citizens and, at minimum, restore investment.
- G. The Government consider the concerns expressed by the sector prior to approving the New Employment Services – Enhanced Services payment model.
- H. Provide greater transparency regarding the investment approach for Enhanced Services to achieve understanding of the rationale for the proposed payment model.
- I. Provide NESAs as the peak body detailed assumptions underpinning Enhanced Services payment model to enable a comprehensive financial modelling tool to be developed and released prior to commencement of purchasing and reduce the risks of market and/or provider failure.
- J. The current level of upfront investment in services to job seekers should not be diminished in the implementation of New Employment Services. The Engagement fee should be:
 - Increased to be equal to 100% of 4 current jobactive Administration payments plus CPI to maintain real investment levels in Enhanced Services
 - Paid every two years the job seeker remains in service rather than being a one-time payment
 - Include Regional Loadings on Engagement and Outcome Fees
- K. In proposing to use the JSCI score to determine Outcome payments the sector strongly urges commitment to:
 - Transparency of the JSCI thresholds set for payments
 - Transparency and consultation with the sector regarding any proposed change to thresholds
 - Use of a transparent evidentiary approach to probability of achieving an employment outcome (not budget) to set and review thresholds
 - Use of the job seekers highest JSCI score during their period of service to determine outcome level eligibility
- L. Outcome definitions should be reviewed to reflect the disadvantage of the target cohort, the prevalence and importance of part-time and casual employment to break the cycle of entrenched unemployment. This may include reducing required rate reduction from 100% and/or other mechanisms to introduce greater tolerance for variation of earnings.

3 Disability Employment Services

People with a disability are more prone to experience unemployment with the employment rate for people with a disability being 53% compared to an overall rate of 83% for the Australian population. Employment rates vary within the broad cohort of people with a disability with people with mental health conditions having employment rate of approximately half that of other the overall employment rate for people with a disability. The OECD reported that Australia ranks 21 out of 29 OECD countries in assisting people with disability into employment³⁵. The OECD highlights the social and economic imperatives of assisting people with a disability to participate in employment noting the importance of capacity building and getting the right services to people with a disability at the right time.

Disability Employment Services (DES) is the Australian Government's specialised employment service for people whose disability is assessed as the main impediment to them gaining employment. DES plays an important role in improving the social and economic participation of people with disability.

³⁵ OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing, Paris.

DES has been specifically designed to meet the needs of people with a disability. In most cases job seekers enter DES following an Employment Services Assessment (ESAt) or Job Capacity Assessment (JCA). ESAt/JCA identify and assess job seekers vocational and non-vocational barriers to finding and maintaining employment, their work capacity and ongoing support needs and then recommends the most appropriate employment services assistance and interventions to assist them overcome their identified barriers. While other programs such as jobactive assist a significant proportion of people with a disability into employment DES is targeted at those where disability is the main barrier to employment. DES is unique in its service offer, being the only program that provides ongoing support for as long as it is required to assist people to maintain their employment.

Measures introduced in the Australian Government's 2020-21 Budget amended the eligibility criteria for DES. These measures which will take effect from 1 July 2021 will result in people no longer being eligible for DES if they are:

- assessed as being able to work 30 hours or more per week; or
- not in receipt of income support or pension (unless the person is an Eligible School Leaver, Special Class Client, or is undertaking Work Assist or a Program of Support)

While these people with a disability may have access to other employment services such as jobactive, these services do not offer the specialist support available through DES. NESAs have received numerous examples of current DES participants who would be ineligible for the program from 1 July 2021 who are unlikely to be able to gain or retain employment without ongoing support being available to them. It is noted that the availability of ongoing support can be a significant influence on employers' decision about providing job opportunities to a person with a disability. Benchmark hours and capacity to work are assessed with consideration to the support available. Being assessed as able to work 30 hours does not mean a person with a disability has low support needs.

Job seekers are encouraged to take personal responsibility and are discouraged from becoming reliant on income support. Independence is an important issue to people with a disability and many prefer not to be in receipt of welfare. NESAs received case studies from providers about the circumstance of current participants not on income support which demonstrate these participants need for specialist assistance not available to them in other programs. Of note were examples of many young people with a disability whose family support them encouraging a path to independence and avoidance of welfare. Job seekers not in receipt of income support generally receive very basic assistance and this group is likely to only be eligible for Online Employment Services from July 2021.

