

# Pre-Budget Submission 2016-17: Strengthening Australia's labour market assistance programmes

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Presented by:

National Employment Services Association

Level 8, 20-22 Albert Road,

South Melbourne 3205

Contact: Ms Sally Sinclair CEO

P: (03) 9624 2300 | F: (03) 9686 3660

E: [nesa@nesa.com.au](mailto:nesa@nesa.com.au) | W: [www.nesa.com.au](http://www.nesa.com.au)

## NESA Pre-Budget Submission 2016-17

### Executive Summary

The National Employment Services Association (NESA) is the peak body for Australian employment services. NESA's membership includes community, not-for-profit and private sector organisations delivering services across the breadth of Australian employment and related services. NESA's representation reflects our unique perspective on the functioning and development of the broader employment services policy and programme framework as well as an in-depth understanding of individual programmes and operating environments.

Our members deliver services across all programmes, including jobactive, Disability Employment Services (DES) and the Community Development Programme (CDP).

Increasing employment is critical for Australia's future prosperity, and the policy challenge is that there is no one solution. Key factors however include:

- Education and skills (including language, literacy and numeracy)
- High quality Vocational Education and Training and Higher Education
- Wages and tax system that makes work pay
- Labour market assistance
- Childcare and flexible work opportunities
- Job opportunities available.

While recognising the multiple variables in increasing employment, labour market assistance is an important component. Since 1998, our members' success in delivering outcomes for employers and job seekers and contributing to Australia's economic and social well-being have been crucial.

To that end, NESA is concerned that the current programme settings are placing our world-leading employment services system at some risk in terms of our ability to achieve the ultimate goal of increasing employment for the most disadvantaged.

NESA recognises the commitment to mutual obligation, however we believe the system is currently overly focused on active participation and Work for the Dole at the expense of achieving employment outcomes. Rather than focus on activity (as is particularly the case in jobactive and the Community Development Programme), the strongest focus should be placed on employment, self-employment or (particularly in remote communities), social enterprise.

NESA has identified 6 recommendations aimed at shoring up Australia's labour market assistance programmes.

### NESA recommends that the Government:

1. Ensure the financial sustainability of the jobactive programme
2. Reduce red tape in the jobactive programme, particularly in Work for the Dole
3. Build on the current Disability Employment Services programme in future arrangements

4. Continue to monitor changes to the Community Development Programme (CDP) to ensure parity for remote Australia and the viability of the Programme
5. Ensure equity across Employment Services Programmes through Indexation and Regional Loading
6. Flexible Wage subsidies for job seekers and equity across programmes

## Current employment patterns

Australia's unemployment rate remains comparatively low by international standards. However it reached a recent peak of 6.3 per cent and is now sitting at 6.0 per cent.<sup>1</sup> Current labour market conditions show extreme competition for jobs – there were 786,559 job seekers registered as seeking work in jobactive as at 9 February 2016<sup>2</sup> and around 166,200 advertised vacancies per month currently<sup>3</sup> – that is just under 5 registered job seekers competing for each advertised position.

If you included job seekers registered with disability employment service providers (84,164 in the Employment Assistance phase)<sup>4</sup> and those receiving service under CDP (around 37,000)<sup>5</sup> and looked at the jobs most suitable for the skills of job seekers on programme<sup>6</sup> we have over 907,723<sup>7</sup> job seekers competing for around 78,000 advertised roles – or around 12 job seekers for every one vacancy.<sup>8</sup> Given this calculation doesn't include those in work already who might also be looking to change jobs or increase their hours through additional work, with 1 068 000 workers considered underemployed in November 2015<sup>9</sup>, the picture grows even starker.

The rise in the proportion of unemployed people who are long term unemployed remains a matter of particular concern: in 2009 16 per cent of unemployed people had been out of a job for 52 weeks or more, this is currently around 22 per cent.<sup>10</sup> Long-term unemployment is considered to be one of the most significant public health risk factors. On the balance of evidence, unemployment causes,

<sup>1</sup> Australian Bureau of Statistics (January 2016) Labour Force, Australia, cat. no. 6202.0, ABS, Canberra (Seasonally Adjusted)

<sup>2</sup> Hansard (2016), Senate Education and Employment Legislation Committee, 11 February 2016, page 35

<sup>3</sup> <http://lmip.gov.au/default.aspx?LMIP/VacancyReport>, Vacancy Report, December 2015 (Seasonally adjusted).

