

Research report

# Job Services Australia: design and implementation lessons for the British context

by Dan Finn

Department for Work and Pensions

Research Report No 752

# **Job Services Australia: design and implementation lessons for the British context**

Dan Finn

A report of research carried out by the Centre for Economic and Social Inclusion on behalf of the Department for Work and Pensions

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First published 2011.

ISBN 978 1 84712 986 4

Views expressed in this report are not necessarily those of the Department for Work and Pensions or any other Government Department.

# Contents

Acknowledgements.....	v
The Author.....	vi
Abbreviations.....	vii
Glossary.....	viii
Summary.....	1
1 Introduction.....	5
1.1 The research.....	6
2 The development and impact of the Job Network.....	7
2.1 Price competition, the design of outcome-based contracts and the Job Seeker Account.....	7
2.2 Competition, choice and star ratings.....	9
2.3 The provider network.....	10
2.4 Job Network Services.....	10
2.5 The performance of the Job Network.....	11
2.6 Conclusion.....	12
3 Job Services Australia.....	14
3.1 Job Services Australia and complementary programmes.....	14
3.2 The tender process and transition to JSA.....	16
3.3 Criticisms of the tender process and the impact on specialist and non-profit organisations.....	17
3.4 JSA participation, employment outcomes and changes to unemployment.....	19
3.5 Accountability, performance and contract management.....	20
3.6 Minimum service standards.....	22
3.7 Service fees and employment outcome payments.....	23
3.8 Connections between JSA and the skills system.....	24
3.9 Gateway services, the JSCI and referrals.....	25
3.10 Job seeker conditionality, compliance and sanctions.....	25
3.11 Conclusion.....	27

4	Conclusion.....	28
4.1	Service delivery .....	28
4.2	The design of outcome payments.....	29
4.3	Sanctions and the compliance regime .....	30
4.4	Contracted providers and non-profit organisations.....	30
4.5	Evaluation and best practice.....	31
	Appendix A Job services Australia – topic guide .....	32
	Appendix B Main working-age benefits in Australia 2011.....	34
	References .....	35

## List of tables

Table 3.1	Job Services Australia: projected and actual caseload; service fees and outcome payments.....	15
Table 3.2	Starts and outcomes (three month ‘Post Programme Monitoring Survey’).....	19
Table 3.3	Number of JSA providers, caseloads and unemployment rate in selected Employment Service Areas, June 2010.....	20
Table 3.4	JSA performance measures and weightings .....	21

# Acknowledgements

The author would like to thank Vicki Brown and Mike Hope at the Department for Work and Pensions (DWP) for their comments and assistance.

The author would also like to thank the many Australian respondents who have shared their insights and experience and given access to information about the outsourcing of employment services, especially those individuals who were interviewed as part of this research. Special mention should be made of the assistance given by David Thompson, Chief Executive of Jobs Australia, and Sally Sinclair, Chief Executive of the National Employment Services Association.

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# Abbreviations

ACOSS	Australian Council of Social Service
ANAO	Australian National Audit Office
APM	Active Participation Model
CO	Commonwealth Ombudsman
CSJ	Centre for Social Justice
DEEWR	Department of Education, Employment and Workplace Relations
DEWR	Department of Employment and Workplace Relations
DEWRSB	Department of Employment and Workplace Relations and Small Business
DSP	Disability Support Pension
DWP	Department for Work and Pensions
EPF	Employment Pathway Fund
EPP	Employment Pathway Plan
KPI	Key Performance Indicator
IA	Intensive Assistance
JN	Job Network
JSA	Job Services Australia
JSCI	Job Seeker Classification Instrument
NESA	National Employment Services Association
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
WP	Work Programme
YA	Youth Allowance

# Glossary

Centrelink	Centrelink is a public sector agency which acts as a gateway for people seeking to gain access to government employment services and benefit payments.
Department of Education, Employment and Workplace Relations (DEEWR)	DEEWR provides the Australian government with advice, programmes and services relating to education, training, employment and workforce participation.
Job Services Australia (JSA)	JSA is the Australian Government's national employment services system. It is comprised of a network of private and non-profit organisations contracted to deliver four streams of employment assistance to job seekers. It replaced the earlier Job Network in 2009.
Job Seeker Classification Instrument (JSCI)	The JSCI is designed to identify job seekers who, because of their individual circumstances, are likely to become long-term unemployed. The JSCI is an objective measure of a job seeker's relative labour market disadvantage based on his/her individual circumstances. These individual circumstances are assessed using a job seeker's answers to the JSCI questionnaire plus other information known to influence employment prospects. Under JSA, the JSCI is specifically used to determine a job seeker's eligibility for Streams 1 to 3 and those who may require a Job Capacity Assessment.
Job Capacity Assessment (JCA)	A JCA may be triggered when the JSCI identifies job seekers who have multiple or complex barriers to employment. The JCA is conducted by allied health professionals and is a comprehensive assessment of a job seeker's vocational and non-vocational barriers to employment and the impact these barriers have on the job seeker's capacity to undertake work. The JCA determines eligibility for a job seeker or disability benefit and triggers referrals to either stream 4 in JSA or to separate Disability Employment Services provision.
Employment Pathway Plan (EPP)	On entry into JSA a provider is required to develop an individually tailored EPP which maps out any training, work experience or additional assistance a service user might need. The EPP also makes clear the activity obligations of the individual and what they have agreed to do to fulfil them.
Employment Pathway Fund (EPF)	The EPF is a flexible pool of funds available to JSA providers to purchase a broad range of assistance to help job seekers get the right training and other support they need to find and keep a job. The fund is designed to be used flexibly by providers so that each eligible job seeker receives assistance based on their individual needs and their barriers to employment. It replaced the earlier Job Seeker Account that played a similar role in the Job Network

# Summary

There have been changes in how the Department for Work and Pensions (DWP) contracts with the network of non-profit and for-profit providers who deliver employment programmes. In 2008, DWP's 'Commissioning Strategy' outlined how it would further reshape this 'welfare to work' market through the introduction of prime contractors, whose funding would primarily depend on their success in securing sustained job outcomes. Prime contractors already deliver the Jobcentre Plus Support Contract, European Social Fund provision, and 'Work Choice', a specialist disability employment programme. From mid-2011 they will also begin to deliver the larger Work Programme (WP).

The British approach to commissioning and managing outsourced employment services has been influenced by comparisons with, and learning from, developments in the contracted out Australian employment assistance system.

This project reviewed literature on the development and impacts of the Australian outsourced employment services system and the transition from the Job Network (JN) to Job Services Australia (JSA). Another phase included interviews with 20 senior policy makers, providers, and research and advocacy organisations in November 2010.

## The Australian system

In 1998, the Australian Government created the JN, a fully outsourced employment placement market where outcome-based contracts gave providers flexibility to personalise service provision. The network evolved through three contracting rounds that saw job seekers given a choice of provider, the introduction of comparative 'star ratings' and greater prescription of service standards for job seekers.

The creation and development of the JN illustrates strengths and weaknesses in the design of contracts and in the ways in which outsourced providers responded to incentives. The Australian approach created a viable network comprised of for-profit and non-profit providers whose performance improved over time, with evidence suggesting that the JN delivered more outcomes for half the cost of the previous system. In this process, providers used the flexibility they were given to develop new service delivery models that, at their best, allowed case managers to tailor services to different participants, provide continuity of support, test methods for motivating job seekers, and provide various post placement services. The incentive system also focused providers and their case managers on helping participants gain entry into sustained employment rather than on simply managing inputs and programme commencements.

As the system evolved, however, problems emerged with 'parking' and the behaviour of some providers who used their flexibility to manipulate the incentive system. As the JN was adapted to minimise these negative consequences and meet new objectives further problems emerged. Flexibility was reduced by greater administrative and compliance demands and transaction costs increased. There were other criticisms suggesting that the JN model needed a thorough overhaul before contracts were renewed in July 2009.

In 2009, a single JSA contract integrated JN provision with six previously separate specialist programmes. Job seekers now are categorised into one of four 'streams', with the most job ready referred to stream 1 and those with 'severe barriers' referred to stream 4. Providers are paid differential service fees and job outcome payments with most funding targeted at job seekers in streams 3 and 4. On completion of a stream, usually after 12 months, the participant may be moved to another stream or, more commonly, be required to participate in work experience.

The JSA contract was designed to give providers greater flexibility in service design, provided differential payments to encourage them to work with the hardest to place, and created incentives to secure better linkages with skills provision. In practical terms, the introduction of JSA involved a significant redesign of existing contracting arrangements, the management of a major change programme, and the restructuring of operations by existing contracted providers.

The Australian system, and approach to risk management, is different to that being implemented in Britain, as is the economic and social context, but the research findings offer insights into contract design and the potential benefits and risks of outsourcing employment services. These findings are of relevance both to the British welfare to work market and to outcome-based contract design in other government services.

### Service delivery

In the evolution of the JN, and subsequent transition to JSA, there has been much ‘learning by doing’ and constant adaptation. Through successive reforms, policy makers have sought to establish a market and payment structure that promotes competition, increases job outcomes, reduces ‘parking’, and improves service quality. In this process of market shaping, officials introduced greater specification of service requirements and regulation of processes that then reduced scope for flexibility and innovation. The JSA delivery system encouraged greater flexibility but it seems that elements of the administrative and compliance patterns established under the JN have continued to constrain service delivery. The cumulative impact was claimed to have distracted providers from engaging with and assisting job seekers and prioritised managing process requirements that do not necessarily contribute to good quality service delivery.

The key issue for the British context concerns the need to balance the desire for maximum provider flexibility with adequate safeguards for participants. Transparent monitoring of such standards may reduce parking and weak service delivery and dissipate future pressure for increased regulation and the inflexibility that may entail.

The WP, for example, will minimise prescriptive rules and rely largely on differential financial incentives, heavily weighted to sustained employment, to drive provider behaviour. The Australian evidence is that such incentives will shape provider delivery strategies and foster innovation, but there remains a risk of parking. The British approach may be more sustainable if accompanied by transparent efforts to minimise those risks. It may be important to monitor how providers propose to design and deliver action plans, with any subsequent Key Performance Indicator tracking the plans’ quality, how detailed they are, how long they take to complete, and the extent to which they are personalised to individual circumstances.

There may be value in undertaking regular sample surveys of jobseekers and employers, as in Australia, to generate insight into customer experience. A regular sample survey of leavers from British programmes could generate additional information on participant destinations not captured through the provider payment system.

### The design of outcome payments

The definition of a WP job outcome is for a participant to be wholly ‘off’ an out-of-work benefit for the required period, which will normally mean at least a weekly minimum of 16 hours employment. The Australian system by contrast also recognises and rewards ‘pathway outcomes’ that involve reduced incentive payments to providers if they place participants in part-time employment or if they place young people into full-time education. British policy makers may wish to consider such

pathway outcomes, for example, if a participant is placed in a part-time job that substantially reduces their benefit income. Rewarding such outcomes would enable the alignment of WP incentives with Universal Credit reforms that seek to incentivise the progression from dependency to ‘mini jobs’ and part-time employment.