At the foundation eligibility for DES is currently based on sound assessment of need for the specialist assistance offered by the program. There has been no rationale provided for why eligibility for these groups has been amended that evidences the service is not needed by these cohorts. There is significant concern that this measure will have a significant impact on the workforce participation goals of the cohorts of people with a disability affected.

The JobMaker Hiring Credit was a welcomed measure introduced in the Australian Government's 2020-21 Budget. This measure rightly reflects the increased impact of economic shocks on the employment and careers of young people. These impacts affect all young people and compounds disadvantage and barriers to employment such as those associated with living with a disability. The JobMaker Hiring Credit has been made available to young job seekers who received JobSeeker Payment, Youth Allowance (Other) or Parenting Payment. Young people with a disability in receipt of the Disability Support Pension have been omitted from eligibility.

Recommendation(s):

- M. Withdraw the proposed measure to amend DES eligibility, and retain eligibility arrangements based on assessment of need of specialist employment assistance
- N. Extend eligibility for JobMaker Hiring Credit to young people in receipt of the Disability Support Pension

4. Stewardship of Australian Employment Services & Competitive Neutrality

In the report on the Introduction of Competition and Informed User Choice into Reforms to Human Services, the Productivity Commission states that the “implementation and ongoing maintenance of sound stewardship arrangements needs to be a core part of the reform and delivery process”³⁶

The Competition Policy Review emphasised the role of Government as Stewards. The report made the observation that in many human services sectors in Australia, there are still instances where the government develops policy, block funds, regulates and provides services through the one organisation. The Competition Policy Review recommended separation of responsibilities noting greater independence into service regulation is underpinned by the notion that good market stewardship delivers clarity about whose interests the government is serving when it acts. The following captures the Review recommendations which were supported by the Australian government³⁷.

Chapter 1: Competition principles: The model for Government provision or procurement of goods and services should separate the interests of policy (including funding), regulation and service provision, and should encourage a diversity of providers.

Chapter 2: Human services: Governments should retain a stewardship function, separating the interests of policy (including funding), regulation and service delivery. (Vest rule-making and regulation with a body independent of government’s policy (including funding role).

With the introduction of OES the Department is now the largest provider of Australian employment services. The decision to bring forward the national rollout of OES during the existing jobactive contract period rather than at the expiry of contracts as planned, had the effect of transferring market share from contracted providers to the public provider.

The Department has responsibility for all aspects of stewardship of Australian employment services encompassing but not limited to policy, program design, funding, procurement, contract management, managing access to clients, quality assurance and complaints, evaluation and IT systems.

Maintaining integrity and accountability requires perceived or actual potential conflicts of interest to be addressed. Arguably, as a service provider the Department now have additional potential conflict of interest that may influence its decision making, policy advice and recommendations. For example, a very simple illustration may be that limited IT resources prioritise systems work that enhances the Departments’ efficiency and capacity to meet Online Employment Service commitments ahead of those that support Enhanced Services. On more sensitive areas the Departments funding, and funding distribution recommendations for New Employment Services has potential to be influenced by its needs/desires in relation to its responsibilities for provision of OES.

The sector notes that over the twenty three years of contracted employment services there has been continued tension in the provider – purchaser relationship. The strength of the relationship has fluctuated over the years and varying attempts to strengthen arrangements have not resulted in sustained improvement. Recommendations for the establishment of an independent body stem back to 2002 and many of the issues discussed at that time continue in the present.

³⁶ Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services, Productivity Inquiry Report 2017

³⁷ Source: The Australian Government Competition Policy Review Final Report 2015

Independent Review of the Job Network Productivity Commission Inquiry Report 2002³⁸

“Job seekers and providers alike have expressed concern about the seemingly unquestionable ‘power’ of DEWR and expressed some degree of distrust. Indeed, some providers were reluctant to provide submissions to this inquiry because they feared the consequences for them in forthcoming contract rounds. These fears may be baseless, but they underline the atmosphere of distrust. It is in this context that the question of the value of a Job Network agency independent of DEWR arises”.

Recommendation 14.1 The Commission recommends that if significant problems of transparency, accountability and power imbalance between DEWR and providers continue into Employment Services Contract 3, the Government give consideration to the establishment of an independent Job Network agency. Desirably, it should be completely independent of DEWR and report directly to the responsible Minister, as well as publicly.

