



National Employment Services Association

Submission to the
Inquiry into the Australian Government's response to the
COVID-19 pandemic and any related matters.

June 2020





About NESAs

The National Employment Services Association (NESA) is the peak body for the Australian employment services sector. Established in 1997, NESA's work is focused on achieving a **vision** of 'Opportunity for everyone through employment and inclusion'. NESA's positions are evidenced based and informed by local and world-best research and social policy. NESA is the **voice** of the sector providing advocacy and representation to ensure Australian job seekers and employers have access to effective labour market assistance. NESA works collaboratively with government and non-government stakeholders to support achievement of its vision including engagement with international expert bodies such as the OECD. NESA delivers **support** to its member organisations through policy guidance, operational advice and capacity building services, to ensure a strong, effective and vibrant sector is available to support our economy and community through employment.

NESA's membership is extensive, inclusive and diverse. Our membership is open to all contracted providers (not-for-profit, public and for-profit). Our members deliver the breadth of Australia's diverse labour market assistance programs including jobactive, Disability Employment Services (DES), the Community Development Program (CDP), Transition to Work (TTW), Youth Jobs PaTH, ParentsNext; Time to Work, Career Transition Assistance and Vocational Training & Employment Centres (VTEC). A large proportion of NESA's members deliver multiple programs, including State funded initiatives such as Jobs Victoria Employment Network (JVEN), and are also engaged in the delivery of vocational education and training. NESA's extensive membership, and intensive member and stakeholder interaction provide unique insights into the policy and operational settings that underpin labour market assistance in Australia.

Australia and the world have experienced far reaching effects on their social and economic life resulting from the impact of the COVID-19 pandemic, from which a long road to recovery is expected. NESA welcomes the opportunity to contribute to the important work of the Inquiry into the Australian Government's response to the COVID-19 pandemic and related matters.

Executive Summary

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. Employment inclusion and participation are the cornerstones of the economic and social health of our society.

The COVID-19 pandemic has impacted human life across the globe and arguably delivered the most severe economic shock ever experienced. Worldwide there has been in excess of 5,687,810 reported cases with 352,264 lives lost to COVID-19¹ as such health remains the priority. However, the economic and social ramifications arising from high unemployment cannot be overlooked and addressing unemployment is a matter of urgency.

Australia's Employment Services have been designed to function in a labour market that is buoyant and has good economic conditions. With the onset of the COVID-19 pandemic, immediate impacts on the labour market resulted in millions of Australian workers being affected. The changing landscape of the labour market also presented increased barriers for those who were already unemployed or underutilised prior to the onset of the pandemic. While the impact on the employment and labour market more broadly has been swift, our experience indicates that after such an economic shock the road to recovery will be long. This experience also highlights how disadvantaged job seekers and particular cohorts of job seekers, who do not receive additional intervention, are at high risk of being left behind in the recovery.

Contemporary employment services are significantly more sophisticated than the fundamental labour exchange service delivered by the former Commonwealth Employment Service. Within the parameters of program architecture and resource allocation, providers deliver individually tailored services and harmonise the delivery of social service and labour market assistance to support job seekers overcome barriers, and prepare for, find and keep work while also assisting employers find the skills they need.

Included in the Government's response to the COVID-19 pandemic are some measures for Australia's employment services. However, if we are to ensure that Australians have access to an adequate level of employment assistance then more needs to be done to Reorient Australia's employment services so that they can function under the current and forecasted economic climate.

To illustrate this point, the Administration Fee which applies to most job seekers in jobactive (regardless of the Stream), is approximately \$270 (GST inc.) per 6 months. This 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. The sector welcomes a very recent temporary adjustment in response to the COVID-19 pandemic which has increased the Administration Fee to approximately \$421 (GST inc.) per 6 months equating to \$16 a week of service and facility access. This adjustment is part of rebalance of the funding model and includes a reduction of Outcome Fees by approximately 12%. The adjustment to Fees is temporary and will expire on 30 November 2020.

As one would reasonably expect, particularly if consideration is given to the infrastructure that providers are required to maintain, without outcome revenue employment services will operate at a loss. Providers invest resources into services to prepare and place job seekers into employment and to assist employers. The cost of this investment is above what is provided by the Administration Fee to maximise performance and deliver outcomes and associated revenue. The structure of Outcome Fees ensures that providers focus on assisting the most disadvantaged job seekers with the fee schedule reflecting their Stream level and length of unemployment. This means that there are no outcome fees for job seekers in Stream A (the largest Stream of jobactive job seekers) during their initial period of service. This funding model has been challenging even in a buoyant economy and is clearly inadequate in a depressed labour market.

¹ Author: Worldometers.info, Publishing Date: 27 May, 2020 Place of publication: Dover, Delaware, U.S.A.

Australia's Employment Services has welcomed the measures provided to our sector to date but recommends some additional adjustments which are discussed in the body of this submission and summarised below.

Service Eligibility

At minimum, review factor weightings to ensure a wider group of job seekers at risk of transitioning to long term unemployment receive adequate labour market assistance. For example, mature aged and young job seekers.

- Review Job Seeker Snapshot (JSS) score thresholds for service levels.
- Reinstate duration of unemployment (which was removed in 2009) as a factor to ensure long and very long-term unemployed Australians receive an adequate level of assistance.

Reorient Investment to ensure Unemployed Australians receive a decent level of employment assistance.

- Review all program funding models and adjust the existing ratio of service/administration fees and outcome fees to secure the quality and continuity of services and enable the sector to ramp up to meet expected demand.
- Conduct the review in partnership with the sector and ensure it is transparent to all stakeholders.
- Review service allocations to ensure an adequate level of assistance is provided to all job seekers and employers, with immediate attention given to Stream A services.
- jobactive: While Work for the Dole is suspended continue funding job seekers who are reaching the Work for the Dole phase and allow providers the flexibility to purchase alternative activities tailored to the individuals' needs.
- Review current outcome definitions and adjust them so that they align better to the labour market conditions and trends. The sector notes the current definitions place emphasis on the achievement of fulltime employment resulting in 100% income support rate reduction, which may be less achievable during recovery.