## Sanctions and the compliance regime

Service user journeys and interactions across the provision offered by the public benefits agency Centrelink and outsourced employment assistance providers are complicated, especially for the most disadvantaged. In Australia, there have been problems with incorrect assessments, missed appointments, and the imposition of sanctions, including variations in how different providers handle and report non-attendance and non-compliance. There have been problems also with the flow and sometimes accuracy of information and data exchanged between the respective agencies. These transactional costs between public and private sectors have been exacerbated by complex benefit rules and regulations and the limited knowledge that provider staff have of such rules.

Transitions between Jobcentre Plus and private providers are well established in British provision, although they may not always work smoothly. There are increased risks associated with the WP because of its duration, subcontractor delivery chains, and the requirement to undertake activities agreed with a provider while continuing to ‘sign on’ fortnightly with Jobcentre Plus. This might be exacerbated further by the overlapping responsibilities of Jobcentre Plus and providers, both of whom may seek to pursue different approaches to employment assistance and relevant activities. For example, Jobcentre Plus performance targets promote a ‘work first’ approach, whereas a WP provider may take a longer view with less emphasis on the speed of an initial job placement. It could ease implementation if there was greater clarity on the status of the job search and work activity requirements included in an Action Plan agreed by WP providers and how this relates to a Jobseeker’s Agreement.

The Australian experience suggests it may be worth considering specialist teams of Jobcentre Plus staff and decision makers who could ensure speedy communication with providers on compliance and sanction referrals, with feedback on the reasons for not imposing a sanction. The introduction of Universal Credit will create an opportunity to simplify the compliance and sanctions system and ensure that it helps to promote engagement between participants and employment programme providers.

## Contracted providers and non-profit organisations

There has been much debate about the role of third sector and voluntary organisations in delivering outsourced employment assistance. In Australia, the non-profit sector plays a major role. The employment service organisations established by religious organisations deliver a large segment of JSA provision. Although smaller secular voluntary and community organisations have fared less well in the transition into JSA, their continued involvement continues to be critical for ensuring coverage in areas that are less attractive to larger for-profit providers, either because of location or the particular characteristics of client groups. The Australian experience suggests that specialist organisations are better used to service participants that utilise their particular skill sets, and that there may be a wider role for non-profit organisations in providing work activities and experience for participants.

The involvement of non-profit organisations has raised some concerns about the relationship between their values and social mission, and the constraints of contract delivery, for example, in imposing conditionality. The relationship with such providers at times can be uncomfortable for

government. In Australia, for example, some non-profits have been openly critical of programme design, sanctions and of the impact that contract changes have had on their viability and service provision. Such criticism, and advocacy on behalf of disadvantaged groups, is an important dimension of public debate, encourages accountability, and may be an important element of the contribution the sector brings.

### Evaluation and best practice

When service delivery is devolved to providers through ‘black box’ contracts the purchaser loses insight into the why and how of ‘what works’ and it is challenging to establish what drives good performance and why. The Australian Department implemented an evaluation strategy to quickly identify and disseminate emerging best practices. Subsequent phases assessed longer term impacts. When the Department was able to draw on reliable performance data, they identified differences between high and low performers, with the results disseminated to all providers. In considering the development of its own evaluation strategy, DWP may wish to also consider an approach that quickly identifies findings that could help develop market knowledge in its earliest stages and, through dissemination, facilitate more speedy market development than might otherwise occur. The spread of best practices may be accelerated further if DWP and other interested organisations develop opportunities for brokering information exchange and technical advice involving prime contractors, subcontractors, related public sector organisations and groups that can articulate the perspective of job seekers.

# 1 Introduction

There have been cumulative changes in how the Department for Work and Pensions (DWP) contracts with the network of non-profit and for-profit providers who deliver employment programmes. In 2008, DWP's 'Commissioning Strategy' outlined how it would further reshape this 'welfare to work' market through the introduction of prime contractors, whose funding would primarily depend on their success in securing sustained job outcomes. Prime contractors already deliver the Jobcentre Plus Support Contract, European Social Fund provision, and 'Work Choice', a specialist disability employment programme. From mid-2011 they will also begin to deliver the larger Work Programme (WP). Prime providers have greater flexibility in how they design and deliver services through their own 'supply chains', and smaller and specialist providers will mainly act as their subcontractors.

The WP will recruit primarily the young and long-term unemployed who would previously have entered the New Deals, and will cater also for those disability benefit claimants who are found fit for work and move onto Jobseeker's Allowance, as well as those in the Employment Support Allowance 'work activity group'. WP prime contractors will be paid largely on the basis of securing sustained employment comprised of an initial 'attachment fee', job outcome payments and longer term 'sustainment payments'. They have flexibility in designing personalised support and will set their own minimum service standards, and these will subsequently be monitored by DWP.

Over the past ten years the British approach to commissioning and managing outsourced employment services has been influenced by comparisons with, and learning from, developments in the contracted out Australian employment assistance system. The Job Network (JN), a fully outsourced job broking and employment placement market, became operational in 1998, in what was characterised as a '*radical transformation...without parallel in OECD countries*' (Organisation for Economic Co-operation and Development (OECD)), 2001, p. 11). JN providers were paid a combination of service fees and job outcome payments, and were given considerable flexibility in tailoring services for the long-term unemployed. Australian officials reported that over time the JN cost much less than the services it replaced and increasingly outperformed the former system.

The JN developed through distinct phases and, in 2009, after a fourth tender, was reformed into 'Job Services Australia' (JSA). The new system caters for all Australian job seekers and has integrated core employment assistance services with specialist provision for the hardest to help and for those seeking to start small enterprises. The JSA contract has given providers greater flexibility in service design, provided differential payments to encourage them to work with the hardest to place, and created incentives to secure better linkages with skills provision. The contract also incorporated a range of work experience programmes, such as 'Green Corps' and mandatory Work for the Dole provision for the long-term unemployed. In practical terms, the introduction of JSA involved a significant redesign of existing contracting arrangements, the management of a major change programme, and the restructuring of operations by existing contracted providers.

Although there are significant differences between the British and Australian systems, the findings from this research offer insights into contract design and the potential benefits and risks of outsourcing employment services. These findings are of relevance both to the British welfare to work market and to the implementation of outcome-based contracts in other government services (Centre for Social Justice (CSJ), 2011; Sturges *et al.*, 2011).

This report briefly reviews the evolution and impacts of the JN, considering how the design of contracts, incentives, performance management and the provider network developed. These developments and some of the implementation issues that emerged shaped the foundations for the JSA delivery system. The report then considers how the JSA tendering, contract award and

transition phase was managed; the definition and monitoring of minimum service standards; and the structure of fees and job outcome payments. It also reviews the ways in which JSA provision has been connected with the skills system and the delivery of social security benefits. It considers in particular the design and implementation of benefit conditionality and the Australian sanctions regime.

### 1.1 The research

The research comprised a review of major studies of the JN and of available literature on the design and early impacts of the JSA delivery system. Another phase comprised 20 interviews with senior policy makers; research, advocacy and provider organisations; and senior staff from a sample of 12 individual providers, covering large and medium-sized for- and non-profits. These were undertaken in a two-week period in Australia in November 2010 (see Appendix A for Topic Guide).

The review assessed a wide range of studies including official reports and evaluations, independent studies from various policy institutes and academics and findings from audit, oversight and regulatory authorities. The findings cited on impacts and costs are drawn primarily from official sources including the Australian National Audit Office and the Department for Education, Employment and Workplace Relations (DEEWR). The Department's JN impact studies are undertaken in-house and estimates derived from a combination of administrative and survey data (Department of Employment and Workplace Relations (DEWR), 2006; DEEWR, 2010a).

## 2 The development and impact of the Job Network

In Australia, the federal government is responsible for the design and delivery of a national social security system, employment services and most employment programmes. In 1998, the Australian Government created the Job Network (JN), a fully privatised employment placement market. The federal Department of Employment and Workplace Relations (DEWR)<sup>1</sup> was responsible for designing contracts, selecting successful providers, and subsequently managing contract performance and service delivery.

Over the following decade the design of the JN was changed as policy makers adapted the model to secure greater efficiencies, deal with unanticipated effects, such as ‘parking’, and, through successive ‘welfare reforms’, redefine services to ‘activate’ more working-age benefit claimants. The JN evolved through three distinct periods, each marked by different ‘Employment Service Contracts’, and each new tender round increased regulatory requirements and the Department’s control over service delivery. By 2008-09 nearly all federal employment services, with an overall annual value of \$2.1 billion, were outsourced and regulated through JN-type tendering and performance arrangements.

Throughout the period the Department negotiated various service level agreements with Centrelink, a public sector executive agency, which acts as the ‘gateway’ to employment providers. Centrelink administers and delivers all working-age income support payments and is responsible for the imposition of sanctions, against which claimants have legal rights of appeal (see Appendix B for a description of the main working-age benefits). Front line Centrelink personnel administer a profiling tool, the Job Seeker Classification Instrument (JSCI), when job seekers first apply for benefit. This short questionnaire is used to measure employment barriers and to channel clients into appropriate levels of employment assistance. This contrasts with the British system where the category of benefit a claimant receives, and the duration of their claim, are used as proxies to indicate the severity of their barriers and determine the services a person is referred to.

### 2.1 Price competition, the design of outcome-based contracts and the Job Seeker Account

In the first two JN contracting periods employment assistance consisted of basic job placement activities and short ‘Job Search Training’ courses for people usually unemployed for three or six months. The most expensive provision was ‘Intensive Assistance’ (IA). This was targeted at those out of work for over a year and those identified as being at risk of long-term unemployment. Providers were paid combinations of up-front service fees, job placement fees and outcome payments after 13 weeks and 26 weeks. The amount per participant varied with the payments designed to reflect the intensity of service provided and the risk and return involved in placing the job seeker in employment.

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<sup>1</sup> For consistency this chapter refers to DEWR although the name of the Department has varied and in 2007 was further amended to DEEWR, the Department for Education, Employment and Workplace Relations, the abbreviation used in the rest of this report.

The first contract (1998-2000) was tendered on fixed prices for more intensive services and a bid price for job matching services. JN providers were given great flexibility in what services they provided through IA and paid a combination of commencement fees and job outcome payments. Provider bids were assessed first on meeting quality standards and then by price (PC, 2002). In the second contracts (2000-2003), price competition was extended to the more intensive services subject to a minimum 'floor' price set by the Department. Bids were assessed on quality as well as price, but it was found that successful tenders settled around the pre-determined 'floor' price.

The Department's initial implementation evaluation found that although the JN was 'operating successfully' there was concern about the quality of some service delivery and that many IA participants were receiving only limited help (Department of Employment, Workplace Relations and Small Business (DEWRSB), 2000). The second contract made changes designed to regulate the services given, especially to the most disadvantaged job seekers. Providers had to include a 'declaration of intent' as part of their tender, which outlined the strategies and service options they would make available, and they were required to draw up an agreement with each IA participant. The Department's contract managers monitored the extent to which providers delivered on their 'declaration of intent', which included indicators such as the ratio of clients to case managers and the frequency of contact with participants (Productivity Commission (PC), 2002, p. 4.15).

