NESA'S Response to the

Disability Employment Program Information Paper - Payment Model

August 2024

nesa
national employment services association

Disability Employment Services
A new specialist disability employment program: Information Paper – Payment Model
Response of the National Employment Services Association

General comments

Financial modelling and methodology underpinning the new model

NESA and its members appreciate the opportunity to review and respond to the new specialist disability employment program: Information Paper – Payment Model.

NESA requests the Department release its funding methodology underpinning the payment model, and any financial viability analysis that has been conducted to enable prospective tenderers to understand the assumptions underpinning proposed market share; anticipated caseloads; and staff ratios the model is estimated to sustain in each Employment Service Area (ESA).

When the Workforce Australia model was developed, KPMG was commissioned to do financial modelling and examined revenues and costs to determine financial viability of the model. What is missing from the release of the RFT is the basis for the decision-making by Government that this payment model will be viable at the ESA level.

If prospective tenderers have access to these assumptions, then they will be able to test the payment model, undertake their own internal financial due diligence and determine whether they will be able to sustain financial viability should they submit a tender.

NESA requests the Department provide:

- Projected caseloads (including breakdown in relation to specialist cohorts) and staff ratios per ESA/region. Potential tenderers need estimates of approximate caseloads and their breakdowns, even if caseloads cannot be guaranteed. The Department will also need this information to properly assess potential tenders, otherwise they risk awarding more contracts than are sustainable, or too few, in a particular ESA or region.
- Program logic underpinning the new model
- Assumptions underpinning the model, for example, the banding of the intensive caseload; and why the banding is not also reflected in the flexible service model (see the paper below for specific details)
- Evidence that will be required for progress fees, noting the administrative burden of obtaining progress payments under Workforce Australia that has led to them being dramatically underutilised
- Evidence required to obtain fees, and assurance this will not increase the existing administrative burden for providers

NESA also requests that the Department provide assurance to prospective tenderers that the IT system required to be used by successful tenderers will have functionality equal to the system currently used by the DES program.

The need for a fair funding model that reflects the true cost of establishing, and doing business in 2025 and beyond

It is strongly recommended that the Department review its proposed funding model and works with the sector to ensure the cost of delivering services is reflected in the fee structure. When KPMG conducted their modelling for the new Workforce Australia model, they went to providers and examined their corporate and operational overheads to understand the cost of doing business, with the intent that this would be reflected in the funding model.

Given limited data has been made publicly available to prospective tenderers, current providers have only been able to review the proposed fee structure in terms of their current caseloads, and consultant to participant ratio data. While services fees are acknowledged as being potentially greater (between 10-14%), outcome fees are down significantly by up to 30%. Overall, providers are all reporting on average a reduction in funding levels under the new model based on their current caseloads. At the lowest level, it has been estimated there will be approximately overall 6% less funding, with several providers reporting a far higher estimate of between 15- 20% less funding. There have been no reports of parity in funding. The substantial reduction in net fees is deeply concerning especially as it will potentially impact regional commerciality and may force successful tenderers to focus on those most likely to get into work to ensure viability.

The fee structure does not appear to take account of the true cost of doing business, despite these costs having surged dramatically over the last few years impacting the financial viability of many organisations, particularly within the DES program. Yet, since 1 July 2022, quarterly inflation rates have soared well above 4%, only dropping below 4% in the June 2024 quarter. There are also looming fears that Australia is on the brink of a recession, with the Australian Chamber of Commerce and Industry recently surveying small business owners, finding that 45% had considered leaving or closing their business in the last 12 months.

Disability employment services workforce

Providers struggle to attract staff given the low award wages upon which funding agreements are based, with equivalent work under the Labour Market Assistance Industry Award paid at a lower rate than the notoriously low rates under the Social Community Home Care and Disability Services Industry Award (see below).