<sup>4</sup> <http://lmip.gov.au/default.aspx?LMIP/DisabilityEmploymentServicesData/MonthlyData> 31 January 2016, Accessed 23/2/2016

<sup>5</sup> Department of Prime Minister and Cabinet, February 2015, <http://www.dpmc.gov.au/indigenous-affairs/about/jobs-land-and-economy-programme/indigenous-employment/community-development-programme-cdp> accessed 23/02/2016

<sup>6</sup> This figure has been arrived at by discounting total vacancies (166,200 seasonally adjusted) by vacancies listed as Managerial, Professional, Technician & Trade Workers (88,462). This means the remaining number of suitable jobs is 77,738. Department of Employment *Vacancy Report*, December 2015.

<sup>7</sup> 907,723 – see Data sources (jobactive + DES + CDP) – Vacancy Report December 2015, Department of Employment <http://lmip.gov.au/default.aspx?LMIP/VacancyReport> accessed 22/02/2016;

Registered JSA Job Seeker information at <http://lmip.gov.au/default.aspx?LMIP/EmploymentData>; DES Administrative data <http://lmip.gov.au/default.aspx?LMIP/DisabilityEmploymentServicesData/MonthlyData>

<sup>8</sup> Data sources – Vacancy Report November 2014, Department of Employment <http://lmip.gov.au/default.aspx?LMIP/VacancyReport> accessed 19/12/2014; Registered JSA Job Seeker information at <http://lmip.gov.au/default.aspx?LMIP/EmploymentData>; DES Administrative data <http://lmip.gov.au/default.aspx?LMIP/DisabilityEmploymentServicesData/MonthlyData>

<sup>9</sup> Australian Bureau of Statistics (December 2015) Labour Force, Australia, cat. no. 6202.0, ABS, Canberra. Table 22, Underutilised Persons by Age and Sex, Underemployed Persons (Seasonally Adjusted)

<sup>10</sup> Australian Bureau of Statistics (November 2015), Labour Force Australia, Detailed – Electronic Delivery, cat. No. 6291.0.55.001

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.001Dec%202014?OpenDocument>, accessed 12/2/2014

contributes to or accentuates a wide range of negative health impacts at a significant cost to individuals, families and society.<sup>11</sup>

While the value of employment to all facets of the economy and community – and the risks of unemployment - are clear, there also needs to be the *opportunity* for individuals to participate in employment. This requires jobs to be available, as well as high quality labour market assistance for those who are disconnected from the workforce.

## The importance of employment participation

As identified across a range of studies, improvements in the use of available labour is forecast to add significantly to Australia's GDP in the longer term:

- Closing the gap between male and female participation rates is estimated to increase Australia's GDP by 13 per cent or \$180 billion,<sup>12</sup>
- Narrowing the gap between labour market participation rates and unemployment rates for people with and without disabilities by one-third would result in a cumulative \$43 billion increase in Australia's GDP over the next decade in real dollar terms,<sup>13</sup>
- Increasing our overall participation rate to the same level as New Zealand is estimated to increase Australia's GDP per capita by 1.75 percent.<sup>14</sup>

To achieve the participation rates we need as a country, we must drive further improvements for the estimated 1.3 million Australians not currently in the workforce who would like to work.<sup>15</sup>

Additionally, economic and social participation by individuals is the foundation upon which productive, healthy societies are built. Employment confers wide ranging benefits including:

- Allowing individuals to feel that they are making a contribution to society and their family;
- Giving structure to days and weeks;
- Financial security; and
- Decreasing the likelihood that individuals will engage in risky behaviours, such as excessive alcohol consumption.<sup>16</sup>