Capacity Building for growth and inclusion

- Review policy and program settings to ensure there is a focus on capacity building and equipping job seekers with labour market skills that are in demand.
- Expand the cohorts for whom an education outcome is eligible to include all job seekers without a Cert III or equivalent
- Introduce a Training Guarantee, with associated funding, for all job seekers less than 30 years of age. There is a need for upskilling to offset the scarring effects of unemployment which has a long-term impact on earning potential, noting a large increase in youth NILF.
- Introduce a Progress Outcome for assisting job seekers to achieve significant milestones in their preparation for employment. Bring forward this measure which is proposed for New Employment Services 2022 and currently being trialled.

Employer Engagement

- Ensure all job seekers are eligible for an employment Outcome Fee from commencement. This provides the best incentive for effective skills matching to meet employer needs.
- Reinstate a separate demand funded wage subsidy pool for jobactive.
- Review and increase the Disability Employment Wage Subsidy levels.
- Reintroduce a job placement fee for all managed and filled vacancies. This will encourage employment services providers to assist employers with opportunities that may not qualify for an outcome.

Performance Framework

- Review the performance assessment framework for all programs to ensure they account for the impacts of the COVID-19 pandemic and remain fit for purpose

Closing Comment: There are a range of additional operational improvements that could be made to improve the efficiency of Australia's employment services. The sector strongly calls for an increased partnership approach to the review and development of programs. This includes increasing transparency and the frequency of interchange with the sectors leadership, to support rapid responses to this crisis and other issues impacting labour market assistance.

About Australia's Employment Services

Australia's employment services sector plays a critical role in preparing Australians to participate productively in the labour market and connecting them to employment opportunities. Employment inclusion and participation are cornerstones of the economic and social health of our society.

Contemporary employment services are significantly more sophisticated than the fundamental labour exchange service delivered by the former Commonwealth Employment Service. Within the parameters of program architecture and resource allocation, providers deliver individually tailored services and harmonise the delivery of social service and labour market assistance to support job seekers overcome barriers, and prepare for, find and keep work while also assisting employers find the skills that they need. For individuals, employment participation is more than an income; it provides connection, purpose and inclusion. Citizens who find themselves unemployed for long durations of time are amongst the most disadvantaged people in our community. Unemployment has negative impacts and the long-term unemployed are prone to experiencing issues such as poverty, physical and mental illnesses, homelessness and social isolation. Employment participation and productivity are key drivers of economic growth, underpinning the quality of life of all Australians by enabling access to such things as a well-functioning health system, quality education and a strong social safety net.

Australia's Employment Services

In order to understand the impact of COVID-19 on the work of Australia's employment services and its capacity to assist job seekers and employers, it is important to appreciate the unique and complex arrangements applied to the sector.

Australia's Employment Services Arrangements Overview:

- Australia's Employment Services includes programs currently administered by the following Commonwealth Departments: Department of Education, Skills and Employment (DESE), Department of Social Services (DSS), and the National Indigenous Australians Agency (NIAA).
- The largest programs are jobactive which services most unemployed Australians, Disability Employment Services which services unemployed people with a disability who have been assessed as having specialist employment support needs; and the Community Development Program which services remote Australia.
- There are a range of complementary programs which are either focused on particular cohorts of job seekers, such as youth, mature aged and parents; or are focused on particular skills acquisition such as NEIS, Apprenticeships, and Employability Skills Training.
- Complementary program funding is primarily based on transactional arrangements with providers being paid after services are delivered in accordance with specifications, with a limited number receiving block funding.
- Providers are selected to deliver services through a rigorous competitive commissioning process. As programs are generally fixed price, competition is based on demonstrated performance delivering employment outcomes and service quality.
- Programs are designed to meet the current and expected economic and social climate and are commissioned for a set period which is generally between 3 – 5 years.
- Programs are regularly reformed - Disability Employment Services was reformed in 2018 and jobactive is currently under a reform cycle with the New Employment Services being trialled for full implementation in 2022.
- Not-for-profit, for-profit and public organisations are engaged to deliver the services by the Australian Government.
- Providers of Australia's employment services have invested in significant infrastructure enabling job seekers and employers with access to approximately 4000 offices located in communities across the breadth of Australia.

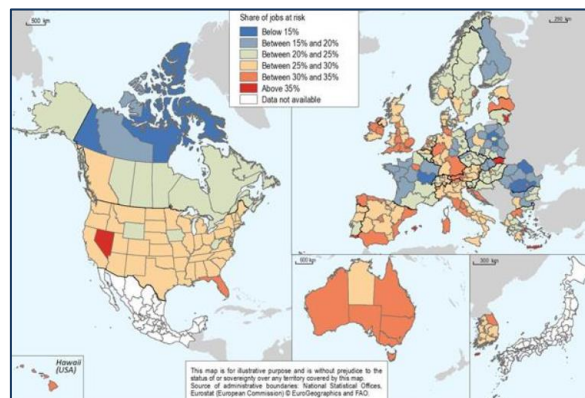
- Each program is governed through a contractual arrangement such as Funding Agreement or DEED (hereafter referred to as DEED) and supported by numerous guidelines (e.g. the jobactive guidelines are approx. 3500 pages) that specify all aspects of program delivery such as job seeker eligibility, service levels, and service requirements.
- DEEDs also outline the operational and business elements of the program including outcome eligibility definitions, performance management and quality assurance frameworks, IT systems and terms of trade.
- Provider service quality, performance and compliance with the respective program DEED/ and guidelines are monitored by the relevant department responsible for the program.
- Program design is underpinned by strong activation, work first policies, and the principles of mutual obligation and personal responsibility which is reflected in the program service requirements as well as the job seeker compliance framework.
- **Outcome focused terms of trade:**
Programs are funded through pay for performance models specifically designed to ensure the programs do not deliver a surplus unless providers achieve an adequate level of substantial and sustainable employment outcomes. For example, jobactive was designed to deliver an average ratio of 30% from Administration Fees and 70% from Outcome Fees; for Disability Employment Services, it was 40% from Service Fees and 60% from Outcome Fees.
- **Performance and funding rewards weighted to job seekers with the highest JSCI scores**
The Job Seeker Snapshot is an abridged version of the Job Seeker Classification Instrument (JSCI) and is a tool used to assess the relative level of labour market disadvantage experienced by job seekers. Job seekers' JSCI score is the primary determinant of which program and stream/funding level the job seeker is eligible for accompanied by further assessment where indicated as necessary to further understand the job seeker's circumstances such as medical conditions.
- **Focused on achievement of Substantial and Sustained Employment**
Outcomes, as defined in the program DEED, provide higher reward for assisting job seekers to cease receiving income support (100% rate reduction throughout the outcome period) and minimal reward for partial employment which enables job seekers to reduce their income support rate by at least 60 - 70%.
- **Performance Assessment models**
Each program has a performance assessment model. The most well-known assessment model is the Star Ratings model which applies to jobactive and Disability Employment Services. The Star Ratings are a comparative performance system using regression analysis to compare all providers' performance. The performance score ranks providers and assigns them with a Star Rating, with 1 being the lowest performance category and 5 being the highest. Other programs generally have key performance indicators which must be met or exceeded. These are closely measured and monitored by the relevant administering department.