After the second contract period commenced official evaluations confirmed that the purchaser-provider framework was working and that outcome payments and competition had created incentives for improved efficiency with job entry rates increasing (Organisation for Economic Co-operation and Development (OECD), 2001; DEWR, 2002). Other measures of performance, such as job seekers' and employers' satisfaction, suggested that JN providers were rated more highly than the Commonwealth Employment Service (PC, 2002). There were problems however. The Department's evaluation reported that most intensive assistance was given in the first few months of participation, when most job entries were secured and while IA participants were allocated to providers for a year, over time client contact with providers lessened. The OECD reported that less than half of IA participants '*had been sent to a job interview or to speak with an employer about a job*'; nearly a quarter of those surveyed had '*visited their provider only once or twice*'; and '*few providers appeared to be offering effective services to address the underlying barriers to employment of the hardest to place*' (OECD 2001, p. 193 and p. 59).

A report from the independent PC found that only 15 per cent of participants placed into employment while they were allocated to the JN resulted in a 13-week outcome payment. Providers were instead deriving 70 per cent of their income from the '*high level of commencement fees*' and had little incentive '*to achieve additional outcomes*' (PC, 2002, p. xxxiv). The PC and OECD findings supported criticisms made by other researchers who argued that price competition and the lack of regulation encouraged providers to take the up-front fee, work with the most job ready and 'park' the hardest to place job seekers, many of whom received little help while in the intensive assistance phase. There was also little expenditure on more expensive provision, including vocational skills and employment subsidies (Considine, 2001; Eardley, 2003; Davidson, 2010).

Radical changes were made in the third JN contract which operated for two three-year cycles between 2003 and 2009. The contract introduced an 'Active Participation Model' (APM) to deliver a 'service continuum' that would ensure job seekers were in regular contact with their provider and were actively engaged in job search and other required activities. Price competition was dropped and 'one-off' commencement fees were replaced instead by specific service fees and a 'Job Seeker Account'. The account comprised a restricted pool of funds earmarked for spending only on employment barrier reduction. It was not an individual entitlement and a provider could use the money allocated to such accounts flexibly across their caseload. The provider had to account for any expenditure and was not allowed to retain any surplus Job Seeker Account funds as profit.

By 2009 the JN payment system comprised service and job placement fees, the Job Seeker Account, and outcome payments for employment sustained for 13 and 26 weeks. The system was designed to require increased employment outcomes while ensuring that providers regularly engaged with and monitored all job seeker activity. A breakdown of JN expenditure for 2006-07 showed that more provider income now depended on job outcomes. Of just over \$1 billion paid to providers about 38 per cent was for service fees, 15 per cent for Job Seeker Accounts, ten per cent for job placement fees and 36 per cent for job outcome payments (Australian National Audit Office (ANAO), 2008, Tables 1.1, 1.2).

## 2.2 Competition, choice and star ratings

In addition to competition for tenders, the JN was designed to promote intra-market competition by allowing job seekers a degree of choice between providers. The Department ensured that, in most areas, there was a choice of providers available. In the first contract period there was a minimum of five core JN providers in each area, but this reduced the viability of some local offices. Subsequently the Department reduced the number of required providers to a minimum of three (OECD, 2001, p. 102). One consequence of the JN service delivery model was the small size of JN offices with most having between one and 12 staff and very few with more than 20 (DEWR, 2006). In most locations the sites of different JN providers are to be found clustered around Centrelink offices.

Before a new claim interview with Centrelink job seekers were expected, 'where practical', to attend an 'information seminar' that would explain the services offered through the JN and provide information on providers available in their area. At the new claim stage the job seeker had to choose the provider with whom they wished to register. If there was no spare capacity with the provider or if a job seeker made no choice they were allocated randomly to a provider. A survey of over 3,000 job seekers in 2002 reported that many job seekers had been '*unclear about their right to choose a provider*' and '*found the process daunting*'. Some 76 per cent recalled being told they could make a choice, but were provided with '*minimal information about providers*' and three-quarters of them wanted '*a better description of what was on offer*'. Just over 70 per cent had chosen a provider. Forty-five per cent had done so on the basis of convenient location, but 22 per cent had done so because of previous dealings with the provider or because of its reputation. The report cited other research findings indicating that users '*may not exercise their right to choose because of confusion rather than a conscious decision not to choose*' (DEWR, 2002, pp 1-7).

The most important performance innovation was the introduction of comparative 'star ratings' from 1999. The original aim was to inform participant choice, but the 'stars' were used also to drive provider performance (PC, 2002; ANAO, 2005a). In 2001, the methodology was developed with regression adjustments for labour market conditions and participant characteristics allowing a more rigorous comparison of local provider performance. The regression formula was revised several times though criticisms continued (Lam, 2007).

JN contracts gave providers only an allocated market share rather than a guaranteed number of participants. This share could be varied between a minimum of 80 per cent and maximum of 120 per cent. This flexibility allowed for variation based on job seeker choice, but was increasingly used to reallocate job seeker flows on the basis of relative performance as measured through the star ratings.

The Department estimated that within two years of introducing reliable star ratings 13-week job outcomes increased from 15 per cent to 35 per cent. Providers had easy access to data enabling them to compare local performance and the Department would reallocate local market share at six-monthly performance reviews when star ratings were published. In 2003, 60 per cent of contracts were simply 'rolled over' for successful three star performers, and in 2006 only some ten per cent of low performing contracts were put out to competitive tender.

### 2.3 The provider network

The JN provider network changed significantly over the period. In 1997, over 1,000 organisations submitted 5,300 tenders from whom 306 core JN providers were selected (OECD, 2001, p. 98). After the 2003 contracts were let it was estimated that the ‘top 12 agencies’ held just under 60 per cent of the overall business ‘*leaving an average of 0.6 per cent for each of the rest*’ (Eardley, 2003, p. 7). Subsequent competition for lower performing JN sites saw further consolidation with the market share largely shifting between established providers. By 2009 the number of core providers had fallen to 99 delivering services from over 1,000 sites. The core network comprised a range of generalist and specialist providers, with the latter tending to be smaller non-profit organisations that had contracts to provide for particular client groups, such as young people, the homeless, non-English speakers, and so on.

Initially the quasi-public, but privatised, ex-Commonwealth Employment Service provider, Employment National, was awarded a significant market share but struggled and by 2003 had gone out of business. From 2003, market share was said to be evenly divided between for-profit and non-profit agencies. There was market entry and exit, growth and some consolidation among the for-profits. Providers were allowed to buy and sell contracts, subject to DEWR approval, and by the end of the JN two larger providers, ESH Holdings and Jobfind/Angus Knight, had accelerated their growth through such acquisition strategies.

Among the non-profits the role of secular, community-based non-profits declined while that of church-based groups increased. Two of the largest agencies ‘Employment Plus’ (the Salvation Army) and Mission Australia, at one point, held nearly a quarter of the total business between them (Eardley, 2003, p. 7). These larger non-profits would typically operate their JN activities through a profit-making arm with profits remitted to the parent organisation (OECD, 2001, p. 96).

Secular non-profits largely operated as smaller specialist providers, catering for particular client groups or localities. The continuing role of many smaller non-profits was secured in particular by two networks – Jobs Australia and Job Futures<sup>2</sup> – that are governed collectively and through pooling risk and providing expertise enabled smaller non-profits to deliver JN contracts. Some of the smaller non-profits, such as Campbell Page, subsequently were able to grow into larger independent providers.

### 2.4 Job Network Services

The Productivity Commission (2002) reported that one of the major gains from the JN came from the diversity of approaches developed by service providers. The outcomes-based funding model allowed providers to tailor services to different participants, provide continuity of support through case managers, test methods for motivating job seekers, and provide various post placement services. This and other evaluations reported that JN providers developed new practices to identify and tackle individual employment barriers, from the simple provision of clothes or travel to work expenses through to the development of new assessment tools, counselling in job-search techniques, rehabilitation, and short job-focused training. Providers cultivated relationships with specific employers and better performers practised ‘reverse marketing’ where staff sought to ‘sell’ and place participants directly with employers (National Employment Services Association and DEWR, 2001; DEWR, 2006).

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<sup>2</sup> Job Futures was established in 1997 to create a viable business model for smaller community based providers to work in the new market. It acts like a franchise but is directly owned by the licensees. It holds the government contract which it then subcontracts to its members. After the third contracting round its members were delivering services in 65 sites and were collectively the leading provider of specialist contracts.

A study of 'high performing' JN sites reported that distinctive features included local management cultures focused on delivering 'key performance indicators', specialist staff working with employers and use of the Job Seeker Account to provide wage subsidies. 'Employer incentive' payments increased from around zero to almost 30 per cent of all Job Seeker Account expenditure by 2006. Typically, small payments were made to employers at the commencement of a job or larger payments made at the three and/or six month marks, coinciding with outcome payments (DEWR, 2006, p. 34, p. 35).

Other commentators were more critical of service quality, especially after provider flexibility was diminished as DEWR sought to more directly 'steer' the actions of providers and enforce the job search activities of participants. Providers argued that the introduction from 2003 of the sequential 'APM' had created a more standardised and less flexible service delivery system that did not adequately support disadvantaged job seekers (Thomas, 2007; Carney, 2007; Horn, 2008).

## 2.5 The performance of the Job Network

The Australian Government maintained that, from its inception, the JN was much cheaper and increasingly outperformed the former public sector delivery system (Thomas, 2007). The Department publishes regular results on outcomes from a quarterly post-programme monitoring survey. The results showed overall three month JN employment outcomes increasing steadily from just over 30 per cent in 2009, in the transition to the new system, to over 45 per cent by 2004 and plateaued thereafter (Davidson, 2010). Some of this increase may have been due to factors other than the JN, such as increased levels of employment.

The particular contribution of the JN has been assessed through a series of 'net impact' studies which have compared the outcomes of JN participants with matched comparison groups of unemployed people who had not participated in the programme. After criticism that the first net impact assessments included both compliance and commencement effects, a 2006 study sought to assess the additional transitions into employment outcomes secured only after unemployed people had commenced JN services. This study reported that the net impact of intensive assistance targeted at the long-term unemployed and most disadvantaged had increased from 0.6 per cent in 2001, to 6.2 per cent in 2002, to 10.1 per cent in 2005 (DEWR, 2006, p. 4). Another study, based on longitudinal survey data, found that job outcomes for intensive assistance improved 'substantially' between three and 18 months after leaving with respondents also reporting a movement from casual to permanent employment, albeit a significant number were still employed part-time (DEEWR, 2008a). The most recent 'net impact' study measured changes in benefit status rather than employment outcomes reporting that the 12 month 'off/part-benefit outcomes' net impact achieved by job seekers in intensive assistance in March 2008 was about six per cent. One other significant finding was that the net impacts shown by JN and other programmes were '*shown to be strong in both areas of high and low unemployment*' (DEEWR, 2010a, Table 1; p. 5).<sup>3</sup>

Departmental assessments attributed the relative success of the JN to 'work first' service delivery strategies, the pressure generated by star ratings and the reinforcement of the pay-for-performance contracting regime following the reduction in commencement fee income. By 2005, services were being provided by a much reduced number of better managed agencies delivering service strategies that had been progressively refined on the basis of operational experience (Grubb, 2006). Other external factors also were significant, notably that in many areas JN providers now operated in conditions of near full employment. Critics point out also that less than one in three of the jobs

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<sup>3</sup> There are criticisms of the way in which DEWR calculates these net impacts and the problems it has faced in identifying reliable matched comparison groups (Davidson, 2010).

secured by the most disadvantaged JN participants were full-time and half of those leaving the JN had had no employment in the 16 months after participation (Fowkes, 2011, p. 11).