Competitive Neutrality

A significant element of New Employment Services is the introduction of OES both as a service feature for job seekers with capacity to independently seek employment and as a vehicle to deliver efficiencies to enable resources to be targeted more disadvantaged job seekers.

The Competition Review made a range of recommendations for strengthening and expanding competitive neutrality provisions to advance competition in human services. Competitive neutrality policy is directed at³⁹:

- offsetting net competitive advantages of the public sector over the private sector that result from government ownership
- ensuring that public resources are used as efficiently as possible
- improving the overall performance of government businesses
- improving transparency and accountability of government businesses, presenting costs in a way that enables comparison to the private sector; and
- providing a better basis for agency managers to assess the mode of delivery for government business activities

Putting aside debate as to whether competitive neutrality should formally be applicable to the Department, applying the principles would deliver benefits. In particular ensuring there is sound accounting of the cost per outcome delivered through OES and transparent performance assessment of this service system would be of community interest.

According to Australia’s contribution to the Roundtable on Competitive Neutrality Competition Enforcement, the costs of the application of competitive neutrality policy should largely be administrative. Costs may include changes to accounting systems, asset valuations, reviews of activities and general administration. Australian Government Competitive Neutrality Complaints Office has recognised that the costs of applying competitive neutrality principles are generally not significant and build naturally on agencies’ existing costing systems and therefore it is unlikely that the costs outweigh the benefits.

Recommendation(s):

- O. Establish an independent body to provide oversight, regulation, evaluation and funding of Online Employment Services and contracted employment services with the Department of Education, Skills and Employment maintaining its role of Steward with a focus on policy and program design.
- A. Review the Departments’ role as a service provider as part of the human services market with contracted providers and determine appropriate measures and reporting to ensure competitive neutrality is maintained.

³⁸ Productivity Commission 2002, Independent Review of the Job Network, Report No. 21, AusInfo, Canberra.

³⁹ OECD Roundtable On Competitive Neutrality In Competition Enforcement -- Note By Australia -- 16-18 June 2015

5. Promoting Excellence in Employment Assistance and Labour Market Policy

Ensuring that programs and initiatives delivered by government are effective is vital so that public money is invested well. Efficient and effective public policy must be informed by solid evidence about what actually works, for whom, under what circumstances, and at what cost⁴⁰. Research and program evaluation plays a critical role in building the evidence base necessary to enable government and its service partners to strengthen or develop initiatives to deliver improved outcomes and efficiencies and provide confidence to the community about the use of taxpayer funds.

There is much commentary about the need for research and program evaluation to be rigorous and truly independent. The availability of data is crucial to encouraging research in social policy areas such as employment services. Access to data enables research to support development of better and innovative practices that can have substantial impact on both efficiency and effectiveness of programs improving delivery of outcomes for service users, community and Governments return on investment.

It is acknowledged that obligations such as maintaining privacy and appropriate management of personal information is of high priority and must be considered in the release of information. However, the effort in establishing and releasing data sets appropriately are significant. The employment services sector notes for example the benefits to service planning and delivery gained through the Income Support Recipient Demographic data set released regularly by Department of Social Services on data.gov.au. The data contributes to employment service providers' ability to understand target populations, develop place based strategies and establish appropriate physical and human resources to meet local needs.

There is a rich employment services data set available but public access to data is limited and data is released irregularly and is often selective. The regular release of a comprehensive employment services caseload demographic data set, similar to that released on income support recipients would greatly support research and development of employment service better practices and initiatives.

Support Industry Led Professionalisation of Employment Services

The I Want to Work report included goals for industry-led professionalisation of employment services staff to improve service quality and outcomes. The employment service sector agrees with and acknowledges that the stability and development of the frontline workforce is critical to the delivery of quality services. The sector supports industry led professional development model as outlined in the I Want to Work report rather than prescribed requirements.

NESA is heavily engaged in supporting the employment services workforce. NESA conducts a Remuneration and Workforce Development survey every two years and a workforce census generally on an annual basis (disrupted due to national bushfires and COVID-19 pandemic). NESA has established a wide network of partnerships with academics, training organisations and subject matter experts. NESA delivers extensive professional development services to the sector through our public training schedule and in-house delivery drawing on our wide partnership network. NESA expertise in workforce development has also been demonstrated through delivery of other initiatives such the Remote School Attendance Strategy workforce project which is referenced in the Closing the Gap Report 2019. NESA designed a training package of 32 units (14 online) and delivered it to over 4000 ATSI frontline RSAS staff.