Introduction

The COVID-19 pandemic has impacted human life across the globe and arguably delivered the most severe economic shock ever experienced. Worldwide there has been in excess of 5,687,810 reported cases with 352,264 lives lost to COVID-19² as such health remains the priority. However, the economic and social ramifications arising from high unemployment cannot be overlooked and addressing unemployment is a matter of urgency.

Social restriction measures to contain the COVID-19 curve and save lives has triggered a tidal wave of job losses across the globe. The International Labour Organization (ILO) estimates a global loss of working hours equivalent to 305 million full-time jobs³. The OECD's report From Pandemic to Recovery indicates potential job losses during confinement ranges from 15% - 35% globally. The OECD estimates that within Australia between 25% - 30% of jobs are at risk in the Northern Territory and 30% - 35% in all other Australian States as depicted in the below graphic⁴.

Share of jobs potentially at risk during COVID-19 containment measures



As to be expected the economic shock resulting from the COVID-19 pandemic has had a significant impact on the job seekers and employers that the Australian employment services sector support, as well as the sector itself.

Economic Context Prior to COVID-19

The Australian economy had experienced annual growth rates of 2.8%, 2.4% and 2.9% in the three years to December 2018, with 2019 growth closer to 2%. During this time inflation averaged approximately 1.5%, annual wage growth remained steady at around 2.3% per annum and interest rates remained at historical lows. In the five years prior to the COVID-19 pandemic labour market figures reflected general stability, with the unemployment rate over the 2015 -2020 period averaging approximately 5.5%, peaking at 6.1% in March 2015 and falling to 5.1% in March 2019. Job placements for participants remained consistent during this period with jobactive averaging approximately 350,000 placements and Disability Employment Services 50,000, annually.

Australia's bushfire crisis and contingency arrangements applied during December 2019 – March 2020 had already disrupted job seeker and employer services, and the achievement of job placements nationally. Efforts to recover from the bushfires had commenced in January and largely focused on stimulating tourism and promoting local commerce. In its Statement on Monetary Policy – February 2020, the Reserve Bank of Australia predicted:

- *“The bushfires and the COVID-19 are expected to weigh modestly on growth in late 2019 and into early 2020, but growth should recover relatively quickly, to be around 3 per cent over 2021”.*
- Unemployment to remain in the range of 5% – 5.25% in 2020 before easing to approximately 4.75% in 2021.

Prior to COVID-19 it was expected that there would be a continuation of recent economic trends and the rebuilding of bushfire affected communities and their local economies. These are reflective of the labour market conditions in which current employment policies and programs were designed to function.

2 Author: Worldometers.info, Publishing Date: 27 May, 2020 Place of publication: Dover, Delaware, U.S.A.

3 ILO Monitor: COVID-19 and the world of work. Third edition Updated estimates and analysis 29 April 2020

4 OECD: FROM PANDEMIC TO RECOVERY: LOCAL EMPLOYMENT AND ECONOMIC DEVELOPMENT © OECD 2020 - Graphic Authors' elaboration on OECD Regional Database

COVID-19 and the Immediate Impact on the Australian Labour Market

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

- Employment fell by almost 600,000;
- Number of unemployed people increased by 100,000;
- Participation rates decreased 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') almost quadrupled; up 286%
- Those who 'Began, left or lost a job' increased over nine-fold (up 847%).

Importantly the report indicates the official unemployment rate increased by 1.0pt to 6.2%. However, while using an internationally recognised measurement, this figure obscures the severity of the impact. The ABS has produced additional estimates that provide further understanding of the impact on the Australian labour market⁵ and the quantum of citizens that have lost all or some of their work.

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 plus Group 1	5.3% (727,600)	9.3% (1,232,800)	+4.0 pts
Australia - unemployed people plus 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'.

NESA notes that the group 2 measure is 89% higher than the official unemployment rate and while many of these citizens have a tenuous attachment to a job and expect to return to it at some point, it is reasonable to say that for many this expectation will not be realised.

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 therefore not included in the above estimates. According to the 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 not intending to work permanently or permanently unable to work⁶. 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. Social restrictions (including home schooling) and fear of the virus understandably, have influenced both employers' recruitment patterns and job seekers job search activity. It is reasonable to predict that many of these recent NILF will commence looking for work and will need employment assistance in the future. Of particular concern, is that almost half of the recent increase in the NILF population; were young people (aged 15 to 24).

Underemployment, measured at 8.5% in the pre-COVID-19 economy, has risen sharply and can be expected to continue to increase in the short term as the economy contracts and demand falls. Many of the job losses experienced have impacted sectors employing high levels of casual and part-time staff. 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 been a long-standing 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 applicants⁷.

These sectors have traditionally accommodated a diverse workforce and provided significant opportunity for job seekers supported by Australia's employment services. In 2016-7 these five industries generated more than 50% of all jobactive job placements.

⁵ 6202.0 - Labour Force, Australia, Apr 2020 14/05/2020

⁶ 6291.0.55.001 - Labour Force, Australia, Detailed - Electronic Delivery, Apr 2020

⁷ ABC News More than 360,000 Australians apply for early release of superannuation under coronavirus assistance scheme, 6 April 2020

COVID-19 Impact on Australia's Employment Services

Australia's employment services sector was able to rapidly pivot to realign service models with social isolation requirements and provide continuity of services to job seekers and employers thus far, throughout the pandemic.

The employment services sector was advised it was considered an essential service and providers were prepared on receipt of direction from relevant Departments on 20 March 2020, to engage and transition job seekers on existing caseloads to remote service arrangements such as phone, skype, webinar and email. As directed, providers enabled access to offices for the provision of face-to-face services, where requested, until all face-to-face services and mutual obligations were formally suspended on 25 March.

