NESA

Response to the

Proposed payment model for the New Employment Services Model

Discussion paper

About NESA

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

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

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

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

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

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

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

Background

The jobactive program implemented in 2015 has been achieving more employment outcomes than its predecessor programs. However, opportunities for improvement led to an extensive consultation process to design the Next Generation of Employment Services in 2018[1]. A considerable investment of time and expertise has been invested in making a contribution to the development of a new model of employment assistance. This included an Employment Services Expert Advisory Panel, 560 participants in consultation sessions and 451 written submissions. This consultation process culminated in the release of the I Want to Work report[2] which provided a blueprint for new employment services.

The I Want to Work report was clear in its intent that the new model of employment services should be focused on directing more resources to those job seekers who need the most assistance through implementing smarter and more targeted investment.

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

The objective of smarter investment is to provide more help through an increase in resources and provider time to support job seekers needing more help, with those more job ready and serviced through the digital channel. This includes providers having adequate resources to ensure service quality through smaller caseloads enabling greater personalisation of services and improved investment in the professionalism of the employment services workforce. **Of the top ten things the I Want to Work paper stated that should not be done is to cherry pick recommendations and not to pocket savings from the efficiencies gained through digitalisation rather than reinvesting in those who need it most.** As such it is concerning that since the I Want to Work paper was released in 2018 there has been a number of efficiency measures applied to employment services that have significantly reduced investment in services for unemployed Australians. Despite a promise of more help for disadvantaged job seeker the approach to resource allocation for new employment services appears to be shifting.

Much has changed since the I Want to Work report was released as the accepted blueprint for new employment services, particularly as a result of the COVID-19 pandemic. The imperatives that drove new employment service design recommendations are now more critical. There is now higher unemployment, higher underemployment and increasing numbers of people leaving the labour market than when I Want to Work was released in 2018. Critically, a major priority in seeking reform of employment services was to address the persistent and growing problem of long and very long-term unemployment. This issue is even more critical in the current context, as job seekers face greater competition for employment with fewer job opportunities. An inclusive recovery depends on prioritising those citizens most disadvantaged having access to adequate social support and protection. As has been said many times, the best form of welfare is a job and as such ensuring that job seekers are supported to build employability, find and sustain employment should be an investment priority.

NESA welcomes this opportunity to contribute to the development of the proposed payment model for the New Employment Services Model (NESM). The payment model is the foundation of employment program structures and is critical to achievement of service quality and outcome performance objectives.

[1] The next generation of employment services discussion paper, Department of Jobs and Small Business 2018

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

Overview of New Employment Services Payment Model

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

The webinar presentation delivered by the Department of Education, Skills and Employment (the Department) on the 10 November 2020 has provided a proposed structure for the payment model for new employment services. As was outlined in the presentation, the payment model for NESM – Enhanced Services has some significantly different elements to the existing jobactive arrangements. One of the key principles in the design of jobactive was to create efficiencies through economies of scale with fewer providers and larger caseloads. Given the significant differences in the service models and expected size and nature of the caseload in NESM compared to jobactive a simple comparison of proposed payments is insufficient to provide genuine understanding of the business model.

The information provided in the webinar focused on payment structure, types and rates but there is insufficient information to model potential total revenue based on caseload and performance scenarios. Greater transparency and more detailed information are required to enable indicative modelling to achieve well informed input into the payment model and reduce risks of market failure upon implementation. To illustrate, to fully assess the adequacy of the Engagement Fee it is necessary to understand what assumptions have been made about factors such as (but not limited to) the indicative flow of job seekers into Enhanced Services, the expected average duration of service and transfer rates. The introduction of an outcome payment system based on Job Seeker Classification Instrument (JSCI) scores is a major change to existing arrangements. While information has been given about payment levels for moderate and high scores there has been no detail of what will constitute a moderate or high score or any underpinning assumptions such as the indicative proportion of job seekers likely to have a moderate or high score; or what the historical outcome types and rates achieved for job seekers with such scores. As was stated in the presentation Stream is not a proxy for JSCI scores and while providers can consider the outcome fee level per individual, they are unable to confidently assess what this translates to in terms of potential total revenue based on their capacity to perform and deliver outcomes.

The sector also notes that while the New Employment Services Trial (NEST) is underway and allows some testing of the model it has been disrupted and is of insufficient duration to enabling understanding of how the payment model will support services over the life of the program. NESA notes NEST was introduced cooperatively with negotiation around infrastructure and upfront payments that need to be considered in evaluating the adequacy of the payment model. Many NEST providers have reported these elements have been instrumental in the viability of NEST but they are not proposed for the full implementation of NESM. The adequacy of the payment model also needs to be assessed in the context of service requirements. At this time for example there is no or little information regarding service requirements associated with mutual obligation and annual activity requirements such as Work for the Dole. While the presentation mentioned the Employment Fund will have a regional loading it was silent as to the level of credits that will be made for job seekers, and to support activities such as Work for the Dole and wage subsidies.