Social Community Home Care and Disability Services Industry Award (SCHCDS)* ***Social and Community Services Employee***		**Labour Market Assistance Industry Award (LMAI)*** ***Employment Services Officer***	
Level 2 – pay point 1	$33.41	Grade 1 – pay point 1	$29.54
Level 2 – pay point 2	$34.47	Grade 1 – pay point 2	$30.42
Level 2 – pay point 3	$35.51	Grade 1 – pay point 2	$31.10
Level 2 – pay point 4	$36.46		
Level 3 – pay point 3	$39.24	Grade 2 – pay point 1	$31.78
Level 3 – pay point 4	$40.08	Grade 2 – pay point 2	$32.65
		Grade 2 – pay point 3	$33.54
		Grade 2 – pay point 4	$34.42
		Grade 2 – pay point 5	$35.24

*both award rates increased by 3.75% on 1 July 2024
The LMAI does not require qualifications, but these levels of responsibility are broadly commensurate with Levels 2 (Cert III/IV entry) and 3 (Graduate level) of the SCHCDS award

To attract people to the industry, providers pay well above the award rate; however, they cannot compete with wages such as those paid by the Australian Government. For example, the annual total remuneration for an APS administration officer (APS4) ($91,211-$97,542) far outstrips the average total remuneration of an employment consultant of $81,442 per annum.[1] 72% of the employment services workforce identifies as female, many with lived experience, or as carers. Yet 2023 saw an unprecedented number (46%) of staff leaving the sector. The reasons include amongst other things: burn-out, safety, and financial/job security. The funding model needs to be adjusted to better value the workforce, and their importance, knowledge, and experience in the disability employment sector, and enable providers to pay them higher wages.

Overheads

There are also significant other overheads that cannot be avoided when delivering an employment service. For example, the average cost of a simple site fit out is $100,000. To shut down a site costs approximately $25,000. Providers would be willing to share the costs of other overheads with the Department to assist their modelling.

Cyber security

There are significant costs associated with cyber security and meeting Right Fit for Risk Requirements (RFFR). On average, providers currently spend more than $500,000 annually to maintain RFFR requirements. RFFR also evolves with the Australian government changing security controls monthly, meaning that providers must regularly adjust what they are doing, or implement new technology or policy to stay aligned and compliant. These are all hidden costs that are not accounted for under the draft funding model. One member recently advised NESA that they have spent more than $4 million to set up and maintain RFFR since commencement of the current DES contract, having spent between $1.5 and $2 million to become ISO 27001 certified and RFFR accredited at commencement of the contract, with a current annual budget of $600,000 for ongoing maintenance of RFFR requirements.

Professionalisation of the workforce

The proposed professionalisation of the workforce is unfunded under the current model and is therefore a further cost to be borne by providers. This is in addition to skills and capability training providers will see as essential to ensure that their staff are equipped and competent to perform their roles and support the discrete cohorts of people with disability that they work with. None of these components are funded by Government and are met out of a provider's own pocket.

Short three-year contracts

Providers want to attract the best staff possible, and to make their organisation as attractive as possible to join. Yet, this is hard to do if an organisation cannot guarantee employment beyond 3 years or afford to pay staff above award wages. Given the insecurity in the market, lack of certainty regarding market share, and

[1] APS wages include superannuation at 15.4%; total remuneration of employment consultant wages includes superannuation at 11% in the 2023-24 financial year. See National Employment Service Association, *2023 Employment Services Survey of Remuneration and HR Performance Survey,* NESA Employment Services Workforce Survey

the short nature of the contract, some providers may also have to consider casualising parts of their workforce to mitigate any potential risks relating to the financial viability of the contract.

The short contract of 3 years also exacerbates the financial challenges of maintaining viability. A 3-year contract is problematic not only in terms of being insufficient time for any return on investment for initial set up costs, (including recruitment and training of staff); but also in terms of being able to obtain and retain long term leases (given most commercial landlords want 5-year leases, with 12 months' notice is usually required to renew a lease). Many current providers already have leases expiring with the current contract, and if they are successful in the new tender, will have to fund both shutting down their existing premises, find new premises to lease, and set up all over again at a new site/s. These costs are borne by the provider.