The employment services sector currently attracts a diversely skilled and experienced workforce (see appendix 1) and our experience is that no single qualification provides a basis for all roles and diversity increases collective expertise. Training and professional development of staff is a provider responsibility however program administration, contract management and policy development often impinge on this agenda. For example the introduction of the Targeted Compliance Framework required providers to undertake extensive training with all their frontline and operational management staff. This was a time consuming and expensive exercise and though generally of much smaller scale

⁴⁰ Productivity Commission 2013, Better Indigenous Policies: The Role of Evaluation, Roundtable Proceedings, Productivity Commission, Canberra

such demands are continual. As such providers training and professional development agenda is often disrupted and absorbed by program policy and process focused matters at the cost of practice development.

NESA has been working with employment service organisations, local and international professional development and best practice experts and has developed a professional recognition framework for implementation. The Employment Services Professional Recognition Framework (ESPRF) provides a structured approach to guide staff to the necessary competencies for various roles from new entrants to experienced practitioners complementary to existing qualifications and experience. The framework includes tiered accreditation levels, continuing professional development and code of practice and ethics requirements as part of the initial registration and renewal process. Importantly, the framework not only supports employment service organisations in the professional development of staff, it also engages individual frontline practitioners to take responsibility and control of their career and professionalism. ESPRF will also provide a transparent and cogent means of communicating the skills of the workforce to stakeholders and observers which we consider will engender confidence in employment services.

A further objective for New Employment Services outlined in the I Want to Work report is to facilitate innovation and learning through collaboration. In this regard NESA has also been working closely with our international colleagues to identify ways to adopt their successful innovation hub and bench-learning methodologies within our industry driven approach to professional development as a future element of the framework. NESA has strong engagement in international employment networks including through our involvement with the OECD. NESA considers that adapting the innovation hub and benchlearning approach to Australia will deliver better practice in employment services. This includes enabling strategies to extend collaboration with the wider social service network, local and international employment service and research colleagues to improve effectiveness delivering more job seeker and employer outcomes and efficiencies. NESA aims to establish the ESPRF and innovation-benchlearning hub within an Employment Services Institute similar to international models. Through the institute NESA will drive communities of practice and disseminate research, practice guides and tool kits such as the Family Violence tool kit developed for the Department of Education, Skills and Employment.

Recommendation(s):

- B. In consultation with stakeholders establish a comprehensive employment services caseload demographic data set which is released on a regular basis (quarterly)
- C. Actively promote and support independent research of labour market policy, programs and employment services
- D. Support the Professionalisation of the employment services workforce through investment of seed funding to establish the Employment Services Institute – estimated \$700,000 over 2 years

