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Future Employment Services Consultation
Department of Jobs and Small Business
GPO Box 9880
Canberra ACT 2601

Centre for Policy Development Submission: Future of Employment Services

Introduction

The Centre for Policy Development (CPD) welcomes the opportunity to make a submission to the Future Employment Services Consultation.

CPD has a track record of research within our Effective Government Program into the effectiveness of employment services. Our long interest in these matters is reflected in the reports [Grand Alibis](#) (December 2015) and [Settling Better](#) (February 2017, which was released with the support of the Boston Consulting Group), and a broader discussion paper on Australia's democracy (December 2017). These issues also informed the creation of our multi-year Cities and Settlement Initiative, which focusses on helping refugees to find jobs faster. These reports, related [articles](#) by CPD staff members about *jobactive*, and further information about CPD's Cities and Settlement Initiative are available on our website.

Our submission to the Future Employment Services Consultation builds on our correspondence with Sandra McPhee, Chair of the Employment Services Expert Advisory Panel (the Panel), and discussions with the Active Labour Market Assistance Branch in the Department of Jobs and Small Business (the Department). It also draws on discussions and analysis produced through our Cities and Settlement Initiative. We would be pleased to continue these conversations to expand on the recommendations below.

Our recommendations focus on service and funding models; activation and assessment; governance and evaluation; policy objectives and service coordination; and digital offerings.

General Principles

Several principles inform CPD's approach to employment services.

- A goal of sustainable, appropriately paid employment in the places that matter most;
- Employment services should upskill and retrain all Australians – young, old, and new;
- All jobseekers have capabilities to contribute, not least refugees;
- One size does not fit all – the new system will need a combination of digital training accounts for all and personalised, flexible, local services for the most disadvantaged;
- Local governments or other public agencies are often best placed to coordinate or deliver integrated, flexible and well adapted solutions – especially for complex social services;
- 1:1 engagement with employment services for disadvantaged jobseekers, often at the family level, and with a career or life cycle perspective; and
- Funding models must be designed for quality outcomes, not price.

CPD's extensive attitudes research conducted in 2017 about Australia's democracy found that Australians are highly sceptical about outsourced social services and view government as the better provider on key indicators (cost, accessibility, quality, accountability, and affordability). We found 82 per cent of respondents wanted government to retain the skills and capability to deliver services directly, and 75 per cent of respondents supported embedding the public sector in more parts of Australia. These findings are consistent with Gary Morgan's [research](#) on the most trusted professions in Australia. Public employees delivering services at the front line are always at or near the top. Nurses have been the most trusted for 23 years running.

Doctors and teachers are not far behind, ranking second and fourth respectively in 2017. Public servants in general are ranked well above journalists, business leaders, and politicians.

Public service values and culture may seem esoteric to some but deliver tangible benefits if deployed towards the delivery of integrated services in the places Australia needs them most. These values include an imperative to work in the public and community interest, to find the best outcome for the intended beneficiary, and a willingness to use networks to ensure individuals have the best collection of services available. Cultural elements include remembering what has been attempted beforehand, lesson learning systems and evaluation, retained capability, and trusted relationships with complex sets of stakeholders.

These values and cultural elements appear to have been lost in the evolution of the outsourced delivery system, especially the tender and commissioning processes. These objectives are not highly weighted in tender documents, to the extent they appear at all. Nor are they generally available publicly or measurable against outcomes transparently given the reliance on commercial-in-confidence provisions in procurement contracts. Commissioning processes that are not intended to exclude public delivery options in theory often do so in practice, making it very difficult for public institutions to bid and depriving the market of public sector values and culture often associated with the best quality of delivery. There is seldom any accurate comparison of cost in these outsourced systems with the cost within an effectively managed public sector environment, or tangible evidence of the reported efficiency gains via outsourced systems. Without better evidence, an observer could conclude profits are placed ahead of efficiency and quality in outsourced delivery systems. Arguably this has been the case with Australia's employment services.

Recommendations

1. Change service and funding model

CPD believes a pivotal issue for employment services, especially the enhanced services model, is that they must be driven by results, not by price. They must also enlarge the role of public authorities in delivery at the local level. We are finding in our research that locally connected, place-based approaches to service delivery, with active and autonomous local brokers, are achieving better results. Our view is that activity based funding (ABF) and place based services should feature strongly in the new system.