Given the very high costs of doing business, the short contract, lack of certainty regarding market share or caseload, it is not clear how a small specialist provider will have the confidence or funds to enter the market on their own. It is also not clear how a generalist provider will have sufficient confidence they will be financially viable under the contract.

NESA would welcome further engagement with the Department to establish a fairer funding model for the new disability employment program than is currently proposed.

Question	Response
Funding split and indexation	
Is there a good balance of funding available to support investment in servicing participants and incentivise providers to achieve employment outcomes?	It is difficult to provide comment given the funding model is provided without greater detail, in particular estimated caseloads/staff ratios to determine whether they are adequate or not. Based on current caseload data the fees are insufficient. Given the needs and barriers of this cohort, and the expansion to include cohorts with less than 8 hours working capacity, the fee structure appears to fall significantly short of the real cost to deliver the intensive and often complex service this cohort requires. Members have also expressed concern that the ongoing support fees, the lack of post placement support fees, combined with significantly reduced outcome fees provide little incentive for providers to deliver the service. For providers to undertake financial modelling, NESA requests clarification on the following information to understand the underlying assumptions regarding the fee structure: • How the change from DMS & ESS to the new grouping of all participants will impact the spread of participants between the 1 to 5 categorisation matrix? • What is the potential size of the two new cohorts, '0 to 8 hours' and '30+ hours' by ESA? • Is the flexible cohort expected to be comprised of mainly level 4's and 5's? If yes: ○ how does that impact the distribution of participants in each level (see page 3 of the Information paper) of the intensive cohort, and

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what is the percentage impact on the numbers in levels 4 and 5 of the intensive stream?
What is the spread of participant funding levels by ESA?
Clarification as to how the estimated split of service fees (50%); progress fees (6%) and outcome fees (44%) were calculated? Including:
conversation rate assumptions used to determine the outcome fees
the period (months) assumed for a participant to remain in the program to determine the service fees, and
the placement rate assumed in determining the outcome fees.
It is also not clear why there is no system to enable payment of fees upfront, given payment of fees in arrears can impact the cashflow, particularly for new smaller providers with tight margins.
It is also recommended that the fees be exclusive (rather than inclusive) of GST.
Funding for education under progress fees also appears to be inadequate. Progress fees are restrictive in terms of education and training opportunities and should be broadened to include non-vocational and other relevant training as required by the participant. Providers will be financially worse off under the new program in relation to progress fees, as it replaces the 4-week outcome fees with a lower maximum of 2 x $1000 flat fee per annum/participant. This progress fee also does not align with the funding levels needed for participants as individuals (in accordance with their needs), nor reflect the severity of barriers that a participant may face.
Under the current program, many providers already self-fund training where there is insufficient funding to cover the costs of a Cert. II or Cert. III course. Inadequate funding risks de-incentivising pursuit of education, vocational (and non-vocational training) and could lead to perverse outcome where participants are not provided with the opportunity to participate in training courses, or are encouraged to participate in less meaningful training, because the cost of RTO fees are unable to be recouped.
</td></tr>
<tr><td colspan="2">Service Fees</td></tr>
<tr><td>If the distribution of service fees was more equal (eg., if there was less of a difference between intensive and</td><td>It is not clear why there is such a difference between the intensive and flexible service fees.</td></tr>
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flexible service fees) what effect would this have on the way services are delivered to each stream of participants? Could this result in some participants being prioritised over others?	The paper proposes a future caseload split of Flexible (25%), Intensive (45%) and Working (30%). However, given the 'Flexible' and 'Intensive' streams are new classifications, NESA requests clarification as to whether they are to be understood as a reclassification of participants on the current caseload, or whether participants in one or other of the streams would be new? It is also recommended that the flexible fees are graduated in keeping with the intensive stream, and to reflect the complexity of the person being supported.
Fees	
Progress Fees are not available for placements within a provider's own organisation or related entity due to risks of contrived employment or inappropriate practices. Are there options to mitigate such risks that the department has not considered?	It is recommended that the Department align with the Department of Employment and Workplace Relations approach regarding related entities, recognising their value and importance in allowing referrals to a provider's own organisation or related entities. For example, the initial caps on referrals to the Employability Skills Training (EST) and Career Transition Assistance (CTA) programs were leading to perverse outcomes for participants and providers. As a result of the requirement to refer people to other providers, many providers reduced the number of courses that they had on offer, which placed more demand on other providers with an active program schedule. This led to an increasing inability of providers to provide these services to meet demand. In some cases, access to an alternative trainer included travel time of up to 3 hours, whereas they could have received the training with their own employment service provider if permitted. Given the logic behind other changes of seeking alignment with WFA, it is recommended the program allow progress fees for placements for self/related entity referrals. A proposed safeguard could be that the providers are limited to any self or related entity referrals above 30% of their caseload, with referrals above that permitted in extenuating circumstances, such as participant choice.
Should progress fees for employment be available to participants with a supported wage?	Yes.
At what level of education should a progress fee be available? How can	It is strongly recommended that progress fees for training/education include payments for non-vocational programs. This would align with Workforce Australia's recognition of non-vocational progress payments, and the choice and needs of the participant.