The other much publicised success of the JN was to drive down costs. Officials frequently emphasised raw data on costs to indicate that between 1991 and 1994 the cost per employment outcome was around \$8,000, rising to just under \$16,000 in 1995-96 (Carters, 2010, slide 26). These costs fell to \$6,500 in the first phase of the JN, and then to \$3,500 by 2005, reflecting in part the falling values of contractually fixed fees and outcome payments which after 2003 were not indexed in line with inflation or with provider costs. One significant question was the extent to which JN cost efficiencies were, as many critics and JN providers suggested, secured at the price of weakened service quality (Murray, 2006).

### 2.6 Conclusion

The creation and development of the JN illustrates strengths and weaknesses in the design of contracts and in the ways in which outsourced providers responded to incentives. The Australian approach created a viable network comprised of for-profit and non-profit providers whose performance improved over time, with expenditure data suggesting that the JN delivered more outcomes for half the cost of the previous system. In this process, providers used the flexibility they were given to develop new service delivery models that, at their best, allowed case managers to tailor services to different participants, provide continuity of support, test methods for motivating job seekers, and provide various post placement services. The incentive system also focused providers and their case managers on helping participants gain entry into sustained employment rather than on simply managing inputs and programme commencements.

As the system evolved, however, problems emerged with ‘parking’ and ‘creaming’, and the behaviour of some providers who used their flexibility to manipulate the incentive system. As the JN was adapted to minimise these negative consequences and meet new objectives, further problems emerged. Flexibility was reduced by greater administrative and compliance demands, and transaction costs increased. Critics argued that relative star ratings and the fall in value of fee and outcome payments drove providers to focus on the most ‘job ready’ and avoid more expensive interventions that were needed for the harder to place (Murray, 2006; Australian Council of Social Service (ACOSS), 2008). JN services became characterised by large caseloads, *‘a minimum of 100 people per caseworker but usually many more’*, with substantial time spent mired in administrative ‘red tape’ (Fowkes, 2011, p. 8; Considine *et al.*, 2008).

There was further criticism of the impact of the mandatory DEWR computer system – EA3000 – which was used to regulate and make all payments, communicate with providers and their staff, and monitor interactions with job seekers. It gave the Department and contract managers detailed oversight of service delivery, but the micro management of services was said to have reduced flexibility and increased administrative burdens for providers. These processes were further intensified by a ‘rules-based’ compliance approach to contract management; a series of restrictive revisions on how Job Seeker Account funds could be spent; and the need to keep accurate records to demonstrate that contracted service interventions were being delivered. By 2007 it was suggested that up to half of the available service hours were being consumed in meeting administrative and compliance requirements. DEWR’s own administrative costs now were also absorbing over 15 per cent of the total JN budget (Murray, 2006; JA, 2008; NESAs, 2008).

There were other criticisms suggesting that the JN model needed a thorough overhaul before contracts were renewed in July 2009. Unemployment had fallen since the inception of the JN and the reduced client group contained a higher proportion of highly disadvantaged and long-term benefit recipients. The existing pattern of outsourced services for job seekers was inflexible and there was unnecessary complexity because programmes for work experience and for the hardest to help job seekers were contracted for separately. There was concern that insufficient focus on meeting local employer needs and weak connections with the vocational training system meant the system was responding weakly to local labour markets that were now hampered by skill and labour shortages. Finally, there was criticism of a revised job seeker conditionality and sanctions regime, introduced as part of wider 'welfare to work' reforms in 2006, which acted to exclude job seekers from services while imposing increased financial penalties.

## 3 Job Services Australia

In November 2007 a Labor Government was elected, replacing the ‘Coalition’ of Liberal and National parties which had introduced the Job Network (JN) and had been in office since 1996. The new administration was committed to JN reform. An initial consultation on the objectives of a reformed system was followed by detailed consultation on contract design and services to be delivered. Parallel reviews were undertaken of the performance management system and the Job Seekers Classification Instrument (JSCI). Contract awards were announced on 2 April and Job Services Australia (JSA) was implemented from 1 July 2009 (Senate, 2009).

This chapter outlines the new JSA service delivery model and data on participation rates and transitions into employment. It then reviews the management and criticisms of the JSA tendering, contract award and transition phase. It considers accountability for, and performance management of, the system and the minimum service standards and guarantees given to participants. It describes the structure of fees and job outcome payments and how these were redesigned to promote better connections between providers, employers and the skills system. The final section considers the interaction between Centrelink and JSA providers with a particular focus on benefit conditionality and the design and implementation of sanctions.

### 3.1 Job Services Australia and complementary programmes

The JSA contract integrated JN provision with six separate specialist programmes, each of which previously had their own contract specifications and procurement process. Job seekers now are categorised into one of four ‘streams’, with the most job ready referred to stream 1 and those with ‘severe barriers’ referred to stream 4. Outsourced specialist disability employment programmes were not included in the JSA system. There was a separate review and simplification process that led to the introduction of ‘Disability Employment Services’ in March 2010 (DEEWR, 2008b).

JSA providers are paid differential service fees and job outcome payments with most funding targeted at job seekers in streams 3 and 4. Table 3.1 gives a broad outline of the fees and outcome payments specified for the three year contract period. It also includes the projections given in 2008 of the likely proportion of job seekers who would be allocated to each stream, contrasted with the actual caseload in March 2010. The increased flows into streams 2 and 3 reflect adjustments made in response to increased unemployment that followed the onset of the global financial crisis. These adjustments were reflected in the overall JSA budget which was estimated to have increased from \$3.9 to \$4.9 billion for the three year contract period (DEEWR, 2009a, p. 21).

On entry into the system a JSA provider is required to develop an individually tailored ‘Employment Pathway Plan’ (EPP) which maps out any training, work experience or additional assistance a service user might need to find sustainable employment. The EPP also makes clear the activity obligations of the individual and what they have agreed to do to fulfil them. Specified activities vary according to personal circumstances, length of unemployment and level of disadvantage, but may include job search, work preparation and, where appropriate, referral to training or rehabilitation services. An Employment Pathway Fund (EPF) replaced the Job Seeker Account and may be used to purchase services for individual clients.

**Table 3.1 Job Services Australia: projected and actual caseload; service fees and outcome payments**

Centrelink Job Seeker Classification Instrument/Job Capacity Assessment Referred to Provider Employment Pathway Plan			
Work Ready	Disadvantaged job seekers		
Stream 1	Stream 2	Stream 3	Stream 4
53% job seekers projected 2008 Actual was 255,776 or 31% at 31 March 2010 * \$11 in Employment Pathway Fund * \$385-\$440 in job placement fees * Up to \$781 in service fees Skills assessed after three months	22% job seekers projected 2008 Actual was 240,468 or 29% at 31 March 2010 * \$550 in Employment Pathway Fund * \$385-\$2,800 in Outcome and job placement fees * Up to \$885 in service fees	10% job seekers projected 2008 Actual was 197,953 or 24% at 31 March 2010 * \$1100 in Employment Pathway Fund * \$385-\$6,600 in Outcome and job placement fees * Up to \$1,120 in service fees	15% job seekers projected 2008 Actual was 125,051 or 15% at 31 March 2010 * \$1,650 in Employment Pathway Fund * \$385-\$6600 in Outcome and job placement fees * Up to \$2,736 in service fees
Work Experience including Work for the Dole and Green Corps \$500 in the Employment Pathway Fund Up to \$722 in service fees (includes \$330 one-off work experience service fee plus up to \$392 in service fees per year) For job seekers who continue in Work Experience for more than 12 months the fee will continue at \$133 and \$67 for each alternate three months – i.e. for 13 to 15 months \$133, 16 to 18 months \$67, 19 to 21 months \$133, etc.			
Note: a 1.7 multiplier applies to EPF and service fees in designated remote areas			

Sources: Table derived from DEEWR, 2008, p. 3; caseload for 31 March, 2010, from Senate, 2010a p. 20.

It was originally anticipated that most job seekers would be allocated to stream 1 where, after initial completion of an EPP, they are expected to seek work independently and report their job search activities to Centrelink for the first three months. At that point they are required to attend a mandatory job search course with their JSA provider and some will undergo a skills assessment. As their period of unemployment increases they are expected to attend more regular interviews with their JSA provider. Stream 2 provision is slightly better funded and offers job outcome as well as job placement fees. The proportion allocated to this group increased when the JSCI was adjusted, for a limited period, to give a higher score to workers made redundant in the wake of the global financial crisis. Job seekers allocated to streams 3 and 4 receive more intensive services including fortnightly interviews with a JSA case worker or ‘consultant’, who develops their EPP and monitors their progress.

On completion of a stream, usually after twelve months, a client can be allocated to a higher stream or, more frequently, enters the work experience phase where they continue until they cease claiming benefit. Providers are required to refer participants, monitor attendance, and source a wide range of provision that may include training, voluntary work or ‘Work for the Dole’. Most job seekers must participate in such activities for an average of 15 hours a week for six months in each 12 month

spell of unemployment to meet their mandatory 'mutual obligation' activity periods. JSA providers receive fewer service fees to fund interviews with job seekers in this phase, albeit they get outcome payments if they place the participant in regular employment.

A strengthened 'New Enterprise Incentive Scheme' was included within the JSA contract and some other, smaller, supplementary programmes were introduced to complement mainstream JSA services. These included a separate 'innovation fund', to stimulate new service models targeted at the hardest to help, and funding for 'employer brokers'. These brokers seek to improve connections between providers and employers in targeted areas. There was also a parallel expansion of training places which is discussed later.

Finally, as the new system was being implemented the Australian Government introduced a counter-cyclical 'Jobs Fund' and other 'stimulus' measures to offset the effects of the global slowdown. The jobs created through the fund were not directly ring-fenced for the unemployed, though a second wave of projects included social enterprises and some 'Intermediate Labour Market' type programmes targeted at the long-term unemployed. There is little data on the interaction between JSA providers and the jobs fund. The effects of the stimulus package are now dissipating as the projects come to an end.