As social restriction measures escalated in late March unprecedented queues of people formed at Centrelink offices and via mygov.au which overwhelmed the system. To deal with the congestion of processing applications for income support people registering for employment assistance were channelled into the recently developed Online Employment Services which was being trialled for full implementation with planned reform of jobactive in 2022. This led to an abrupt decline in new referrals to employment services programs and limited the assistance that could be provided to those recently displaced from the labour market.

Newly registered job seekers are being referred from Online Employment Services to employment services progressively. Initial batches prioritised job seekers who had omissions, such as contact details, when completing the information through the online system. The level of demand has led to delays in the completion of the Employment Services Assessments by Services Australia, which continues to limit the referral of job seekers with a disability to Disability Employment Services.

In addition, there are a substantial number of job seekers being inappropriately referred (e.g. on JobKeeper) leading to a significant loss of efficiency for providers for which they are not compensated.

The suspension of mutual obligations also occurred in March, making job seeker engagement with employment services voluntary. While an understandable measure to protect health, the announcement came without consultation or notice to providers and prior to job seekers being informed. Communication to job seekers, particularly the initial communication, did not inform the job seekers that ongoing assistance was available, nor did it encourage them to continue to participate and prepare for work. This was very disappointing for the sector given the resources devoted to the rapid implementation of remote service delivery.

The disruption of new referrals and lower rates of job seeker participation in programs also had a significant impact on complementary services such as Transition to Work, New Enterprise Incentive Scheme and Employability Skills Training which all depend on the major programs for their referrals.

Job placements maturing to eligible claimable outcomes also collapsed in March. NESAs surveyed its members in April 2020 and results indicated that people recently employed were amongst those displaced early in the onset of the COVID-19 containment measures, which was consistent with ABS data. Survey responses indicated that:

- The majority of job seekers placed into employment between December 2019 – March 2020 were displaced from work with around 55 - 65% of all placements made by DES and jobactive; and approximately 80% made by CDP disrupted, with job seekers either stood down, their employment terminated or they were receiving zero rostered hours.
- The majority of job seekers placed during December 2019 – March 2020, that remained employed and working, reported reduced and/or greater fluctuation of hours.
- New job placements significantly declined, reducing by approximately 65 - 75% compared to the previous year
- New job vacancies declined significantly
- Of the new job vacancies lodged during March a high proportion of those were short term/casual roles (e.g. supermarket shelf fillers, cleaners and warehouse roles). Across all Employment Regions (ERs) – Employment Services Areas (ESA) the proportion of job placements that were short term/casual roles ranged from between 24% to 100% with the majority of responses clustered between 70% and 80%.

Amongst the Government's initial response to the pandemic a number of welcomed measures targeted towards job seekers and employment were introduced and included:

- Additional apprenticeship or trainee wage subsidy (50% of wage from Jan 1 - 30 Sept 2020)
- JobKeeper (\$1,500 (before tax) for eligible businesses to retain eligible staff from 30 Mar - 27 Sept 2020)
- JobSeeker (COVID-19 supplement to JobSeeker Payment recipients of \$550 fortnightly for 6 months from 27 Apr 2020)
- Australian Disability Enterprises - Temporary Viability Support (\$24.5 million)
- Extended Supported Wage System supplementation (\$3 million across 37 ADEs)

NESA, as the peak body for the employment services sector, was in regular dialogue with responsible Departments regarding their respective programs providing verbal and written intelligence on the state of the services. NESA, individually and in collaboration with other peak bodies, provided recommended interventions to support provision of employment assistance. In response to the sector a small proportion of additional measures and operational adjustments were implemented to employment services programs. The following highlights those of significance:

Advanced Payment: jobactive – Department of Education, Skills and Employment

Providers of jobactive were offered advance payments of Administration Fees on 27 March 2020. Administration Fees are paid on the commencement of job seekers and at 6 monthly intervals. These fees are tied to the provision of services to the job seeker for that 6-month period with other revenue dependent on the maturation of eligible outcomes. The advance payment is to be fully acquitted by 30 June 2020 by the jobactive providers that accepted the offer.

Advance Payment: Disability Employment Services – Department of Social Services

Providers of Disability Employment Services were offered advance payments of Service Fees. Service Fees are paid on commencement of job seekers and at quarterly intervals for the provision of services to participants. The advance payment is to be fully acquitted by 30 June 2021 by the Disability Employment Service providers that accepted the offer.

Base Funding Support: Community Development Program – National Indigenous Australians Agency (NIAA)

The National Indigenous Australians Agency revised arrangements for the Community Development Program in the context of the COVID-19 crisis. NIAA implemented standard funding support on a temporary basis to ensure services and provider stability. CDP providers are receiving 85% of their average Service Fee revenue (nil Outcome Fee revenue).

Sector Access to JobKeeper

Employment Services are predominantly funded on a pay for performance basis. Program funding models have been designed to drive performance by adopting outcome focused terms of trade. These Pay for Performance models ensure providers are reliant on the delivery of outcomes to be sustainable. Modelling for current programs assumes that on average the ratio is:

- jobactive 30% Administration Fees and 70% Outcome Fees
- DES 40% Service Fees and 60% Outcome Fees
- CDP 85% Service Fees and 15% Outcome Fees

Observers often focus on the quantum invested in employment services, to which NESA notes has considerably declined over recent years and is well below the average of OECD countries (see attachment 1). In contrast there is little attention to allocation per job seeker and corresponding prescribed service requirements.

To illustrate, the Administration Fee (standard without recent temporary adjustment that ceases in November 2020) that applies to the vast majority of job seekers in jobactive (regardless of the Stream) is currently around \$270 per 6 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, particularly if consideration is given to the infrastructure providers are required to maintain, without outcome revenue employment services operate at a loss. Providers invest resources above that provided by the Administration Fee in services to prepare and place job seekers into employment and assist employers, to maximise performance and deliver outcomes and associated revenue.

The structure of Outcome Fees ensures that providers focus on assisting those most disadvantaged with the Fee schedule reflecting the job seeker's Stream level and length of unemployment. At the base this includes no outcome fees for job seekers in Stream A, the largest Stream of jobactive, during their initial period of service.