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<sup>11</sup> Journal of Insurance Medicine (2007) 'Work and Common Health Problems' Waddell G, Burton K & Aylward M, Vol 39, 2, pp. 109-120, Ottawa, Canada

<sup>12</sup> Goldman Sachs Economic Research 'Weekly Comment: Productivity – Much Ado About Nothing?' 26 August 2011 cited in Deloitte Access Economics (2012) Building the Lucky Country – Business imperatives for a prosperous Australia: Where is your next worker?, p. 20, Deloitte Access Economics, Canberra

<sup>13</sup> Deloitte Access Economics (2011) *The Economic Benefits of Increasing Employment for People with Disability*, p. ii, Deloitte Access Economics, Canberra,

<sup>14</sup> Business Council of Australia (2007) Engaging our Potential – The Economic and Social Necessity of Increasing Workforce Participation, p. 57, Business Council of Australia, Melbourne

<sup>15</sup> Australian Workforce and Productivity Agency (2013), *Future Focus, 2013 National Workforce Development Strategy* p.71, AWPA, Canberra

<sup>16</sup> The Royal Australasian College of Physicians & The Australasian Faculty of Occupational and Environmental Medicine (2001) 'Position Statement: Realising the Health Benefits of Work', p. 13, Royal Australasian College of Physicians, Sydney

We also know that employment is the path out of disadvantage for most people of working age. Less than four per cent of Australians employed full-time and 17 per cent employed part-time experienced income poverty in 2010 (compared with 63 per cent of those unemployed).<sup>17</sup>

NESA members find the New Zealand investment model a promising approach, and believe that it is worthy of further investigation in the Australian context. We welcome the exploration of this approach in the Australian context, as it is important that we consider funding to support participation in employment as an investment not a cost. However, it is also important to ensure that adopting this approach would not result in the removal of support for those who miss out on early intervention opportunities.

### 1. Ensure the financial sustainability of the jobactive programme

A new mainstream employment service, jobactive, began on 1 July 2015. Financial sustainability of the model has been raised by providers since even before the beginning of the contracts. The model involves upfront fees for administration but not for servicing job seekers, and a higher proportion of fees based on achieving employment outcomes than in previous contracts. This means the model is highly reliant on the volume of job seekers in the system achieving a job. At the same time, there is a very strong focus on mutual obligation, yet payments to providers for Work for the Dole activities and administration is not allowable (other than a new payment of \$100 for lead providers managing the job seekers of other providers) and has therefore increased the cost base for providers.

In bidding for jobactive business, organisations modelled their likely revenue and expenditure based on their approach to service delivery and also the information provided by Government, including the projected flow of job seekers. NESA members have widely reported that caseload numbers were below expectations. In addition, Stream A job seekers (those closest to the labour market who attract lower outcome fees) have achieved the highest levels of employment outcomes, higher than commonly projected by providers. Given the direct relationship between job seeker disadvantage and outcome payment levels, providers are generally receiving less income than projected.

On top of the existing issues as outlined, the announcements in MYEFO in relation to jobactive resulting in a 3.6% reduction in the jobactive budget has significantly elevated the concern that NESA is hearing from members. Members are concerned that Government has established a five year programme that involves major commitments from providers who accept the business and then within six months have made a notable change to reduce the funding envelope.

Effectively funded services are critical to the delivery of improved employment outcomes, therefore it is important that the funding for jobactive is strengthened. In jobactive, we would recommend using the principles of the Jobseeker Classification Instrument (JSCI) to pull the policy levers to support targeted intervention towards high risk groups such as the long term unemployed, rather than the currently heavily rationed approach to services. In

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<sup>17</sup> Productivity Commission (2013) 'Deep and Persistent Disadvantage in Australia', Staff Working Paper, McLachlin R, Gilfillan G & Gordon J, p. 20, Productivity Commission, Melbourne

addition, it is critical that there aren't more cuts to the programme area as occurred in MYEFO.