### 3.2 The tender process and transition to JSA

After the consultation phase the Department for Education, Employment and Workplace Relations (DEEWR) published a 'Request for Tenders' for JSA, requiring completed bids to be submitted by September 2008. There was no competition on price with the assessment of bids determined by quality. In making judgements assessors gave differential weighting to the following factors – 20 per cent on understanding and general strategies; ten per cent on management and governance: 30 per cent on past performance; and 40 per cent on local strategies (Senate, 2009, p. 18).

The Department received 438 tenders containing almost 3,000 bids to deliver services in 116 'Employment Service Areas'. When contracts were awarded it was reported that there were 141 lead providers with 48 subcontractors delivering from just over 2,000 sites (Senate, 2009, p. 39, p. 79). This compared with the estimated 280 organisations that had been delivering the programmes that JSA replaced.

Most JSA sites remain relatively small and in many locations may be operated on a part-time and outreach basis. There are estimated to be about 10,000 people delivering JSA services. There is little data on the functions of such employees or on the proportion of 'employment consultants' involved in front line case management. The respondents interviewed for this report estimated that the caseloads of most front line consultants averaged between 110 and 160 per client and a considerable amount of their time was spent on administrative tasks and inputting data into the DEEWR IT system. Overall, there are in excess of 30,000 authorised users on the Employment Services System IT system employed by 350 organisations across 4,500 sites (DEEWR ESS, 2010).

When awarding contracts, the Minister indicated that there were 88 contracts with non-profits and 28 private sector contracts, with DEEWR suggesting that the proportionate share of the market between sectors was '*about the same*' as under previous arrangements (Senate, 2009, p. 79). Seventy-four of the lead providers were selected to deliver specialist services to assist young people, the homeless, those with a mental illness and people from a non-English speaking background. There were 27 indigenous organisations contracted to deliver services, many of whom are based in sparsely populated regions. There were some new market entrants, notably two British companies (Reed and A4e), but most providers had previously delivered JN or other specialist employment services. Some JN and other smaller specialist providers chose not to bid for contracts.

Bid selection was undertaken by two DEEWR assessors and their initial judgements reviewed and moderated by a senior account manager and by state managers (Senate, 2009, p. 18). A 'Tender Review Committee', comprised of senior staff, checked for consistency, considered the recommendations, and the capacity of the providers to deliver. They also undertook a final 'end-to-end' review. When making judgements DEEWR staff ensured that job seekers would have a choice of provider, that there was enough specialist provision (for example, for young people and the homeless) and there was appropriate service coverage across Australia. An overall 'probity plan' was developed to ensure tenders were assessed objectively and consistently and this was 'signed off' as being met by an independent probity adviser.

The transition to the new system in July 2009 involved major change for job seekers with some 320,000 people having to change provider (Senate, 2009, para 4.38). There were winners and losers among providers. Some, such as Maximus and Campbell Page, experienced significant growth, while others, such as Sarina Russo, ESH Holdings and the Salvation Army, experienced reductions. Overall, there was considerable disruption, even for successful providers, and about half of JN sites had to be de- and re-commissioned. One larger provider, who retained about the same overall business share, estimated that its transaction costs in the transition to JSA amounted to over \$7 million.

The Department had put a transition strategy in place to manage the process and minimise disruption to existing job seekers (DEEWR, 2010b, para 29). An awareness campaign was launched before implementation which included personal letters being sent to each job seeker advising them of the introduction of JSA, who their provider would be, as well as their ability to select an alternative provider. The letters provided advice on the DEEWR Customer Service and Centrelink interpreter service lines, enabling, it was suggested, those with low literacy skills to speak to someone about their circumstances. More specific arrangements were put in place for the hardest to help job seekers who transitioned into stream 4, allowing, for example, for introductory meetings with their new JSA provider.

### 3.3 Criticisms of the tender process and the impact on specialist and non-profit organisations

DEEWR suggests that, given the scale of the transition to JSA, it was well handled and that the '*commencement rates of job seekers, placements and outcomes*' exceeded those which had occurred in comparable earlier transitions associated with the JN (DEEWR, 2010c, p. 12). There was, however, considerable disruption and much criticism of the transition process itself and of the outcomes of the tendering process.

The criticisms culminated in a federal Senate Inquiry in 2009, where the majority report expressed concerns about the absence of information on key aspects of the process. This included criticism of a lack of transparency by DEEWR on the market share held by individual providers and on the late award of contracts to some new entrants. There was criticism also of the impact both on job seekers and the staff of unsuccessful providers which caused disruption to client relationships and the loss of front line skills and expertise.<sup>4</sup>

One particular issue concerned the weight given to prior performance. There was perplexity among providers who lost sites which had a record of high JN star ratings. In 'hindsight' the committee majority concluded that insufficient emphasis had been given to proven previous performance and too much weight given to factors that were hard for DEEWR to test. The committee suggested that

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<sup>4</sup> Unlike in the UK the staff of Australian employment services providers do not enjoy any contractual protection when their work is lost and transferred to another provider.

in future DEEWR should consider less disruptive arrangements and, to offset an over-reliance on written submissions, the Department should consider some scope for ‘*face-to-face exploration of bids*’ through, for example, ‘*an interview process*’ (Senate, 2009, p. 16).

The findings from the inquiry were echoed during the fieldwork undertaken for this report. It was suggested that some providers with ‘good bid writers’, but limited track records, were now among the poorer performers and were struggling to deliver the quality and range of services that had helped them win the business. Several informants suggested that the organisational capacity of some providers had been over stretched by the acquisition of too many new sites.

Another issue highlighted in the Senate committee report concerned the impact that the transition to JSA had on smaller providers. Ministers had indicated that existing third sector and specialist organisations should continue to have a role in the system and DEEWR encouraged and facilitated such organisations to seek out partnerships and subcontracting arrangements. Nevertheless, there was no overt Departmental commitment to nurture ‘supply chains’ (as pursued in Britain) and all bidders for JSA contracts had to commit and show their capacity to deliver services across all four service streams. The committee majority concluded that the size and design of the contracts favoured larger organisations and that the expertise of some youth focused and specialist organisations had been lost.

A further concern was a loss of ‘social capital’ in locations where unsuccessful non-profits or those who had chosen not to bid, had previously used employment services funding to cross subsidise other services, such as those for the homeless or for those with alcohol or drug addiction problems (Senate, 2009, p. 30). The committee proposed that where such additional services were provided then that factor should be given some weight in contracting exercises. Officials remain sceptical, suggesting that these other services are not DEEWR responsibilities, and larger providers, interviewed for this research, suggested such smaller organisations did not have the capacity to deliver the services needed by JSA participants.

In practice, smaller and specialist organisations continue to play an important role in JSA delivery, some as lead providers, some as subcontractors and some as constituent non-profit members of Jobs Futures. Information given to the Senate committee in June 2010 showed that at that point there were 120 organisations acting as subcontractors to JSA providers and that the Department had approved subcontracting arrangements for 11 former employment services providers who had been unsuccessful in directly securing a JSA contract (Senate, 2010a, p. 5; 2010b). Much of what might be described as ‘supply chain’ activity comprised extensive use of the EPF to purchase specialist services, ranging from occupational therapy and training, and the organisation of placements and projects where clients undertook their work experience activities. Many ‘Work for the Dole’ participants, for example, are placed with non-profit organisations.

By late 2010 there was evidence that specialist JSA providers faced difficulties in making their JSA contracts viable (Flentje *et al.*, 2010). Respondents interviewed for this research suggested that such specialist providers were at a disadvantage because they were not guaranteed referrals from the client groups they catered for, and any such clients could be randomly allocated to another provider. Because they were specialists there was evidence also that many less disadvantaged job seekers would choose to avoid them, for example, if it was obvious they specialised in working with young people, the homeless or those with English-language needs.

### 3.4 JSA participation, employment outcomes and changes to unemployment

In July 2010, after the first year of delivery, there were 780,000 participants registered with JSA providers (Disney *et al.*, 2010, p. 7). In that year some 369,575 employment services participants reported being in employment three months after leaving (against a target of 450,000) over 33 per cent of whom (124,880) were from streams 3 and 4. The cost per employment outcome was \$2,079 for streams 1 to 3 and \$11,442 for stream 4 (DEEWR, 2010, Annual Report, p. 117, Table 4.2). This first year performance should be considered in the context of deteriorating labour market conditions for much of 2009.

A detailed breakdown of results from the post-programme leavers' survey, in Table 3.2, shows that job holding rates some three months after participation were highest for stream 1 leavers and lowest for those leaving stream 4. One development, considered later, is the number of leavers who reported being involved in education or training.

There is not enough data yet for the Department to estimate the 'net' impact of JSA services and no results from the formal evaluation strategy have yet been published.

**Table 3.2 Starts and outcomes (three month 'Post Programme Monitoring Survey')**

	<b>Stream starts</b>	<b>In jobs (3 months) %</b>	<b>In education or training (3 months) %</b>	<b>Off benefit (3 months) %</b>
Stream 1	523,754	52.6	18.2	54.8
Stream 2	390,426	52.7	16.6	49.4
Stream 3	251,115	31.4	20.2	36.9
Stream 4	139,236	14.8	15	31.8

Source: DEEWR, 2010, Annual Report, p. 136, Table 4.2.

The difference between anticipated and actual changes in unemployment levels had an impact on the stability and, some respondents suggested, the viability of JSA provision (JA, 2011). The operation of some providers, especially some specialist organisations, was undermined when the flow of job seekers into the system was lower than anticipated. Unemployment started to increase from a low of 3.9 per cent in early 2008 and, at the time JSA contracts were finalised, the federal Treasury was anticipating unemployment increasing to peak at 8.5 per cent in 2011. However, unemployment peaked at less than six per cent in late 2009, falling to 5.1 per cent in December 2010. It was suggested that over-provision had been exacerbated in those areas where DEEWR awarded contracts to a high number of providers. Table 3.3 shows data from some of the affected areas, with providers typically having average caseloads of below 1,000, only a proportion of whom would have been in higher value streams 3 and 4.

**Table 3.3 Number of JSA providers, caseloads and unemployment rate in selected Employment Service Areas, June 2010**

Area	Number of providers	Number of Job Seekers	Unemployment rate %
Eastern Adelaide	7	5,175	4.5
Richmond, Northern New South Wales	6	4,809	6
Eureka, Western Victoria	6	5,683	7.1
Alice Springs, Northern Territory	6	5,033	5.5
Darwin, Northern Territory	5	3,610	2
Clarence, Northern New South Wales	4	3,361	6.8
Gwydir Namoi, Western New South Wales	4	2,639	7.6
Hampden, Western Victoria	4	2,787	4.5
Gawler, Country South Australia	4	2,175	3.9

Source: JA, 2011, p. 16.

In June 2010, the Department acknowledged that 10 to 12 ‘primary’ JSA providers had *‘informally identified issues with their commercial operations’* with five providers having *‘transferred business of relinquished contracts’* (Senate, 2010b, p. 5). The Senate committee noted, however, that such changes had occurred under earlier contracts and it was difficult to discern how severe the problem was.