The onset of COVID-19 compounded the disruption to the Service/Admin and Outcome Fees which occurred during the bushfire crisis and associated national contingency arrangements. The effective cessation of new referrals and the loss of potential outcome revenue at the onset of the pandemic put the employment services sector under considerable strain.

Strains were further compounded by IT system issues which occurred in the transition of income support payments to the new JobSeeker payment. These IT issues prevented job seekers reporting income to Services Australia, and consequently providers were required to gather significantly more documentary evidence to substantiate claims at a time when both job seekers and employers were less accessible and/or under other stresses due to the pandemic.

There is no doubt that the disruption to placements described earlier indicate outcome revenue will plummet from March. While the Advance Payments were welcomed, given the acquittal arrangements and the period that outcomes mature and produce revenue in jobactive and DES programs they represent short term cash flow relief. Providers have considerable obligations maintaining physical infrastructure and few options in terms of reducing overheads. Relief provided by the Advance Payments was too little and came too late to avert some organisations needing to implement staffing changes. While the base funding support provided to the CDP program is the preferred model and delivered some certainty enabling continuity of service to communities and retention of key staff and infrastructure, at 85% of average service fee and no outcome revenue it is not sustainable in the longer term.

In response to representation providers were initially advised to refer to JobKeeper if their business had been adversely affected by the COVID-19 pandemic. Given the nature of contractual arrangements which includes payments for placements made up to six months earlier for jobactive and up to twelve months earlier for DES, it was difficult for providers to demonstrate eligibility on a year on year basis so only a proportion of the sector qualified for JobKeeper.

NESA advocated for a sector-based response to ensure that employment services were universally positioned to deliver essential labour market assistance to unemployed Australians and employers. NESA notes that our international colleagues inform us that strategies to resource and bolster employment services for the expected influx of demand was a common and immediate response during the onset of the pandemic in other countries including those with contracted providers of labour market assistance. NESA understands for example that the UK Government immediately wrote to organisations within its supply chain notifying them of the principles they would apply to funding arrangements on the onset of the pandemic⁸. These principles provided confidence for service continuity, with details of base funding provided shortly thereafter.

Rebalance of Administration and Outcome Funding jobactive – Department of Education, Skills and Employment

Since the onset of the pandemic the sector has been clear that current pay for performance models are designed for a buoyant economy, are not fit for purpose in a depressed labour market and need urgent review to rebalance investment to ensure the services to unemployed job seekers and employers.

In response to ongoing representation the Department of Education, Skills and Employment announced on the 11th of June that the payment model for jobactive will be rebalanced to deliver a 50-50 ratio of Administration and Outcome Fees effective 12th of June to 30th November 2020. This rebalance includes Administration Fee increase from approximately \$270 to approximately \$421(GST Inc) for each 6 months of service offset by a reduction in all Outcome Fees of 12%. At this time the sector has not been given any modelling to assist understanding of how the new rates equate to a 50-50 ratio. While coming later than desired, the sector welcomes the announcement however continued monitoring to assess the adequacy of this adjustment as the labour market stabilises and the state of the job market can be better understood is imperative. This will be particularly important following the withdrawal of JobKeeper and more broadly in the post-stimulus environment. This adjustment does not diminish the need for the other amendments to the jobactive program and service regime discussed in this response.

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/874178/PPN_02_20_Supplier_Relief_due_to_Covid19.pdf

Additionally, similar arrangements need to be implemented across all major and complementary programs. Many of these programs such as Disability Employment Services assist cohorts that are very disadvantaged in the labour market and current conditions will further impede their opportunities for employment without more intensive intervention.

Interaction between JobKeeper and Employment Services Outcomes

Where job seekers placed into employment retained employment with support of JobKeeper, outcome eligibility continues to apply. Unfortunately, a large proportion of job seekers recently placed either did not qualify or were terminated prior to the announcement of the JobKeeper measure. A recent decision had disallowed an Outcome Fee claim for job seekers who were placed in employment pre-COVID-19, lost their employment at the onset but shortly thereafter rehired after announcement of JobKeeper by the same employer, in the same position. This has increased loss of outcomes with some job seekers having been in employment for the majority of the required outcome period prior to the onset of COVID-19.

Extension of permissible breaks: jobactive and Disability Employment Services

Outcome Fee eligibility is outlined in prospective program DEEDs and is generally based on specified minimum hours of work or percentage of income support reduction required throughout of the outcome period. Breaks in employment are only permissible under specified circumstances such as workplace closures at Christmas. The sector welcomed an extension of provisions to include up to a 12 week break due to the impacts of COVID-19.

Stream A - Employment Fund Credit

The Employment Fund is a notional account of credits that providers can seek reimbursement of approved purchases made to assist job seekers prepare for employment e.g. work clothing, accredited training, tools or equipment. The sector welcomed movement of the credit into the Employment Fund for jobactive Stream A participants from 13 weeks to on commencement. However, this measure is time limited and ceases on 30 June 2020.

Career Transition Assistance (CTA) Funding

The sector was pleased that the CTA program funding was moved out of the Employment Fund with a separate funding source established until 30 June 2022. The sector welcomes this new funding for the CTA which is focused on the needs of mature job seekers who are particularly vulnerable during economic downturns. However, the separate funding came with new restrictions as to the ratio of internal/external referrals into the program that is permitted. This limitation has been an obstacle to meeting demand for the program, particularly in the context of remote serving and social restrictions and likely to continue into recovery.

Job Seeker COVID-19 Supplement

The employment services sector welcomed the financial assistance to job seekers via the COVID-19 Supplement. People receiving income support payments do not have financial reserves and are at considerable risk with the cost of many household staples increasing as a result of the pandemic.

Other lessons and experiences in response to the Pandemic

While acknowledging COVID-19 is an exceptional event it has provided some insight into our preparedness, capacity and agility. In that context we provide the following insight.

The sector was quick to respond and demonstrated agility to adjust to servicing job seekers in the context of the COVID-19. The sector had considerable resources to support the response to the influx of job seekers and other issues which it made available via the Peak Bodies to the various Departments. These resources were not called upon.

Each Department developed additional communication to consult with providers, peak bodies and to share information. Each strategy had strengths and weaknesses however in general the sector notes timelier and clearer communication would have been beneficial. For example, both job seekers and providers had questions that were not readily answered about the COVID-19 Supplement and the impact of taking on employment. This made it challenging to assist employers who had short term casual vacancies largely brought about by the panic buying at the onset of the pandemic. Equally it took some time to gain clarity about JobKeeper and its interaction with other wage subsidies and employment outcomes which made it difficult to assist employers with their enquiries.