## 2. Reduce red tape in the jobactive programme, particularly in Work for the Dole

The Work for the Dole model includes Work for the Dole Coordinators, jobactive providers and lead providers (who are jobactive providers that coordinate multiple placements for group activities on behalf of other providers). While there are nominated amounts to pay for both individual and group activities (\$1000 and \$3500 respectively), as noted above there is no funding available to providers or lead providers in managing the placement of job seekers in Work for the Dole.

NESA undertook a survey specifically regarding Work for the Dole in September-October 2015. This included responses from 15 Work for the Dole Coordinators and 35 jobactive Work for the Dole managers. The survey found that the estimated staff time and processes for administration and communications in relation to WfD have been significantly greater than expected. This is true for both WfDCs and jobactive organisations, though it is particularly acute for jobactive providers.

A Work for the Dole Working Group (involving the Department, NESA, Jobs Australia and providers of both Work for the Dole and jobactive) has been looking at a range of issues in Work for the Dole including payments for Lead Providers, simplifying invoicing and some IT changes. While some of these changes have been actioned, many others are still in progress so it is difficult to consider their impact.

Providers also advise that the time and costs associated with administering Work for the Dole means that there are fewer resources available for working with employers. NESA is concerned that that this is a significant risk to the reputation of the programme.

NESA therefore recommends that red tape is stripped out of the jobactive programme, particularly in relation to work for the dole. This could be achieved through a range of initiatives including prioritising systems enhancements in the IT system, changing the Work for the Dole model to simplify and clarify the respective roles, and remove some of the red tape involved in making payments and documentary evidence requirements. We would suggest that a streamlining project is undertaken as a high priority.

## 3. Build on the current Disability Employment Services programme in future arrangements

We note the dialogue in relation to the future National Disability Employment Framework and the argument that the current model is performing poorly and has a lack of choice that can only be increased by implementing a market driven approach. We acknowledge that the labour force participation of people with disability dropped slightly from 54.9% to 52.8% between 1993 and 2012.<sup>18</sup> This is likely to be related to a range of factors including but not limited to the policy, programme and legislative settings, economic and labour market conditions as well as the disability confidence of employers. However it is also the case that Disability Employment Services has achieved better

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<sup>18</sup> Australian Bureau of Statistics, Disability and Labour Force Participation 2012, Cat. 4433.0.55.006

outcomes than other comparable programmes. This would suggest that a prudent way forward would be to learn how the existing programme settings could be improved, which would also avoid the risks of a significant change that has not been properly piloted and evaluated.

Learning from experience, we believe there is a significant opportunity to affect change and an alternative way forward is outlined in the section below. However given the range of issues outside of employment services that influence employment participation of people with disability, we also urge Government to consider broader issues such as disability confidence in employers and job creation strategies.

NESA members support the broad principles of choice and control, individualised funding and supports across the life course for people with disability. We believe however that it is more effective and efficient to build on what works and make change within the current framework to deliver on these principles.

Our preference is for a model that:

- Builds on what works and is based on evidence
- Effectively assesses individual need and allocates funding accordingly
- Provides coordinated case management and a holistic approach to services across the life course
- Supports individual tailoring and service co-design while remaining focussed on outcomes
- Is focussed on outputs (rather than inputs) and frees providers to utilise their skills and expertise
- Funds services for both job seekers and employers
- Is available to all people with disability who need support to gain, maintain or change employment.

Utilising the existing framework and managed market approach, NESA believes that the principles of choice and individualised funding can be improved moving forward by:

- Stripping out current administrative burden and programme prescription and taking a “black box” approach to service delivery allowing providers to utilise their expertise to co-design services and outcomes with job seekers based on individual needs and aspirations, and design services to meet employer needs and local labour market realities. Many of the criticisms of service performance outlined in the case for change by the Department could be rectified by removing programme prescription
- Broadening eligibility to ensure that no one is deemed to have “no capacity to benefit” from employment supports and that services can be delivered across the life course
- Redesigning assessment and funding allocations to be based on entitlements and not deficits as outlined in our response to the original Issues paper. This can include the development of a career plan, however this plan should be co-designed utilising service provider input and expertise.
- Investing in community and individual capability and capacity development to empower job seeker and employer choice. This would include better promotion of available services
- Explicitly funding both job seeker and employer services and supports, such as an extended NDRC type service for small to medium employers
- Investing in ongoing evaluation to build the evidence base for future changes to the model. It is important that trialling, testing and evaluating is a core part of building a future framework.