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

i. **NESA recommends that there is greater transparency regarding the investment approach for Enhanced Services NESM; and**
ii. **NESA recommends that to reduce the risks of market and/or provider failure, detailed assumptions underpinning NESM are made available to enable a comprehensive financial modelling tool to be developed and released prior to commencement of purchasing.**

Engagement Fee

The I Want to Work paper stated that the NESM payment structure would include higher up-front payments for immediate investment in supporting enhanced services to job seekers.

The sector strongly supports the premise that higher upfront payments are critical to ensure intensive and quality case management services are available to job seekers and realising the full intent of the NESM. NESM focuses on job seekers with the most complex barriers to employment and are more likely to require more intensive and a longer duration of assistance to achieve employment.

NESM is expected to commence with a caseload of job seekers who are predominately long-term unemployed, with a high proportion being very long term. It is expected that only a small proportion of more recently unemployed job seekers with significant barriers to employment will be eligible for Enhanced Services. As the NESM Payment Model presentation rightly states the longer a person is unemployed the lower their chances of gaining employment. The sector adds that long duration of unemployment can also impact the job seekers capacity to sustain employment and they generally require more intensive post place support for an eligible outcome to be achieved.

The I Want to Work paper outlines the intent for services delivered in NESM including but limited to more assistance than is currently provided and more time with consultants enabled by lower caseloads. The sector considers the proposed Engagement Fee of $1000 as a one-time payment per job seeker falls very short on the commitment and intent outlined in the I Want to Work paper. The following outlines the reasons for this view

1. It is proposed for NESM that an Engagement fee is $1000 and will be available once for each job seeker per period of unemployment compared to the current model where an Administration fee is paid every 6 months the job seeker remains in the service (pro rata). The NESM Payment Model webinar stated that the proposed NESM Engagement fee equated to approximately 2 years of the current Administration Fee. The sector notes that this claim is based on the lowest current Administration Fee 'All Other Stream Participants' at the metropolitan rate.

   The extent that the proposed fee represents a significant reduction in up-front funding to invest in services to job seekers across the life of the NESM in non-regional areas is illustrated in the following table:

Table 1: Metropolitan Funding comparison – jobactive 6 mthly Admin Fee – Proposed NESM $1000 Engagement Fee

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

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

2. In a media release on the launch of jobactive the then Prime Minister the Hon Tony Abbott MP stated one of the features on the model was the introduction of a new regional loading recognising that labour market conditions vary across Australia (March 31 2015). The absence of regional loading on the NESM Engagement Fee represents a reduction in the current overall investment in upfront fees compared to jobactive and regional services will experience a greater comparative reduction in the transition to NESM than their metropolitan counterparts as indicated in the table below.

Table 2: Regional Funding comparison – jobactive 6 mthly Admin Fee – Proposed NESM $1000 Engagement Fee

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

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

Regional NESM services will be more reliant on Outcome payments to be financially sustainable. There is a prevalence of depressed labour markets with limited job opportunities in Regional Australia generally and many regional economies have been further impacted by the recent bush fire crisis, drought and the COVID-19 pandemic. Additionally, NESA understands that many regional areas have a higher proportion of partial than full outcomes which provides significantly less outcome revenue to reinvest in service delivery with part time and seasonal work more prevalent than full time permanent opportunities in these areas. The difference in regional labour markets has traditionally been accounted for in the performance model with the removal of a regional loading the sector holds concerns that we may see the re-emergence of high performing regional providers becoming financially unsustainable.

3. The economies of scale in jobactive will not exist in NESM which will have smaller caseloads comprised of the most disadvantaged job seekers. In jobactive providers are able to provide more intensive services to those more disadvantage in Streams B and C by re-directing a proportion of revenue from Stream A with lower support needs. As such providers' current investment in service to job seekers in Streams B and C is greater than that provided by the Administration Fee, and this is not reflected in the level of the Engagement Fee proposed for NESM.

4. There are widespread concerns across the sector that the proposed one time only payment per job seeker will not support quality of services, particularly not over time and will contribute to increased potential risk of both provider and market failure. The sector notes the I Want to Work report indicated 64.9% of job seekers in jobactive were unemployed for more than 1 year and 19.6% for over 5 years. ABS Labour Force Data at October 2020 indicates approximately 25% of all job seekers were unemployed more than 104 weeks. As such as the NESM caseload matures funding for services to job seekers will become increasingly dependent on outcome fee; an identified issue in jobactive that NESM was intended to address. Additionally, this is likely to an even greater concern in more depressed and disadvantaged labour markets where the average duration on the caseload is likely to be higher.

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

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

5. To maintain real value at current investment levels the sector would reasonably expect that a fee increase would occur of at least equal to CPI at July 2022 when NESM is due to be implemented. Current jobactive contract arrangements include a mid term fee increase which was last applied in January 2018. According to the Reserve Bank of Australia as at September 2020 CPI has increased by 3.6 percentage points since December 2017. The NESM Payment Model webinar did not reference any arrangements for fee increases to the Engagement or any other fee during the life of NESM to ensure real investment is sustained over time.

iii. NESA Recommends the current level of upfront investment in services to job seekers should not be diminished in the implementation of NESM. The Engagement fee should be:

- **A. Increased to be equal to 100% of 4 current jobactive Administration payments plus CPI to maintain real investment levels in transition to NESM, and**
- **B. Paid every two years the job seeker remains in service rather than being a one-time payment, and**
- **C. Include Regional Loadings**

Employment Outcomes and VLTU Bonus

The payment model presentation provided on the Employment Outcomes and VLTU bonus provide an overview but as indicated earlier contains insufficient information of which to assess the adequacy of these payment arrangements.