Providers note they would have appreciated more interactive dialogue not always available through the technologies used to communicate.

Generally, there were lags in decision making and formal communication to support the continuity of services. For example, formal confirmation of the sector as an essential service, advice overriding contractual requirements for face-to-face service delivery and alternative arrangements for signing documents such as Job Plans would have assisted providers to establish remote servicing arrangements more seamlessly.

The sector is being urged to continue to engage job seekers and encourage participation in services to prepare them for employment within the bounds of social restriction boundaries. Providers had prepared and transitioned job seekers to remote delivery on a voluntary basis. Communication to job seekers regarding mutual obligation did not encourage ongoing participation to the extent that they should have and often resulted in declined engagement. Confusion arose from some messages, which some job seekers interpreted to mean they were not permitted to attend appointments with providers or seek work. As a result, providers experienced a negative backlash for simply contacting job seekers in some instances. The sector notes it had similar experiences with communication to job seekers during the bushfire crisis.

COVID-19 and the bushfire crisis, has demonstrated that the job seeker compliance framework is rigid and lacking the ability to be easily nuanced to suit emerging circumstances. Capacity to alter rather than bluntly apply or suspend the system and/or to target particular geographic areas would be beneficial.

Forward Labour Market Outlook

Australia's Employment Services will be operating with economic and labour market conditions different from what they were designed to function in. As the impact of COVID-19 continues to unfold so do the forecasts. Given the uncertain path of the pandemic, with continuing risk of further waves of infection that necessitate containment measures for an unknown duration all forecasts should be considered cautiously. Australia's road to recovery will also be influenced by our key trading partners many of whom have been more severely affected than Australia at this stage. Nonetheless, it is important to consider and prepare for what potentially lies ahead.

Grattan Institute researchers used a range of methods to estimate the size of the COVID-19 employment shock. They project Australia's official unemployment rate will rise to between 10% and 15%; the latter figure representing the highest unemployment rate since the Great Depression in the 1930's⁹. Deloitte Access Economics Director Chris Richardson predicted on ABC-TV on 5 May that unemployment was unlikely to return to pre COVID-19 levels until 2024. According to the Reserve Bank of Australia the official unemployment rate is now expected to reach 10% by June 2020 with total working hours declining by around 20 per cent¹⁰.

The Reserve Bank of Australia Monetary Statement May 2020 presents three potential scenarios that as pertaining to employment in summary indicate that a return to pre COVID-19 unemployment rate before mid-2022 is unlikely and there is potential for a much longer path to recovery. The Reserve Bank highlights further risks to recovery recognising that labour underutilisation may be more persistent, and the scarring effects of unemployment and poor skill matching may damage the economy's productive potential over a longer period.

Lessons from previous downturns

Consistent with a body of evidence the Reserve Bank also acknowledges that workers who first enter a labour market during a downturn are especially affected and can suffer long-term income and employment consequences. 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 to align with the post pandemic labour market demand. Experience gained during the 1990-1 recession and the Global Financial Crisis (GFC) suggests that both unemployment and underemployment will remain high beyond 2022. In both cases economic recovery growth rates were not immediately reflected in the unemployment or underemployment rates.

⁹ Coates, B., Cowgill, M., Chen, T., and Mackey, W. (2020) Shutdown: estimating the COVID-19 employment shock Grattan Institute

¹⁰ Reserve Bank of Australia Statement on Monetary Policy May 2020 (material finalised on 7 May 2020).

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

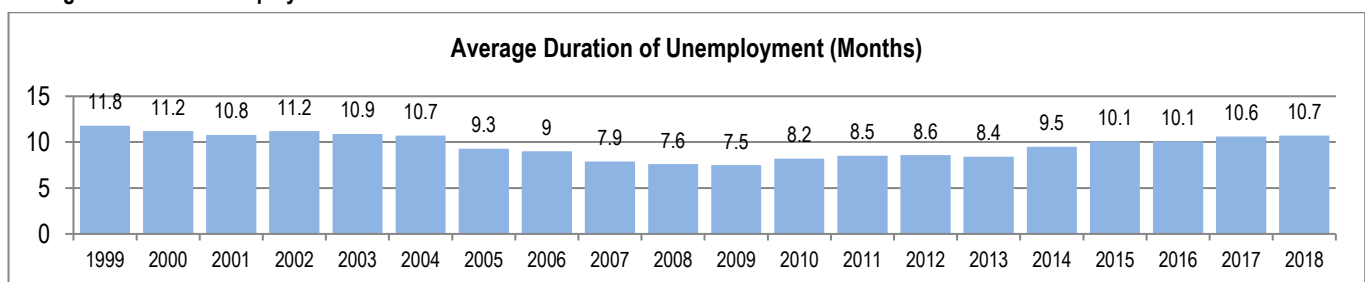
Source: OECD

Participants in employment services programs pre-COVID-19 are most often competing for employment in the lower skilled occupation categories (for example ANZSIC Levels 4-5) where on-the-job training or minimal formal qualification is a suitable for entry. The Department of Education, Skills and Employment data shows that employment services participants are more likely to find work in occupations and industries that have incurred amongst the highest job losses during the COVID-19 pandemic including Retail, Hospitality and Accommodation, Construction, Manufacturing, Health Care and Social Assistance¹¹.

At this time, it is likely that the Australian labour market has not yet seen the peak in unemployment. There are considerable concerns of a further wave of unemployment when current stimulus measures are withdrawn. The reduction in economic assistance will have the dual effect of dampening demand and exposing businesses that have been sustained and able to retain workers with substantial reliance on JobKeeper. Small businesses (entities with fewer than 20 employees) are especially vulnerable to economic shock and are prevalent in sectors hardest hit by COVID-19. Small business traditionally account for approximately 44% of all employment and 33% of all apprentices and trainees¹². Small business has shown willingness to give disadvantaged job seekers employment and is a major 'customer' of the employment services sector.

In addition, even where the unemployment rate declines there is considerable likelihood given the increased competition for available jobs, that the proportion of citizens who find themselves long-term unemployed increases. The periods following both the 1991 recession and GFC were marked by increases in the average duration of unemployment which remained persistent beyond the recovery phase.