As with other areas of employment services delivery it is important to ensure that there is sufficient funding available to improve employment outcomes. Given the range of benefits of employment to individuals, communities and our economy, it is imperative that labour market programmes are viewed by Government as an investment rather than a cost.

#### 4. Continue to monitor changes to the Community Development Programme (CDP) to ensure parity for remote Australia and the viability of the Programme

Changes to the Remote Jobs and Communities Programme were implemented on 1 July 2015, with the introduction of the Community Development Programme. This represented a significant change to the operation of the programme, with Work for the Dole becoming a core element of the programme, along with a new funding model that incorporates different outcome and activity fees. Payments to providers are now directly linked to job seeker engagement. The initial transition phase safety net of 75% payment was removed as of 1 January 2016. This means that providers will now be paid purely on job seeker engagement.

As with other labour market programmes, investment in the Community Development Programme is an investment in communities. It is therefore important that the overall levels of investment are at least maintained.

We noted that through the Community Development Programme between 1 July 2015 and 31 December 2016, Indigenous Australians were supported into 2,778 jobs. There was also a significant increase in the number of remote Indigenous job seekers contributing to their communities and developing skills while they look for work – from 46.7 per cent at 30 June 2015 (under the former Remote Jobs and Communities Programme) to 68.5 per cent (17,138 job seekers) at 31 December 2015.<sup>19</sup> Whilst this is a significant average increase in a short period of time, it highlights the challenge for providers that remains in increasing engagement to 100%.

The increase in participation in activities at a community level is positive, and will contribute to community development. It is critical however that a focus on employment (where available) should remain within the programme. Proposed changes to CDP from 1 July 2016 would see participants in the programme benefit from a simplified compliance framework, and access to changed taper arrangements with regards to earnings.

This is welcome in terms of allowing individuals to access paid employment in regions with seasonal and sporadic employment. It may impact on the incentives to providers to support individuals to move into sustainable employment however, noting the changed thresholds. Job seekers in agreed locations across remote Australia will have the capacity to earn up to \$650.00 per week on top of income support payments. In order to achieve a full outcome payment for an individual in this environment, CDP providers will be required to achieve an off benefit outcome that takes this into account.

Consideration should be given to increasing outcome payments to better reflect increased effort from providers in securing longer term employment for individuals in this changed environment.

NESA believes that it important that there is strong focus on creating viable social enterprises across remote Australia. \$25 million had been made available for these initiatives, which we believe is not enough to effect real change in this area. If each region were to be granted funds for startup social

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<sup>19</sup> Department of Prime Minister and Cabinet (2016) Closing the Gap, Prime Minister's Report 2016

enterprises as envisaged in the Minister's announcements on the 6th of December 2014, this would mean less than \$0.5 million for each region. That would be very little to purchase the business management, technically skilled staff, accommodation, equipment and materials to develop tradeable goods or services, such as butchers and bakeries as envisaged by the Government.

We note the rapid changes that have occurred in employment services delivery in remote Australia. Capacity building has played an important part in the transition by developing the organisational and staff capabilities of providers. This underlines the importance of capacity building to ensure the effective implementation of reform and the further enhancement of delivery in remote Australia. This can be expected to continue to be the case particularly if (see below) providers become responsible for income support payments.

## 5. Ensure equity across Employment Services Programmes through Indexation and Regional Loading

For effective employment services delivery to occur, it is important that indexation of the contracts takes place to ensure that the funding arrangements keep up with the real cost of doing business, particularly when it comes to human resources, in particular wages and salaries.

It is welcome that the jobactive contract includes a mid-Deed price adjustment of Administration Fees and Outcome Payments of 7.8 per cent, to ensure payments keep pace with the cost of delivery. We note however that these payments only apply to Administration Fees and Outcome Payments, and while welcomed, believe it is important that the mid-Deed adjustment applies to all payments under the model including Individual and Group Work for The Dole funds, wage subsidy payments, relocation payments and Employment Fund credits.