training for training sake be avoided?	It is recommended that there is a broader focus beyond certificates, to also recognise the importance of building the skills and confidence of participants. For example, when a participant obtains a Cert. II or III in retail it does not mean that they will necessarily get a job in retail. They may still need skills/training to build their confidence, or in customer service. The progress fees should be tied to helping the person develop the skills and capabilities that they need to get the job they want. Without recognition of non-vocational progress fees, there will be limited incentive to providers to help people develop the soft skills that they need to enter the workforce.
Ongoing Support and Work Assist	
What accountability mechanisms and evidence are appropriate to receive funding for ongoing support?	This should be part of the job plan, and in keeping with the participant's choice. As part of ongoing assurance activities, ongoing support should be assessed based on whether the provider is meeting their obligations as part of an ongoing support plan as agreed with the participant. Contact would be recorded in the IT system, and open to audit and assurance activities.
Wage subsidy	
Do the wage subsidy settings provide sufficient flexibility to support participants with a 0-7 future work capacity?	Wage subsidies are a positive step. There should not be a 6-month delay before a person can obtain a wage subsidy. This does not align with participant choice or could create an unnecessary barrier to helping a someone get a job they want to do as soon as possible but is dependent upon the wage subsidy coming through. It would be a perverse outcome of the person was required to be 'parked' for any period of time before a subsidy could be accessed. It is recommended that the time restriction to accessing a wage subsidy be removed. The wage subsidies also appear to have lost the flexibility of the current DES contract. It is recommended that the current flexibility be retained, enabling subsidies to also be used to employ individuals in a provider's organisation.
Advance payments	
Is an upfront payment based on 12 weeks of service fees sufficient to assist with initial set-up and operating costs for providers?	NESA observes that one month payment in arrears rather than 3 months in advance is positive from the perspective that it should significantly reduce, if not eliminate, department recoveries. Payments one month in advance would mitigate the cashflow impact and achieve a significant improvement in recoveries. However, payments in arrears may disadvantage smaller providers with extremely tight cashflows.

	Advance payments at the start of the contract are welcomed.
Does the proposed period allow sufficient time for providers to offset the upfront payment?	The data regarding market share, projected caseload and staff ratios is essential before any prospective provider can undertake the requisite due diligence to have certainty whether this amount of time is sufficient for offset purposes. However, it is recommended that a more appropriate period should be a maximum of 6 months to assist organisations with set-up costs (which from the opening statement on the costs of doing business are very high) for new providers.