### 3.5 Accountability, performance and contract management

Federal Ministers and DEEWR officials are accountable for the governance, design and delivery of the JSA system. In the phase that preceded implementation extensive consultation with providers and stakeholders led to revisions in how the system would be governed, performance monitored, and service quality assured.

The ‘Performance Management Framework’ for JSA services includes the process for assessing and reviewing provider performance and managing that performance to ensure that JSA providers deliver the best outcomes for job seekers and employers. The framework has been designed to support quality services and results, particularly for the most disadvantaged job seekers.

The framework involved the development of a ‘Charter of Contract Management’. This signalled a new partnership approach that aimed to move the system away from the ‘command and control’ prescriptive relationship that had characterised the latter stages of the JN. The Charter sits alongside the formal legal contract and sets out minimum standards of performance and conduct that providers can expect of DEEWR with a procedure for how any disputes would be resolved.<sup>5</sup> The provider Code of Practice was also revised and continues to set the ethical framework and principles which should guide how providers deliver quality services. It also underpins the ‘Service Guarantees’ given to job seekers.

<sup>5</sup> A copy of the charter can be viewed at <http://www.workplace.gov.au/NR/rdonlyres/24720FB6-83A2-4A27-B6BD-CA1E91903BFC/0/CharterofContractManagement14Oct.pdf>

JSA performance continues to be assessed against three Key Performance Indicators (KPIs). KPI1 measures efficiency, defined as the time taken to achieve an employment outcome for a job seeker in a certain stream compared to the time taken by other providers. KPI2 measures effectiveness in achieving outcomes in a certain stream compared with the results of other providers. The outcomes from these first two KPIs are calculated and weighted to arrive at star ratings for each stream and for each provider for each JSA delivery site in Australia. Table 3.4 shows that these performance weightings reinforce the financial incentives to work intensively with job seekers in streams 3 and 4. The weightings show also that 'speed to placement' has greater weight for stream 1 with longer term job outcomes being prioritised for the other streams.

There was a significant change in how stars were distributed among providers. Instead of the previous rigid distribution of ratings which required, for example, a fixed proportion of weak 'one star' performers, the system now awards ratings based on how far a provider is from the average performance of other providers.

Each provider is given weekly performance reports with star ratings calculated every three months. The provider is given an opportunity to comment and respond on their rating before DEEWR finalises their written feedback. It has taken time to accumulate enough reliable data to allocate star ratings fairly but the Department released the first public results in mid-2010, followed by a release in December 2010. These later results may be used in determining any business reallocation as allowed mid-way through the current contract. A final decision on reallocation had yet to be taken, but it was anticipated that it would be minimal and only impact on the poorest performing sites. The more significant debate, which had just commenced, concerned the design and award of the next JSA contract for 2012-2015.

**Table 3.4 JSA performance measures and weightings**

<b>Performance measures and weightings</b>	<b>Stream 1 10%</b>	<b>Stream 2 20%</b>	<b>Stream 3 30%</b>	<b>Stream 4 40%</b>
13 week full outcomes	10%	23%	25%	19%
13 week pathway outcomes	5%	10%	10%	9%
13 week bonus outcomes	10%	10%	10%	10%
Speed to 13 week full outcomes		7%	5%	2%
<b>13 week outcomes total</b>	<b>25%</b>	<b>50%</b>	<b>50%</b>	<b>40%</b>
26 week full outcomes	10%	30%	25%	19%
26 week pathway outcomes	5%	10%	25%	19%
<b>26 week outcomes total</b>	<b>15%</b>	<b>40%</b>	<b>25%</b>	<b>19%</b>
Six months additional assistance				15%
Participation in work experience				5%
<b>Social outcomes total</b>				<b>20%</b>
Paid placements	28%	10%	10%	10%
Speed to job placements	12%			
<b>Job placements total</b>	<b>40%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
Off benefits	14%			
Speed to going off benefit	6%			
<b>Off benefits total</b>	<b>20%</b>			

Source: Questions and Answers on 30 June 2010 Job Services Australia (JSA) Star Ratings  
<http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Documents/JSAStarRatingsQA.pdf>

The third KPI measures quality and is assessed separately by DEEWR contract managers. The results are not used for star ratings, but may influence business reallocation and future contract awards. The quality KPI includes regular assessment of 'organisational health' and 'stakeholder engagement', but the emphasis is on service delivery. The JSA contract makes clear that the objective of KPI3 is 'to maximise the delivery of high quality, individualised employment services', and the Code of Practice and Service Guarantees give clear expectations on which quality is assessed. These criteria include, for example, the speed with which an EPP is developed, the detail contained in the plan and the frequency of contact with the job seeker. The assessment also includes a review of complaints from job seekers and of provider responsiveness to them. It was intended that the assessment would draw on employer and job seeker feedback, although plans to use survey results for individual providers have not yet been implemented.

The performance system also continues to be underpinned by the centralised DEEWR computer system. Some revisions were made to what is now called the 'Employment Services System' but the system is still used for recording all provider interactions with job seekers; for claiming service fees, EPF and job outcome payments; and for monitoring and regulating job seeker flows to providers. The system exchanges and updates job seeker information between providers and Centrelink, including notifications of when any sanctions action should be taken. The system also contains an estimated 3,000 pages of on-line manuals, guidance and training materials for provider staff (JA, 2011, p. 11).

### 3.6 Minimum service standards

JSA providers must meet minimum service standards, including relevant statutory obligations in terms of privacy, equalities and health and safety legislation. The core service requirement is the Employment Pathway Plan which must be completed on entry into the system and signed by the job seeker. The EPP has the legal status of the UK Jobseeker's Agreement and details the job search activities a client must undertake. The plan should be tailored to the needs of each participant, be regularly updated and contain detailed milestones.

The JSA contractor commits to provide appropriate and accessible job search facilities, maintain contact with each client, facilitate and monitor compliance with agreed activities, including job search, and report compliance failures to Centrelink.

There are specific 'Service Guarantees' for each JSA stream, spelling out the general services a client can expect and how they will be treated. Providers are required to display the guarantees in the public areas of their offices. The 'guarantees' advise clients to resolve problems with their provider but, if they are unable to do so, there is free phone access to a national complaints line which in 2009-10 recorded 14,800 complaints, over 95 per cent of which, according to the Department, were resolved within five days (DEEWR, 2010, Annual Report). Dissatisfied job seekers may also complain to Centrelink. An earlier report from the Australian Ombudsman pointed out that such complex policy, service and contractual arrangements made it difficult for an individual job seeker to resolve issues they may wish to challenge (Commonwealth Ombudsman (CO), 2007, p. 40).

The providers interviewed for this project strongly supported such minimum standards believing that they ensured a level of consistency in the system for clients and providers. They gave clear criteria for the measurement of the quality of provision and a level playing field for comparing how different providers delivered their services. Such individual and comparative assessments were important factors in the 'quality' KPI3 that enables DEEWR to scrutinise activity levels with individual participants, especially the very long-term unemployed, and intervene when parking is observed.

### 3.7 Service fees and employment outcome payments

The JSA payment system comprises quarterly service fees paid during participation, the EPF, and job placement and outcome payments. Service fees are designed to pay for specified minimum activities, such as the completion of an employment plan and a sequence of interviews, and the EPF 'ring fences' resources to encourage targeted investment in job seekers. All payments are audited and subject to reclaim where contract managers find inappropriate and/or inadequately evidenced expenditure.

The design of JSA job placement and outcome fees is complex and raises questions relevant to the current and future design of such payments within the British context.

Within JSA there are 'full' and 'pathway' outcome payments which are paid on evidence that employment has been sustained for 13 and 26 weeks. The amount of the payment depends on:

- the stream in which the job seeker participated;
- the reduction in a job seeker's income support;
- whether the job placement was 'assisted' or 'brokered'.

**Full outcome payments** generally are paid only when someone has ceased claiming income support payments. They may, however, be paid for parents with child care responsibilities, or people with health problems, who can legally restrict their work hours due to their circumstances. The provider receives a full outcome payment when people in these groups meet their employment activity requirement, even though they continue claiming some income support payment.

**Pathway outcomes** are designed to reward steps towards self-sufficiency and progression. They may be paid if the part-time earnings of an eligible job seeker reduce their income support entitlement by at least 60 per cent over the relevant period. They also may be paid where a young participant is enrolled in a full-time education or training course for at least one semester of a two semester course.

The JSA payment system distinguishes also between '**provider assisted**' and '**provider brokered**' outcomes. The change was designed to incentivise providers to gather employer vacancies directly and tailor their services to filling those vacancies. Evaluation findings had previously suggested that higher performing JN providers actively worked with employers to place their clients. Other findings were critical of providers being paid for outcomes where jobs were secured by individual job seekers without the direct help of the provider (ANAO, 2005b, p. 21). The higher JSA fee for a brokered payment is now payable only when the provider registers a vacancy and has filled it from among their caseload.

Additional bonuses may be paid to providers who broker training and subsequent placements in a 'skill in demand' vacancy or in apprenticeships. Limited 'social outcomes' are recognised for stream 4 job seekers who, it is determined, would benefit from a further six months assistance when they complete a year. This does not involve an outcome payment, but the provider will continue to receive fees to work with the individual.

The structure of differential outcome fees is complex, but they are calibrated to reward providers for securing valued outcomes. Providers interviewed for this report indicated that changes in the incentive system had influenced their behaviour, for example, in further developing their employer engagement strategies and in focusing more intensively on placing stream 3 and 4 clients. The cost is, however, administrative complexity with an estimated 144 outcome fee types alone. Provider staff must take care to ensure they are claiming the correct outcome fee, with more time

consumed in collecting and verifying the required evidence. A detailed review estimated the overall administrative cost to providers for claiming such payments at \$1.5m per year (Nous, 2010, p. 15).

These costs are somewhat offset by less onerous outcome verification processes. DEEWR normally validates employment outcomes through off-benefit checks, with the provider required to retain written evidence from the employer or job seeker. JSA providers may now verify an outcome through information collected through a phone call, so long as the name of the person contacted, number and details are swiftly entered in the DEEWR system. Providers also are allowed access to Centrelink data so that they can view whether a job seeker has reported any earnings in their fortnightly Centrelink declaration, allowing the provider to calculate if an outcome payment may be due or could be with suitable intervention.

### 3.8 Connections between JSA and the skills system

JSA refined and extended incentives for employment services providers to seek to improve the skills of participants. EPF funds may be used to pay for job-related training and the Department continues to pay interim outcomes for participants placed in full-time education, for at least one semester of a two semester course. In addition, a provider is paid a bonus as well as outcome payments for placing a job seeker in a 'designated skills course', especially apprenticeships, and then places the participant in employment where the individual makes use of the skills acquired. Contract managers are expected to assess how well providers perform in connecting participants to appropriate skill opportunities and when a participant is in approved training the 'clock stops' in terms of how their 'speed to placement' is rated.