In addition, it is welcome that Transition to Work also includes a mid-term fee increase for the annual Upfront Payment and the Bonus Outcome and Sustainability Outcome Payment (each at 3.4 per cent effective from 1 July 2018).

NESA believes it is important that there is equity across all federally funded employment services programmes and as such advocates for similar price adjustments to be included in funding for the Disability Employment Services administered by the Department of Social Services and the Community Development Programme (CDP) administered by the Department of Prime Minister and Cabinet.

Since the introduction of the DES model in March 2010, CPI has increased by 13.7%.<sup>20</sup> However funding under the Deed has remained static. Such rises in costs over time erode the funds available to be allocated to service provision and ultimately impact on the quality of service. Indexation of 13% should therefore be applied in 2016/17 to bring the current payments under the DES Deed in line with actual operating costs. Additionally, future arrangements should include either annual indexation or mid Deed adjustments.

Similarly, when CDP commenced in 2013 there was no indexation included. To ensure parity with other programmes, NESA recommends that in the 2016/17 budget, a mid Deed adjustment is included of between 7% and 10%, commensurate with CPI over the period of July 2013 – June 2016.

The costs of service delivery are not uniform across Australia. Some locations have higher costs, particularly in relation to: travel to surrounding areas due to the size of regional and rural labour

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<sup>20</sup> Consumer Price Index, Australian Bureau of Statistics Cat No 6401.0, December Quarter 2015.  
[http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/8EC44B487DC43EC3CA257DDA000B4AC1/\\$File/64010\\_dec%202014.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/8EC44B487DC43EC3CA257DDA000B4AC1/$File/64010_dec%202014.pdf) ; Date sighted 06/02/2015

markets, training delivery due to limited infrastructure availability; delivery of other services including opportunities for participation in meaningful work experience programmes; and increased costs of premises to house providers.

It is welcome that jobactive includes recognition of the additional cost of doing business in non-metropolitan Australia and includes a 25% loading for job seekers in rural and regional areas. We believe, as with the Indexation issue outlined earlier, that there should be equity across employment programmes. As such, a 25% regional loading should be applied to fees and outcome payments available in relevant employment services contracts.

## 6. Flexible Wage subsidies for job seekers and equity across programmes

Across all programmes (including jobactive, Disability Employment Services and Community Development Programme) there are varying levels of support available to employers including on the job support, ongoing support, job design, workplace modifications etc. There are also differences in how wage subsidies are made available. For example the new jobactive model has a range of cohort based wage subsidies that require a job seeker to have been out of work for at least 6 months, while for DES there is a payment that can be applied based on need, but the payment level is comparatively low.

Jobactive providers are reporting that the way that wage subsidies operate in the current model provides less flexibility to target wage subsidies to meet the needs of job seekers and employers. With its focus on particular cohorts, there are some job seekers who are not able to access wage subsidies at all. For those who can, a 6 month waiting period means that some job seekers miss out on opportunities because they could benefit from a wage subsidy to get them a job (wage subsidies are designed to support employers, and providers report that wage subsidies can be of most assistance in getting a job seeker 'over the line' when an employer is close to hiring a disadvantaged job seeker).

Wage subsidies are no longer able to be used by jobactive providers during the post placement support phase. This has been reported as problematic, because wage subsidies can also be of assistance in helping disadvantaged job seekers to maintain a job in the early phase of their employment. Overarchingly the principle should be that providers can utilise wage subsidies in a targeted way, based on their expertise to identify when a wage subsidy would be most likely to be effective.

More broadly, when reviewing and comparing the financial support offered to employers through wage subsidies, across each programme it is evident that there are financially varying levels of assistance available. For example there are more limited options available in Disability Employment Services. Again, the principle should be applied that wage subsidies should be targeted in a way that is suitable to the needs of the particular job seeker, and employer, regardless of programme area.