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

The NEST outcome data presented in the webinar provides total outcome numbers with no breakdown by moderate or high JSCI score. In the absence of evidence to the contrary, it is reasonable to assume a small proportion of job seekers will have a high JSCI score. There is little doubt that regional providers will have less outcome revenue with the removal of regional loading. The webinar indicated that approximately 30% of 12 and 26 week outcome claims made in NEST thus far had attracted the VLTU bonus. As indicated previously the sector requires the underpinning assumptions to fully understand and provide informed feedback into the outcome model. However, in the absence of data to the contrary, it is difficult not to conclude that while individual payment rates may be similar (for non-regional jobactive), a lower proportion of job seekers will be eligible for higher level payments in NESM compared to jobactive Streams B & C and that the model will subsequently deliver less overall revenue to support services.

VLTU Bonus

Feedback from NEST providers has indicated that the VLTU Bonus is a positive and significant factor in the sustainability of the outcome payment model and it has generally been well received by the sector more broadly. However, providers have requested more detailed information about the proportions of VLTU expected in the NESM caseload by region to enable modelling.

JSCI as basis for setting payment levels

One of the concerns raised by NESA members is how the JSCI which is subject to change with circumstance will interact with payment eligibility. To illustrate when providers assist job seekers to overcome barriers this may potentially result in a reduced JSCI score. It would be counterproductive to financially disadvantage provider for being effective in improving the employability and job readiness of job seekers. There were a number of questions regarding the JSCI and its review including how it will interact with the proposed assessment framework to ensure job seekers circumstances are fully considered. Providers noted the prevalence of disclosure post commencement into services and the increase of this since the introduction of self-completion of the snapshot.

iv. In relation to the use of the JSCI score to determine payment levels the sector strongly recommends:

- There needs to be transparency in the JSCI thresholds set for payments
- There needs to be transparency and consultation with the sector if any changes to the thresholds are proposed
- The thresholds should be set using a transparent evidentiary approach to probability of achieving an employment outcome (not budget)
- The job seekers highest JSCI score during their period of service should be used to determine outcome level eligibility

Employment Outcome Definitions

The current definitions for full and partial employment outcomes are basically the same as they were at the commencement of Job Network in 1998. As was strongly put forward in the Next Generation of Employment Services much has changed in the world of work and employment services must keep pace with such change.

The Reserve Bank of Australia noted that one of the most significant changes to the Australian labour market in recent decades has been the rise in the share of part-time employment to account for nearly one-third of total employment[3] with Australia having the highest rate of casualisation in the OECD. Similarly, a statistical snapshot from the Department of Parliamentary Services indicated a significant feature of the labour market in the past two decades has been the strong growth in permanent part-time employment for both men and women, and strong growth in casual part-time employment for men[4].

[3] The Rising Share of Part-time Employment Reserve Bank of Australia 2017

[4] Characteristics and use of casual employees in Australia Department of Parliamentary Services 2018

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

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

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

v. **The sector recommends that Outcome definitions should be reviewed to reflect the disadvantage of NESM target cohort, the prevalence and importance of part-time and casual employment to break the cycle of entrenched unemployment. This may include reducing required rate reduction from 100% and/or other mechanism to introduce greater tolerance for variation of earnings.**

Enhanced Services Tiers and Progress Payments

Feedback from NEST providers indicates that they are generally accepting of the tier structure. However, more broadly there appears employment services providers not directly involved in NEST have some uncertainty about the tiers and how Progress Fee and Progress in Service fees will operate.

As noted in the webinar the majority of Progress Fees have been claimed at the point of employment. Feedback indicates that a low risk tolerance culture in relation to compliance and potential recovery action will need to be addressed to enable Progress Fee to be claimed with confidence. While some providers have asked for more guidelines the sector notes that a principles-based approach to Progress Fees is preferable. A Principles approach can ensure excluded activities are accounted for while fostering use of innovative and leading interventions. A common topic of feedback was the movement of Education Outcomes to Progress Payments. Many providers consider the investment and time for education outcomes to mature are not reflected in the Progress Payment level and they do not anticipate they will be rewarded in the performance framework either. Many providers considered that this will be detrimental to the skills agenda and taking a longer term career perspective.

As indicated earlier the sector has asked how progress may affect the JSCI and subsequent Outcome fee eligibility. NESA understands from NEST providers this has not been an issue to date and would like confirmation that Progress Fees will not result in lower JSCI scores and impact Outcome payment levels.

NESA has received mixed feedback regarding Progress in Service Fees, with some providers very strongly supporting the value it brings to case management and others considering less effective. Given the disruption to NEST it may be too early to make a conclusion with some NEST providers indicating they have recently adopted new approaches which are showing promise.

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