These incentives are matched by some given to individuals by the income support system. The most important element is the means-tested Youth Allowance which, for people aged between 15 and 20, is conditional on either their involvement in full-time education or training or job search. Youth Allowance is also payable to young people aged 21 to 24 who are engaged in full-time education. In addition, job seekers who participate in designated training courses now are paid a financial incentive of \$46.60 for up to six months.

It appears that the number of people receiving unemployment-related benefits who reported they were participating in training programmes has doubled to over 13 per cent (Arbib, 2010). Nevertheless, evidence from JSA providers suggests that there continue to be problems both with the timing, location and level of much vocational education and training provision, with few training providers offering the more basic or pre-entry provision needed by their service users. The problem is exacerbated because in Australia the delivery of skills training is devolved to states and territories, with the result that priorities and eligibility vary and JSA providers and their job seekers have to negotiate different delivery arrangements in each jurisdiction. There was also anecdotal concern that job seekers were being parked in training schemes of little long-term value, especially when they entered the work experience phase of service delivery.<sup>6</sup>

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<sup>6</sup> Operational data reveal that at the end of December 2010 nearly 30 per cent of those in the work experience phase were in part-time and casual employment and just under 24 per cent were in Work for the Dole, with more than a quarter in vocational education and training. The remainder were in a diverse range of other activities, ranging from unpaid work experience to job search training.

### 3.9 Gateway services, the JSCI and referrals

Centrelink continues to act as the gateway to employment services and administers the JSCI. At the first interview job seekers are also given information on available JSA providers and, where there is capacity, may choose to whom they are referred.

The JSCI score determines the initial stream allocation for most job seekers. Those who might be eligible for stream 4 are referred first to a more intensive Job Capacity Assessment before a decision on suitable assistance is made. The JSCI was reviewed as part of the transition to JSA (DEEWR, 2009b). The review involved reconsideration of the factors to be taken into account and the weight given to them. It resulted in changes to, and a reduction in, how many questions were asked with improvements in the sequence with which questions were asked designed to improve job seeker disclosure.

Centrelink is subsequently responsible for 'stream service reviews' which usually take place after a year and determine whether a client is 'up streamed' or whether they enter the work experience phase. During fieldwork for this report it was reported that about 30 per cent of clients were being 'up streamed', largely from stream 1 where, after a year of unemployment, six points were added to the JSCI score, prompting entry to a higher stream. The other 70 per cent of participants were moving into the 'work experience' phase (Disney *et al.*, 2010, p. 25).

Centrelink report that they exceed their 95 per cent target for accuracy with JSCIs, with little difference in the results of those carried out by Centrelink staff in person or over the phone. Providers have a different view with many sceptical of the initial results, pointing to frequent examples of unnoticed, undisclosed or undiagnosed factors which affect stream allocation. A 'change of circumstances reassessment' can occur at any time and providers are able to reapply the JSCI, albeit they are precluded from detailed insight into how it works. One consequence is duplication, in that providers reapply the JSCI both at the point of entry to the system and regularly thereafter, especially when it appears there may have been a change in circumstances. For the provider, reclassification to a higher stream both increases the resource that can be invested in the client and provides greater rewards when an outcome is achieved.

### 3.10 Job seeker conditionality, compliance and sanctions

The design and implementation of the compliance and sanctions regime is another complex feature of the JSA system, as it is in more conventional public sector delivery systems.

The JSA provider is responsible for agreeing job search activities with the client and for monitoring job seeker compliance with their search and activity obligations. Job seekers, however, are required also to report to Centrelink fortnightly on their unemployment status, search activity and any earnings or other change of circumstances. These reports may be in person but also can be delivered over the phone or on-line.

A redesigned compliance and sanctions regime was introduced alongside JSA. The aim was to reduce complexity and the automatic benefit stop or 'penalise first' assumption of the system replaced. The design of the earlier arrangements had resulted also in those experiencing the toughest eight week no-payment sanctions being automatically excluded from employment assistance (Disney *et al.*, 2010).

The new sanctions regime distinguished between job seekers who miss appointments and those who do not undertake required activities. The job seeker is still sanctioned for inactivity or not meeting requirements, but the process is designed also to achieve or restore engagement with services.

If a job seeker fails to attend an appointment the provider informs Centrelink who must book a 'rapid reconnection' appointment within 48 hours. If the job seeker fails to attend the second interview benefit is stopped until they attend. By contrast, when the job seeker fails to attend a participation activity they are subject to a 'no show, no pay' penalty and may lose the equivalent of a daily benefit payment for each day of non-attendance.

If a job seeker commits three 'breaches', a 'comprehensive client assessment' is undertaken by Centrelink. This initially reviews the client's circumstances and the obligations in their EPP to ensure they are reasonable. The assessment can lead to an eight week non-payment period during which income support is withdrawn. Benefit can be reinstated if the job seeker 'purges' the sanction by participating in at least 200 hours of agreed work activity over an eight week period.

Another element of the reforms was to give providers greater discretion in the activities they required of job seekers, especially in stream 4, and about when they might submit a 'participation report' that would trigger a sanction. Providers were also required to ensure that job seekers were aware of their obligations, especially prior to being referred to an activity, and to make at least two attempts to contact a job seeker before initiating compliance action.

To facilitate the speedy resolution of 'participation reports' and communication with providers, Centrelink has 500 staff organised in 'Participation Support Teams'. The staff are based in 15 locations and report that 98 per cent of participation reports are assessed within five days (Disney *et al.*, 2010, p. 37). It is worth noting the contrast in relative staffing levels with some 200 account and contract managers who monitor and supervise JSA and other DEEWR contracts.

The interactions between Centrelink and JSA providers carry a transactional cost. This is exacerbated by low attendance rates at interviews booked with JSA providers. Non-attendance amounted to about 900,000 missed appointments on average in each quarter in the first year of service delivery, albeit the actual attendance rate had improved from 56 per cent to 58 per cent (Disney *et al.*, 2010, Table A3). A major review of the system, led by Professor Julian Disney, reported that providers did not submit participation reports in about half of the cases where there was a missed appointment or activity because the job seeker had a good reason for non-attendance. Providers exercised their discretion in half the remaining cases with about 400,000 participation reports submitted in the first year. Many of these reports did not lead to a sanction because Centrelink found either that the job seeker had good cause for non-attendance or they rejected the case on procedural grounds (such as a discrepancy in the dates given).

Most of the sanctions applied were relatively minor, with only 910 'serious failures', leading to an eight week penalty (Disney *et al.*, 2010, p. 62). The review found that 49,000, or six per cent of job seekers, had incurred three or more participation reports that were upheld accounting for about half the total. These job seekers were more likely to be in stream 4 and aged under 25 years. In general, participation reports were most likely to be submitted for young people aged under 25.

The review acknowledged that the revised system was widely considered an improvement, but the transactions between providers and Centrelink remained complex and time and resource consuming. Providers complained about the complexity of benefit rules, poor Centrelink feedback, and they expressed concern that Centrelink staff were too willing to accept excuses given by some job seekers, with 'entrenched evaders' able to avoid their obligations (Disney *et al.*, 2010, p. 52). Centrelink officials, by contrast, were critical of the lack of knowledge of provider staff which they suggest had been exacerbated by inadequate training and high staff turnover.

There was another significant development, revealed by the review, which flowed from the 2006 extension of benefit conditionality to lone parents and more people with health problems. The change was associated with an increase in the number of JSA participants given temporary

exemptions from activity requirements by Centrelink, either due to their caring responsibilities or ill-health. JSA providers pointed out that such exemptions further complicated service delivery and viability as they were unable to engage with exempt job seekers, many of whom were participating in the higher rewarding streams 3 and 4.

### 3.11 Conclusion

The development and implementation of JSA represented a significant administrative achievement. It integrated a range of separate programmes into a single differentiated service delivery system. It created new incentives that encouraged providers to work with the most disadvantaged job seekers, to broker vacancies with employers and to create better links with the skills system. Policy makers were also able to adapt contracted services quickly in response to changing economic circumstances, especially the increased unemployment that followed the global slowdown.

There have, however, been implementation problems and the key issues, from the role of smaller and specialist providers, to administrative complexity and problems with the new sanctions regime, have been reviewed in this chapter. Many of these design and delivery issues are now being addressed in the debate that has commenced concerning the design of the next JSA contract that will be implemented in July 2012 (Jobs Australia (JA), 2011).

## 4 Conclusion

The British Government is implementing radical change in the way it procures employment programmes and will pay providers largely for getting participants into sustained employment. Providers will be awarded long-term contracts with flexibility to design their own interventions. They will cater both for the young and long-term unemployed and for new groups of claimants, including Incapacity Benefit claimants assessed as being fit for work and lone parents with younger children. From 2013, the Government will also commence major reforms to the benefits system designed to increase work incentives.

This report has reviewed the delivery of outsourced employment services in Australia, and the major reforms introduced in 2009 that integrated generalist and specialist programme support for the unemployed with increased incentives to providers for placing the most disadvantaged into sustained employment.

The Australian system is different to that being implemented in Britain, as is the economic and social context, but the research findings have implications for the design and implementation of British policy. These findings are of relevance both to those responsible for policy design and oversight, and for prime providers and subcontractors responsible for delivering front line services.

### 4.1 Service delivery

The evidence from Australia suggests that outsourcing and outcome-based incentives have the potential to induce innovation, flexibility and efficiency savings. More positive assessments highlight the enhanced capacity of frontline case managers when they tailor support to individuals and broker job placements with employers. More critical evaluations suggest, however, that providers may 'crowd around' less costly job search assistance or 'park' harder to place job seekers.

In the evolution of the Job Network (JN), and subsequent transition to Job Services Australia (JSA), there has been much 'learning by doing' and constant adaptation. Through successive reforms officials have sought to establish a market and payment structure that promotes competition, increases job outcomes, reduces parking, improves service quality, and reduces perverse incentives that at times enabled a small number of providers to 'work' the system. In this process of market shaping, policy makers introduced greater specification of service requirements and regulation of processes that then reduced scope for flexibility and innovation.

The JSA delivery system encouraged greater flexibility, but it seems that elements of the administrative and compliance patterns established under the JN have limited the impact of the new approach. There are contending views, but a detailed review of JSA processes and procedures, that involved focus groups with provider and DEEWR staff, suggested that the development of innovative and tailored approaches was in danger of being 'choked off' by detailed JSA administrative, reporting and monitoring requirements. The cumulative impact was said to have distracted providers from engaging with and assisting job seekers, towards managing process requirements that did not necessarily contribute to improving the quality of service delivery (Nous, 2010; JA, 2011). Another critical assessment suggested that JSA providers were still characterised by high caseloads, mostly relying on standardised approaches, with a 'typical strategy' of focusing attention on a weekly list of the 'top ten employable job seekers' (Fowkes, 2011, p. 8).

The key insight for the British context concerns the need to balance the desire for maximum provider flexibility with adequate safeguards for participants. Transparent monitoring of such standards may reduce parking and weak service delivery and dissipate future pressure for increased regulation and the inflexibility that may entail.