If the panel is persuaded by this, we encourage them not to let transition risks or transition arrangements to the new system to impact the ultimate design. There are several ways to minimise the transition risks, including by implementing the new design in different geographies at different times. Another option is to adopt a hybrid model, whereby jobseekers who are currently be streamed in category A receive digital training accounts (and associated funds) directly, as under the NDIS, whereas the more disadvantaged jobseekers (now categories B and C) are eligible for the enhanced services model built around ABF.

a. Activity based funding

Simple but effective outcomes-based funding arrangements have been difficult to achieve in practice. Finding a job is often the sole payment point, instead of a bundle of activities that collectively generate sustained economic participation (such as employment readiness, skills certification, mentoring, re-training, work experience, mapping career pathways, collaboration, and building local networks). However, insufficient attention appears to have been given during the growth and pricing of outsourced employment services to:

- Joined up responses (such as employment, education, and language training);
- Cost-benefit comparison of public provision; and
- Culturally-sensitive capability, service delivery experience and incentives to ensure decision-makers act in the best interests of the client.

The Department will be familiar with ABF and casemix models used in Australian public hospitals. A similar model, with a fixed efficient price, local authority and accountability for outcomes, could make employment services much more effective. We believe ABF is superior to the existing reliance on tendering, where incentives are skewed toward producing the lowest price without due regard to results and the most difficult to place jobseekers.

Designed well, ABF can help to remedy the inherent problems of managerialism which harm *jobactive* and create legitimate and collaborative institutions and services that empower citizens at the local level. This responds directly to the attitudes research reported in CPD's 2017 discussion paper on Australia's democracy, namely great weariness with policy based on microeconomics as a means of taking the country

forward and a desire for more active involvement of government in designing and delivering complex services alongside communities.

ABF encourages governments and other funders to consider the relative cost-effectiveness of different types of employment services. It is an important tool in allocative efficiency and has three benefits:

1. *Transparency*: it directly links funds to services provided.
2. *Equity*: it assists benchmarking and ensures that funding paid for like services is the same.
3. *Efficiency*: it helps managers identify inefficient practices and target unnecessary costs, while providing incentives to do this by allowing surpluses to be used for reinvestment, research, or other purposes.

ABF has two features: price and classification. Both are commonly handled by an independent government authority. That authority describes the relevant employment services activities and sets their price. The authority sets the rules that surround those prices (e.g. quality performance indicators, characteristics of the organisations providing the service, strong preference for organisations that are networked well into the community, expectations around evaluation and data). The prices and rules are updated on a regular basis (e.g. annual price adjustments based on the efficient price, three-year rule reviews). The authority also sets the criteria for public and private entities to qualify as providers, and therefore be eligible to receive funding. It might also distinguish between providers that do activation and assessment, and those that are best placed to deliver services at the local level.

One advantage of using ABF for employment services is local flexibility and autonomy. Formal recognition of providers of employment services would be the entry point to working in the system, with no restrictions placed on the type of provider under the system. They could be TAFEs, local community groups, not for profit organisations, local governments, and for profit providers. Collaboration between providers can be incentivised so that a bundle of services (including employment readiness, skills recognition, work experience, counselling, and language training) can be provided to those with complex needs.

As with the Gonski reforms, the efficient price for a given service should apply to all providers. However, tender based prices should not be the reference point. Declining prices have, over time, reduced the quality of services for those with complex needs and crowded out public involvement. Funding needs to be channelled through the appropriate government agency, although simplifying funding channels and accountability is needed. One area of overlap is between employment and language support. Another is between federal, state, and local funding.

We have conducted a comparative analysis of employment services contracts and funding mechanisms provided to us by Settlement Services International (SSI) in NSW, and the Jobs Victoria Employment Network (JVEN). We believe these contracts are instructive because they are designed to remedy the areas where *jobactive* has fallen short and take a different approach to prescription, pricing, autonomy and incentives for collaboration. Unique elements to the contracts, in contrast to *jobactive*, include:

1. Place based initiatives: taking a specific geographic area allows the targeting of the cohort, clearer awareness of barriers faced, and stronger connections to local employment opportunities.
2. A focus upon *sustainable* and *skilled* employment.
3. Face-to-face and personalised support through, for example, Employment Pathway Plans.
4. Ongoing language training and payments for providers when clients complete *post-AMEP* training.
5. Collaboration: requiring the provider to develop working relationships with employers, employment services, education providers and settlement services, or to establish stakeholder advisory committees.
6. Payment points for overcoming the barrier of overseas-skills recognition, through obtaining recognition, or providing alternative pathways to recognition.
7. Payment points for the provider when a client successfully completes work experience.
8. Entrepreneurship as an employment outcome: helping individuals to access and connect with information about establishing their own businesses.
9. Mentoring and mental health care: providers are required to engage with health and mental health services, as well as mentoring services for clients.
10. Transport barriers: payment points for overcoming this barrier for clients and allowing them to reach their place of employment.