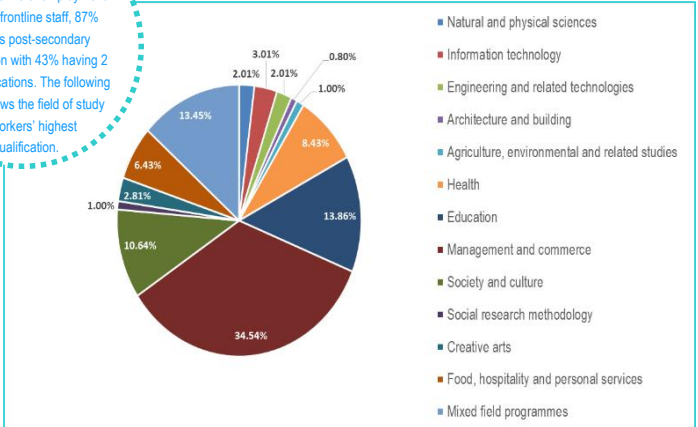
Appendix 1 Workforce Snapshot

EMPLOYMENT SERVICES WORKFORCE SNAPSHOT

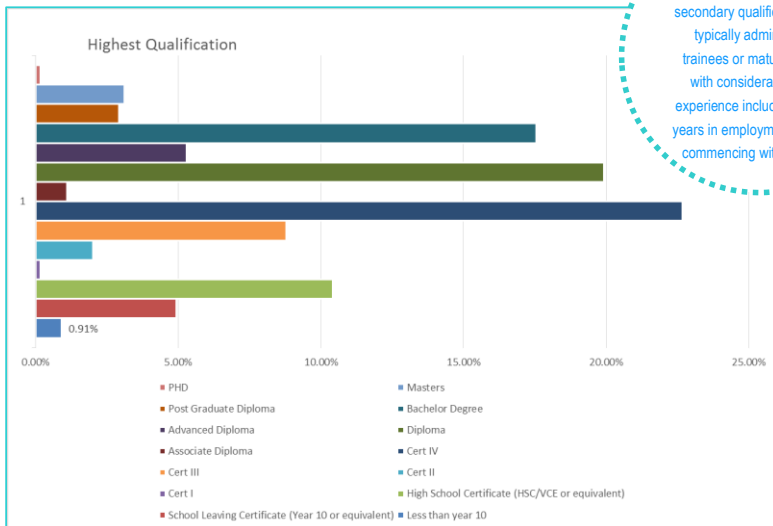
NESA conducted a Workforce Capability and Diversity Survey in August 2018. The survey was responded to by 2251 frontline workers.

In contrast to the urban myths about the skills of employment services frontline staff, 87% possess post-secondary qualification with 43% having 2 to 3 qualifications. The following graph shows the field of study by workers' highest qualification.

Field of Study of Highest Qualification

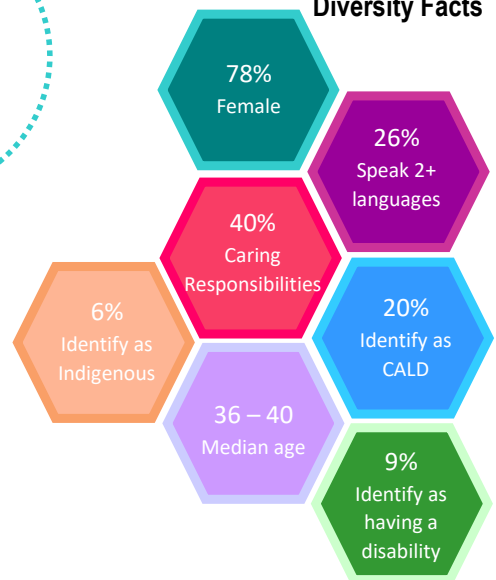


Highest Level of Qualification



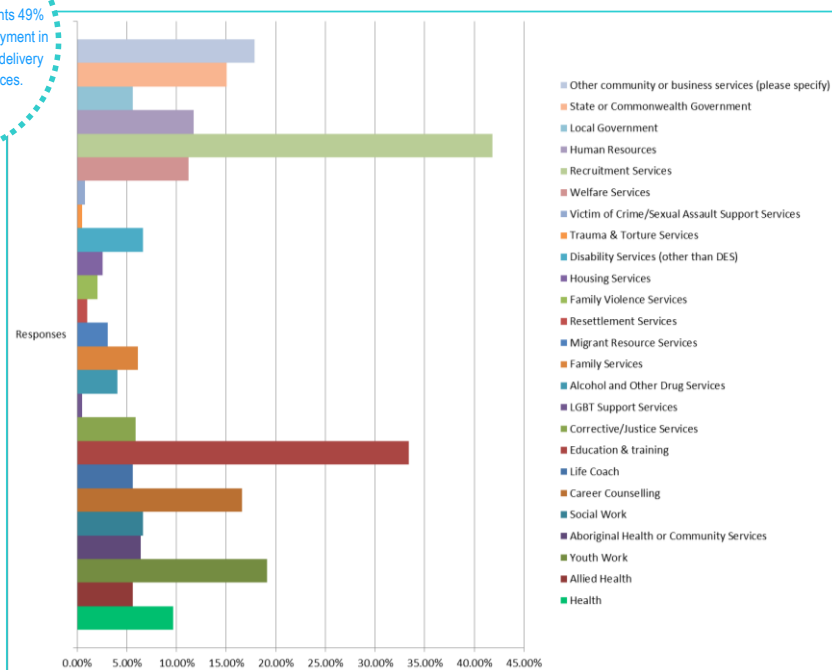
The 13% of the frontline workforce without post-secondary qualifications were typically administration trainees or mature workers with considerable sector experience including up to 40 years in employment services, commencing with the CES.

Employment Services Workforce Diversity Facts



Of the survey respondents 49% had previous paid employment in a sector relevant to the delivery of employment services.

Previous Employment in Relevant Sectors



All data sourced from the: Australian Employment Services Workforce Capability and Diversity Survey (2018)



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