Average Duration of Unemployment in Australia 1999-2018



Source OECD

As can be seen in the graph progress on reducing average duration of unemployment was disrupted by the Global Financial Crisis and has continued to trend upward despite the unemployment rate decreasing. It is anticipated that employers will first look to restore or offer additional hours to existing staff during the initial recovery phase. As such at least in the short to medium term recovery will be characterised by a reduction in underutilisation rather than unemployment.

¹¹ Employment Services Outcomes Report (jobactive) March 2019

¹² Australian Small Business and Family Enterprise Ombudsman - Small Business Counts 2019

Experiences from past economic shocks informs us that those who are most disadvantaged in the labour market are most at risk of not being able to gain or regain employment as the economy recovers. Older workers, Indigenous Australians, young people and people with disability are among the cohorts of labour market participants who are overrepresented in long term unemployment and underemployment. In the post-COVID-19 environment we expect there will also be far greater competition for available jobs and broader range of skills amongst the unemployed and those job seekers already marginalised will be further removed from the labour market. To illustrate, almost two thirds of the jobactive caseload were long-term unemployed (LTU), that is, registered for at least 12 months, 19% were very long term unemployed (24 months+) including 40.2% of those classed as 'job ready' and allocated to Stream A services, as at 31 May 2018¹³. This must signal that without intervention to support disadvantaged job seekers become more competitive for employment significant growth in the already problematic area of long- term unemployment as well as the proportion that become discouraged and leave the labour market, is a very real threat.

The degree to which sustained labour market transformation may occur during and 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, be outsourced and/or automated. 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 and using technology.

As the impact of the COVID-19 pandemic on the Australian labour market continues to unfold policy makers need to be granular in their analysis and agile in their response. Alongside the headline data policy makers must consider the plight of local economies, population segments, business and industry to deliver both national and targeted responses to achieve economic growth and an inclusive labour market recovery.

While the Government has implemented a number of measures to support employment services in the initial phase of the COVID-19 pandemic more needs to be done to ensure Australians job seekers and employers are able to access the services and support they need.

The onset of COVID-19 delivered a swift blow to employment and our experience of previous economic shocks is that the road to recovery will be much slower. Unemployment is a phenomenon with serious economic and social impacts. Persistent unemployment and underutilisation pose significant risk to achieving the productive potential of the economy. 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. A socially inclusive recovery starts with a commitment to leave no-one behind.

Making Employment Services fit for Now and in the Recovery Phase

Our current employment services framework including policies and program architecture designed for an economy experiencing growth and low unemployment. New responses are required to Reorient employment services and enable the sector to make significant contribution to recovery by addressing workforce participation under 'new normal' labour market conditions that we now find ourselves in. The sector recommends:

Service Eligibility

In the current framework job seekers are streamed into services based on the classification delivered through the Job Seeker Snapshot an abridged version of Job Seeker Classification Instrument and where indicated necessary an ESAT or Job Capacity Assessment. The Job Seeker Snapshot is a questionnaire which gathers job seeker information on weighted factors. On completion, which is generally self-administered online by income support applicants, a score is derived that provides indication of:

- a job seeker's relative difficulty in gaining and maintaining employment
- what level of support the job seeker will need to help them find work
- job seekers who have complex or multiple barriers to employment that need further assessment

¹³ The next generation of employment services discussion paper: appendices Department of Education, Skills and Employment 2019

The current weighting attributed to recent labour market experience results in a large proportion of job seekers recently displaced from the labour market being allocated the lowest levels of service designed for the 'job ready' and arguably frictionally unemployed. The sector understands that since the onset of COVID-19 approximately 80% of all recent job seekers are being assessed as eligible for the lowest levels of service. 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. The Job Seekers Snapshot (which is still under trial) should be examined in the context of current labour market conditions and outlook including:

1. At minimum, review factor weightings to ensure a wider group of job seekers at risk of transitioning to long term unemployment receive adequate labour market assistance, (for example mature aged and young job seekers)
2. Review the Job Seeker Snapshot (JSS) score thresholds for service levels
3. Reinstate duration of unemployment as a factor (removed in 2009) to ensure those Australians already long and very long term unemployed receive an adequate level of assistance

Reorient Investment to ensure Unemployed Australians receive a decent level of employment assistance.

Program funding models have been designed to drive performance by adopting outcome focused terms of trade. These Pay for Performance models ensure that providers are reliant on the delivery of outcomes to be sustainable. In the context of a depressed labour market in which significant disruption to new and existing employment placements and associated revenue has been experienced the sustainability of services, are at risk. This includes complementary services that are reliant on the major programs for referrals and/or are funded on delivery of services. For example, the panel of Employability Skills Providers had an abrupt decline in engagement of job seekers with attendance and revenue plummeting; Time to Work providers could not deliver services during shut down with prisons restricting visitors and similarly Transition to Work and NEIS program referrals ground to a halt.

NESA notes that it has advocated for security of funding for the sector recommending that base level funding be guaranteed in the short term to medium term. This recommendation has been adopted by NIAA which has introduced base funding of 85% of previous average service fee revenue (not outcome) to secure continuity of employment services in remote communities. Very recently jobactive's Administration – Outcome Fees have been temporarily rebalanced effective 12 June – 30 November 2020.

NESA notes that our international colleagues inform us that strategies to resource and bolster employment services for the expected influx of demand was a common and immediate response during the onset of the pandemic in other countries including those where contracted providers are part of the delivery of labour market assistance. NESA also notes that only a small proportion of provider organisations were deemed eligible for JobKeeper. The eligibility criteria required year to year comparison and was challenging for the sector given it is paid for the maturation of placements that may have been made up to 12 months earlier. However, there is no doubt that with placements being disrupted at unprecedented levels, forward revenue decline will be significant and current fee structures will be inadequate support to ensure continuity of services.

Under current labour market conditions, the level of reliance on Outcome Fees for delivery of services to Australian job seekers and employers is not sustainable. In addition, current program settings have been designed for a different economic context and the level of assistance that people require in a depressed labour market is more intensive. The Department of Education, Skills and Employment has indicated that they intend to undertake analysis of the sustainability of the New Employment Services which is currently being trialled in two regions for implementation in 2022, in the context of current labour market conditions. The sector believes that such analysis is urgently required for all programs operating and responding to job seeker and employ needs and recommends:

4. Review all program funding models and adjust the existing ratio of service/administration fees and outcome fees to secure the quality and continuity of services and enable the sector to ramp up to meet expected demand.
5. Conduct the review in partnership with the sector and is transparent to all stakeholders.
6. Review service allocations to ensure an adequate level of assistance is provided to all job seekers and employers with Stream A services requiring particular immediate attention.
7. For jobactive: While Work for the Dole is suspended continue funding on job seekers reaching the Work for the Dole Phase and allow providers the flexibility to purchase alternative activities tailored to the individual needs.