These models come closer to ABF as applied in hospitals and when an independent government body sets prices, depending on the complexity of client's needs. They have one or more of the following elements, which appear increasingly important for better outcomes.

- Autonomy in provision of services;
- Sets of activities clearly set out; and
- Clear price signals and incentives for collaboration at the local level.

b. Place based service models

Chapter 8 of *The next generation of employment services* discussion paper suggests that targeted regional and local approaches will be necessary for future employment services. Indeed, networks at the local level are often the best means of involving businesses in considering people for jobs and in identifying individual specific skills gaps. Only a local arrangement can provide this given that national administration is often distant from the circumstances of the numerous communities which constitute Australia. Support at the local level in an integrated way (skills, language, employment etc.) can prepare people for participation in jobs available at the local level. Markets have been unable to achieve this level of personalised integration.

Place based service models might be a subset of or alternative to the enhanced services model. They build self-reliance in local communities, whereby the key unit of change is a geographic area. Designed well, they are one way for the next generation of employment services to spark creativity at the local level and make a real difference to employment outcomes. Such areas demand creative partnerships and active brokers that employ the 'Bunnings Principle' to find local solutions. By this we mean identifying bespoke approaches and local infrastructure or public entities that can be leveraged (and then replicated and scaled) to achieve better outcomes. The alternative is the status quo, where *jobactive* providers compete with state government and tailored NGO approaches for the same clients: three organisations spending money on the same cohort without a coordinated effort in design or local delivery.

We think there is considerable merit in exploring these models further and trialling approaches that devolve funding and authority to public agencies (or local governments) operating in communities where there is acute unemployment or underemployment. Within our Cities and Settlement Initiative, we have a working group investigating what locally connected approaches to employment services could look like in practice for vulnerable jobseekers. They have examined various models in the United Kingdom, Europe, Canada and the United States. These examples suggest several critical success factors, including:

- Close working relationships with and proximity to partner organisations (e.g. higher and vocational education, business, NGOs and charities);
- Understanding of the local population's needs (including by undertaking specific research and surveys, and awareness of local processes and emerging trends);
- Active government involvement (often local or municipal governments) and integration with local businesses (matching employers with employees, acting as a broker for employment); and
- Local control and design of programs (either by autonomy to adapt well-funded and developed national programs or to design, fund and manage such programs independently).

If the panel is suitably persuaded by placed based approaches, accurate segmentation of vulnerable cohorts by geographic area based on data from *jobactive*, the Index of Relative Socioeconomic Advantage and Disadvantage (ISRAD), and the ABS SA2-3 datasets will assist with identifying areas of acute need. Those areas and cohorts should be mapped so that there is a clearer view of the employment/non-employment distribution, the *jobactive*/related services distribution, labour demand and other economic indicators. We suspect significant service or capability deficits in those areas whereby a 1:30 caseload is unachievable. Employment services in such areas are a worthy candidate for the sort of 'special project' undertaken jointly by governments contemplated by the Productivity Commission in *Shifting the Dial* (2017, pp. 192-208).

2. Better assessment and prompt activation of services

A successful future employment services system will rely heavily on accurate assessment of need (including of digital literacy) and prompt activation of services in the initial phase, even for those who are not able to find work immediately.

Better assessment requires the right set of questions, capable systems and experienced staff to assess need, and continuity of 1:1 planning and service provision thereafter if individualised services are activated. Each of these areas needs fixing. Our research has found that inaccurate streaming is a big issue, and that 1:1 early

intervention by a case manager focussed on sustainable outcomes has a better track record than blunt, transient *jobactive* targets. The integration and establishment plans in Finland and Sweden, the *Given the Chance* program run by the Brotherhood of St Laurence, and JVEN are several examples of such an approach in action.

Future employment services should also bear in mind that jobseekers who are assessed as requiring the enhanced services model may not be the only household member able to find suitable employment but may be the only one interacting with the system. Data we have seen, for example, suggests migrant spouses have an unemployment rate of 22.7% despite 36% of the same cohort holding bachelor degrees. The additional spend required to do 1:1 plans *for all family members* of other disadvantaged cohorts (such as CALD and Indigenous communities) will likely pay for itself through a greater dividend over the long term.