8. Review current Outcome definitions and adjust them to better align with labour market conditions and trends. The sector notes current definitions place emphasis on achievement of full-time employment resulting in 100% income support rate reduction which may be less available during recovery.

Capacity Building for growth and inclusion

Australia's employment services framework has a strong Work First policy at its core. While acknowledging training for training sake is not beneficial for individuals or the economy; ensuring the productive capacity of the workforce is essential to both achieving economic growth and an inclusive recovery. OECD data indicates that the proportion of Australia job seekers with upper secondary education is above the average of OECD countries¹⁴. The pre-COVID-19 caseload features job seekers with low education attainment, no post-secondary qualifications, low levels of numeracy and literacy (including digital literacy) as well as various other disadvantages. These job seekers are at substantial risk with sectors traditionally offering opportunities amongst the hardest hit by the pandemic, and competition for employment increasing. The sector recommends:

9. Review policy and program settings to ensure there is a focus on capacity building and equipping job seekers with labour market skills that are in demand.
10. Expand the cohorts for whom an education outcome is eligible to include all job seekers without a Cert III or equivalent
11. Introduce a Training Guarantee, with associated funding, for all job seekers less than 30 years of age. There is a need for upskilling to offset the scarring effects of unemployment which has a long-term impact on earning potential, noting a large increase in youth NILF.
12. Introduce a Progress Outcome for assisting job seekers to achieve significant milestones in their preparation for employment. Bring forward this measure which is proposed for New Employment Services 2022 and currently being trialled.

Employer Engagement

In depressed labour market recruitment becomes more onerous for employers. While employers will have access to a wider pool of candidates during times of economic decline the sheer volume of applications can be resource intensive to manage. This is a prime opportunity for the employment services sector to engage with a broader employer base. To support an inclusive recovery all job seekers should be eligible for outcomes and employers should have access to appropriate support to enable them to give disadvantaged job seekers employment opportunities. The sector recommends:

13. Ensure all job seekers are eligible for an employment Outcome Fee from commencement (provides best opportunity for effective skills matching to meet employer needs)
14. Reinstate a separate demand funded wage subsidy pool for jobactive
15. Review and increase Disability Employment Wage Subsidy levels
16. Reintroduce a job placement fee for all managed and filled vacancies (this will assist employment service providers to assist employers with opportunities that may not qualify for an outcome (e.g. the hundreds of shelf fillers and warehouse staff placed in short term roles during panic buying)

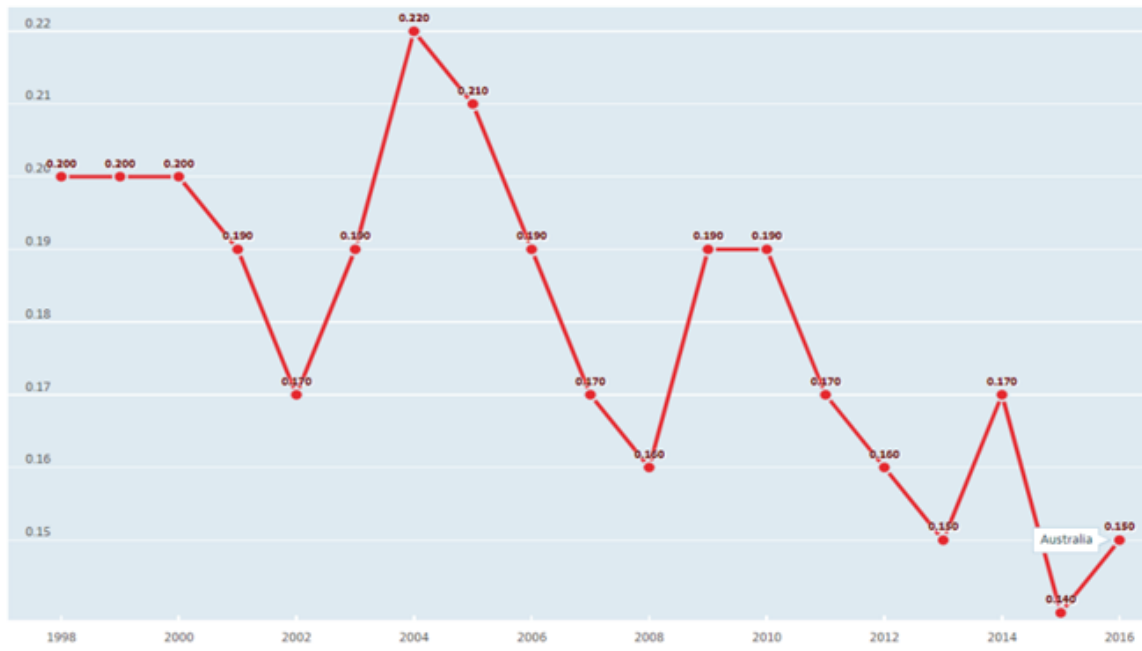
Performance Framework

The performance framework underpinning all services is a significant determinant of commissioning outcomes and contract sustainability. Impacts on performance have occurred as a result of the pandemic, bushfire crisis and floods. These events will have varying impacts on individual communities, businesses and labour markets. The current performance assessment model used for jobactive and DES uses a regression model to account for local circumstance and caseload to compare all providers. Traditionally there has been a lag effect in relation to labour market factors. Additionally, program performance models include measures for elements of service which could not be delivered due to contingency arrangements and lifting of mutual obligations such as commencing job seekers into Annual Activity Requirements. The sector recommends that in the current circumstances program performance assessment models should be reviewed.

17. Review performance assessment framework for all programs to ensure they account for the pandemic and remain fit for purpose.

¹⁴ <https://data.oecd.org/emp>

Attachment 1



Australian Public Spending on Labour Markets – Public Employment Services & Administration, % of GDP, 1998 - 2016
 Source: OECD Public spending on labour markets - PES (indicator)