3. Offer smarter digital solutions

We agree the new system should equip the workforce for the future and that digital services can reduce the cost of supporting those jobseekers with stronger prospects. Digital technology can assist with more effective assessment and activation, including by mapping skill sets to the local labour market. Digital services can also boost equity and flexibility, making online training, language support, coaching and employer matching available regardless of location. They are likely to be attractive to those who are underemployed, seeking to change careers, or in the process of retraining or upskilling – all growing trends.

One strong caution, however, is that digital services and big data will not be a panacea for better employment services. Data transfer from providers to government has been poor, and commonly for compliance, not to learn more about what works. For vulnerable jobseekers, digital is barely used because computer literacy is often low. We suggest savvier digital offerings that focus on smart phones, where literacy is much higher. We also suggest incentives to encourage jobseeker, service provider, and employer participation, such as topping up digital training account credits when jobseekers evaluate services or refer others, and triggering wage subsidies when employers recruit direct from the system.

4. Streamline policy objectives and service delivery coordination

We recommend a specific gender lens be applied to the next system. New initiatives principally for women and children (e.g. Community Hubs Australia) have emerged in the settlement space because mainstream service offerings (including in *jobactive*) take a one-size-fits-all approach often unsuited, for example, to migrant women.

Our research on employment services continues to find that language, and effective language services, are a necessary condition for better employment outcomes in culturally and linguistically diverse communities. Data we have seen confirms English language fluency is critical to employment, and that it is more of a barrier to women than it is to men. For this reason, language training should be a key plank of the new enhanced services model.

More can be done in this respect to link federal government programs that should be interconnected and mutually reinforcing. Policy drivers, like ‘finding a job’ or ‘learning a language’, are delivered by separate programs, *jobactive* and the Adult Migrant English Program (AMEP), that can push in opposite directions. This is counterproductive. For example:

- Poor English is the second strongest predictor (after gender) of workforce participation for refugees.
- 26% of eligible refugees were unable to continue the AMEP program after finding a job.

A defined period of interagency collaboration between relevant departments (e.g. Jobs and Small Business, Social Services, Industry, Education, Human Services and Home Affairs) will be necessary to refine the new employment services system so that policy objectives are aligned and service are streamlined.

5. Reform governance and build in evaluation

If the funding and service models change, the governance strategy used is important. Relatively independent public agencies (such as schools and hospitals) arguably have a better track record at delivering services than departments of state. These agencies can be held accountable for outputs and outcomes given significant improvement in management techniques and clearer thinking about how best to achieve the purchaser-provider separation. In some areas, therefore, it may be prudent to experiment with decentralised or devolved delivery to independent agencies within the public sector as this puts responsibility for delivering services close to the clients of those services.

So far as place based services are concerned, we propose area-specific governance models that make the most of experience at the local level about what it takes to get a job and connect with employers.

Specifically, we suggest:

- elevating the role of local government or other public agencies to broker, coordinate and deliver services (like models in London, Hamburg, the Netherlands, or [Northern Futures](#) in South Australia);
- incentivising tripartite partnerships (as required by JVEN) between peak bodies in the community or industry, local government, and education;
- front-loading funding for individualised plans and service coordination, together with wage subsidies to local employers (such as Denmark's IGU program), particularly where employment is connected to other services like language support (such as Sweden's 'Step In' subsidies).

Governance reforms at the local level will only be effective if accompanied by changes federally. As *Settling Better* showed, in settlement and employment services there can be four departments and six ministers involved at any one time, a recipe for fragmentation and grand alibis. If interagency collaboration is unlikely to result in greater alignment of policy objectives and service offerings, machinery of government changes will be necessary.

The Federal Government's commitment to [open contracting](#) and a lack of good data on what works in job services also provides an incentive to embed evaluation into the new system. This is one area where immediate progress can be made. Employment trials could exempt certain cohorts from *jobactive* and track their progress via bespoke services that have emerged because of *jobactive*'s deficiencies (like SSI's Refugee Employment Service or JVEN). Both focus on integrated services tied to employment for vulnerable cohorts, have different payment points and activation phases.

Triple Dividend on Offer for Australia

CPD's research on refugee employment and settlement services, conducted with the support of the Boston Consulting Group and through our Cities and Settlement Initiative, has revealed several of the pain points in the current employment services system. Just as important, however, is that it has highlighted the prize on offer for Australia if we can do better.

Our analysis of Wave 3 of the Department of Social Services' *Building a New Life in Australia* longitudinal study found that after 36 months in Australia:

- Overall, just 21% of humanitarian migrants are in paid work;
- Humanitarian migrants with poor English speaking skills are 2.2 times more likely not to have a job;
- Humanitarian migrants with no paid work experience before arrival are 1.8 times more likely not to have a job; and
- Woman are 4.2 times more likely not to have a job.

Improving employment outcomes by 25 per cent for just one annual intake of humanitarian migrants (compared to average jobseekers) would deliver a 'triple dividend' for Australia. It is worth \$465 million in direct annual value to those migrants, \$165 million to the Federal Government budget and significant social cohesion dividends. Lessons learned by improving outcomes for refugees will also improve outcomes for other jobseekers requiring an enhanced services model (such as CALD and Indigenous communities). To do so, future employment services must overcome several pain points (Figure 1) and consider the reforms we have outlined above (Figure 2).

Figure 1: Multiple pain points for refugees with jobactive

| | Pain point | Description |
|--------------------------|--|---|
| Arrival & HSP | Insufficient early focus on employment | While HSP has a stated focus on employment, this is not yet supported by funding or HSP processes |
| Connected with ESP | Engagement model too one-size-fits-all | Initial assessments miss factors unique to refugees, leading to incorrect streaming. Three-stream model doesn't reflect the very wide range of refugee capability profiles (some ready for work well before 6 months, others need extended/specialised supports) |
| | Women not sufficiently supported | Female refugees often not the primary jobseeker - Current model lacks flexibility to deliver complementary services like childcare, or ramp up AMEP/employment services later |
| Job-readiness activities | Complex and costly to gain skill recognition | Skilled refugees often placed in jobs below their skill level because it is a lengthy and costly process for migrants to gain recognition/certification |
| | Not well coordinated with other services | Employment services are not well integrated & aligned with language (AMEP) and settlement services, VET/TAFE, or local gov't |
| | Funding model too narrow | Narrow focus on employment outcome in current funding model limits incentive for ESPs to invest in harder-to-place refugees (e.g. work experience, mentoring, training) |
| Job search | Too much time spent on compliance | Excessive time spent on ESP requirements as opposed to job search (e.g. completing activity schedules, navigating non-digital services) |
| Employed | Employer needs not taken into consideration | Employment services do not sufficiently engage employers or prepare refugees to meet their needs (e.g. high-growth sectors in disability services and infrastructure) |

Figure 2: Potential reforms

| | Pain point | Proposal | Description |
|--------------------------|--|--|--|
| Arrival & HSP | Insufficient early focus on employment | Encourage 'better' assessment and prompt activation of services | <ul style="list-style-type: none"> Implement individualised assessment and service activation Implement the 'right' set of questions, capable systems and experienced staff to assess need |
| Connected with ESP | Engagement model too one-size-fits-all | | |
| | Women not sufficiently supported | Reform governance and 'build in' evaluation | <ul style="list-style-type: none"> Implement a randomised trial that exempts people from <i>jobactive</i> and tracks their progress via bespoke services Embed evaluation of what works in the new system |
| Job-readiness activities | Complex and costly to gain skill recognition | Streamline policy objectives and service delivery coordination | <ul style="list-style-type: none"> Streamline policy objectives and improve coordination of service delivery across the five Commonwealth Departments involved in humanitarian migration (Home Affairs, DSS, DHS, DET, DJSB) |
| | Not well coordinated with other services | Change service and funding model to encourage steps towards employment | <ul style="list-style-type: none"> Revise funding model to incentivise broader range of activities for high-needs cohorts, and pilot place-based approaches through area-specific governance and funding arrangements in high-need LGAs Test activity-based funding and placed-based model with regional employment trials |
| | Funding model too narrow | | |
| Job search | Too much time spent on compliance | Offer smarter digital solutions | <ul style="list-style-type: none"> Boost flexibility of delivering training, language support, coaching and employer matching - with a focus on smartphones Use incentives to encourage jobseekers, providers and employers to participate, with appropriate solutions for CALD clients |
| Employed | Employer needs not taken into consideration | | |

Conclusion

CPD is aware that employment trials will commence in ten disadvantaged regions in October 2018. These trials provide a unique opportunity to test an activity based funding model for higher needs cohorts, and a greater role for public agencies and local governments in coordinating or delivering services.

Please contact us if you have any or would like to discuss any of the matters raised by this submission.

Sincerely

Travers McLeod
Chief Executive Officer