The Work Programme (WP), for example, will minimise prescriptive rules and rely largely on differential financial incentives, heavily weighted to sustained employment, to drive provider behaviour. The Australian evidence is that provider delivery strategies are shaped by incentives, with a greater focus now on services for the most disadvantaged, but there is still a risk of parking. The British approach may be more sustainable if it is accompanied by transparent efforts to minimise those risks. Providers, for example, could be required to commit to a 'Code of Practice' setting out the general principles that guide their service delivery for clients.

WP providers will be able to determine minimum service standards, but it will still be important for Department for Work and Pensions (DWP) contract managers to ensure the quality of services delivered. Such monitoring will be enhanced by a limited range of quantifiable criteria that may be included in Key Performance Indicators (KPIs). This could include factors such as caseload size, frequency of job seeker contact, location and coverage of service delivery sites, and so on. Particular consideration could be given to how providers propose to design and deliver action plans, with any subsequent KPI monitoring the plans' quality, how detailed they are, how long they take to complete, and the extent to which they are personalised to the individual. Contract managers could monitor how well providers meet the frequency of attendances they agree with clients.

DWP could also consider undertaking regular sample surveys of job seekers and employers to generate insight into customer experience. A regular sample survey of leavers from British programmes could generate additional information on participant destinations not captured through the provider payment system. Alternatively, providers could be expected to undertake and publish regular common surveys, with some tailoring to provider circumstances allowed, as already happens, for example, within the British higher education system.

## 4.2 The design of outcome payments

The definition of a WP job outcome is for a participant to be wholly 'off' an out-of-work benefit for the required period, which will normally mean at least a weekly minimum of 16 hours employment. Such employment need not be with the same employer and there are rules to determine the 'permissible breaks' during which a period of employment may be interrupted when contributing to a payable job outcome. It may be important to review the design of 'permissible breaks' given the longer period covered by WP payments and the intermittent health or child care problems that future participants are more likely to face.

The Australian system recognises and rewards 'pathway outcomes' that provide reduced incentive payments to providers if they place participants in part-time employment or full-time education. British policy makers may wish to consider such 'pathway outcomes', for example, for placing participants in part-time jobs that substantially reduce their benefit income. Rewarding such outcomes would enable the alignment of WP incentives with Universal Credit reforms that seek to incentivise the progression from dependency to 'mini jobs' and part-time employment, especially for lone parents with younger children or job seekers with work limiting health problems. Providers might also be paid such an outcome if a participant, especially a younger person, enters and sustains a significant period of full-time training or education that takes them out of the income support system.

### 4.3 Sanctions and the compliance regime

Service user journeys and interactions across the provision offered by the public benefits agency Centrelink and outsourced employment assistance providers are complicated, especially for the most disadvantaged, such as those with mental health issues or those whose first language is not English. Australian service users are required to make various transitions between different service providers and to satisfy varying requirements. Many may find these transitions smooth, but there have been problems with incorrect assessments, missed appointments, and the imposition of sanctions, including variations in how different providers handle and report non-attendance and non-compliance. There have also been problems with the flow and sometimes accuracy of information and data exchanged between the respective agencies. These transactional costs in Australia were exacerbated by complex benefit rules and regulations, and the limited knowledge that provider staff have of such rules.

Transitions between Jobcentre Plus and private providers are well established in British provision, although they may not always work smoothly. There are increased risks associated with the WP because of its duration, subcontractor delivery chains, and the requirement to undertake activities agreed with a provider while continuing to 'sign on' fortnightly with Jobcentre Plus. This might be exacerbated further by the overlapping responsibilities of Jobcentre Plus and providers, both of whom may seek to pursue different approaches to employment assistance and relevant activities. For example, Jobcentre Plus performance targets promote a 'work first' approach, whereas a WP provider may take a longer view with less emphasis on the speed of an initial job placement. The WP case manager may prefer to focus on reducing barriers to retention and to wait for a vacancy that is likely to be sustained over a longer period.

It might be helpful for DWP to clarify the status of the job search and work activity requirements included in an Action Plan agreed by WP providers with unemployed job seekers and how this relates to the Jobseeker's Agreement. WP participants will need clear and timely information to avoid 'mixed messages' and it may be important to monitor trends in sanctions imposed, and any differences that emerge in provider referrals.

The Australian experience suggests it may be worth considering specialist teams of Jobcentre Plus staff and decision makers who could ensure speedy communication with providers on compliance and sanction referrals, with feedback on the reasons for revoking referrals. The introduction of Universal Credit will create an opportunity to simplify the compliance and sanctions system and ensure that it helps to promote compliance and engagement between clients and WP providers.

### 4.4 Contracted providers and non-profit organisations

There has been much debate about the role of third sector and voluntary organisations in delivering contracted out public services, including employment assistance. The DWP Commissioning Strategy places particular emphasis on their role as subcontractors and the potential they offer for working with the hardest to help. The prime contractor model creates a different market for many existing and future potential voluntary and third sector providers with the 'Merlin standard' expected to promote best practice and redress where problems emerge.

In Australia, the non-profit sector plays a significant delivery role across a range of social provision. The employment service organisations established by religious organisations secured a large segment of the JN and JSA markets. Although smaller secular voluntary and community organisations fared less well in the transition into both systems, the collaborative structures created by Job Futures, and the services provided through Jobs Australia, have enabled smaller organisations to deliver and win contracts. Some secular and specialist non-profits have also grown and acquired more market share.

The Australian Government encouraged third sector and smaller organisations to bid for larger contracts when specialist programmes were integrated into JSA provision, but there was no conscious effort to develop ‘supply chains’. There is, however, some subcontracting by JSA providers with specialist organisations, and providers must cultivate wider relationships with a range of non-profit bodies when organising mandatory work placements and activities for long-term JSA participants. The involvement of smaller specialist organisations continues to be critical for ensuring coverage in areas that are less attractive to larger for-profit providers, either because of location or the particular characteristics of client groups.

The involvement of non-profit organisations has raised some concerns about the relationship between their values and social mission, and the constraints of contract delivery. There has been some evidence of ‘mission drift’ induced through the requirements of contracts, especially in the role that providers play in imposing conditionality and referring people for sanctions (Garland and Darcy, 2009). There have been other tensions concerning, for example, cases where church-based providers delivering early contracts questioned job applicants about their religious beliefs, suggesting that subscribing to a particular religion was a condition of employment (Mulgan, 2005, p. 65). Non-profits as well as for-profits have other accountabilities to those contained in contracts and these will not always correspond with public purposes.

The relationship with providers at times can be uncomfortable for the Government. In Australia, for example, some non-profits were openly critical of sanctions and of the impact that changes had on their viability and service provision and questioned government policy. There was particular controversy about ‘gagging clauses’ in contracts that were only withdrawn after the change of government in Australia in 2007 (Wright *et al.*, 2011). Such criticism is an important dimension of public debate, encourages accountability, and may be part of the contribution the sector brings. It may be worth ensuring that DWP contracts and those of prime contractors should allow for such comment and not constrain the ability of non-profits in particular to advocate on behalf of disadvantaged communities.

## 4.5 Evaluation and best practice

When service delivery is devolved to independent providers they and their front line staff inevitably gain an advantage as they develop greater operational knowledge of how to achieve specified outcomes. The purchaser loses insight into the why and how of ‘what works’ and it is challenging to establish what precisely drives good performance and why. The Australian Department implemented an evaluation strategy to quickly identify early implementation issues and sponsored a report to identify and disseminate emerging best practices. Subsequent phases assessed longer term impacts. At a later date, when the Department was able to draw on reliable performance data, they used this to identify and evaluate differences between high and low performers’ with the results disseminated to all providers. When considering the development of its own evaluation strategy DWP may wish to also consider an approach that quickly identifies findings that could help develop market knowledge in its earliest stages and through dissemination facilitate more speedy market development than might otherwise happen.

The Australian evidence suggests that continuous improvement and, after an initial period, further innovation, was not only driven by contractual specification but also by diffusion through networks and staff movement between providers. The development and spread of best practices may be accelerated further by exchanges and linkages that extend beyond individual organisations and across sectors. Contract managers may be able to do some of this, but DWP and other interested organisations may want to further develop a more open structure for brokering information exchange and technical advice involving prime contractors, subcontractors, related public sector organisations and groups that can articulate the perspective of job seekers.

# Appendix A

## Job services Australia – topic guide

- Briefly review Job Network development – What are the provider market dynamics? How has the market changed over time? What evidence, if any, of unintended effects and cartel behaviour?
- Discuss procurement of, and transition to, Job Services Australia (JSA) in 2009 and the business reallocation process planned for 2011 (design, outcomes and lessons).
- Impact on providers – developments in partnerships and subcontracting, especially the role of specialist organisations and smaller community-based organisations.
- Service Delivery Model (seven funding streams to one multi-client contract):
  - Recruitment – role of Centrelink and Job Seeker Classification Instrument (JSCI) classification system. How accurate is the tool and what happens to scoring after circumstances change and/or passage of time. How consistent is the JSCI applied and any estimate of associated costs or savings.
  - Variations in service delivery for the four different streams – emphasis on service intensity/availability/price for harder to help groups in streams 3 and 4.
  - Role of the ‘Employment Pathways Account’.
  - Employer servicing strategies, including offering flexible working, and how are job vacancies found, processed and filled.
  - Role of work experience phase – activities/duration/outcome payments.
- Service fees and job outcomes:
  - evidence verification (nb how do policy makers assess/minimise payment for deadweight?);
  - differential payments for streams, ‘found own employment’, and places with vocational training;
  - payment for partial outcomes, involving full-time study and/or part-time employment (how this interacts with benefit payments/Centrelink reporting requirements).
- Performance Management Framework (Employment Services Charter of Contract Management and Code of Conduct):
  - Design and publication of star ratings.
  - The role of contract management and IT systems (impact they have on service delivery and provider flexibility).
- Service user experience:
  - How choice is exercised.
  - Service guarantees, common standards and any variation, for example, for parents with child care responsibilities to attend training and/or job interviews.
  - Role and frequency of user experience and post participation surveys.

- How well is the overall system design driving the desired provider behaviours, are there any unexpected consequences, and which features drive them?
- Impact of activation requirements and sanctions – design and implementation, with a particular focus on interactions between service providers, Centrelink and the appeals process
- Impact of the economic downturn and increased unemployment (now 5.1 per cent, though anticipated high of 8.5 per cent) and consequences in 2011 of withdrawal of stimulus measures that temporarily boosted resources and programme options.
- Finally, role of research and evaluation, any emerging findings, and how will these influence the design and parameters of the new contract to be implemented from 2012.

# Appendix B

## Main working-age benefits in Australia 2011

**Newstart Allowance** is a fortnightly unemployment benefit paid to eligible people aged between 21 and 65. The benefit is paid on the basis that a person is expected to actively seek and accept suitable work, consistent with their ability and availability for work. For most recipients the expectation is for full-time work; however, part-time requirements apply for a person with disability who has a partial capacity to work and primary carers of dependent children aged below 16. Recipients have to register and attend interviews with a JSA provider and agree and follow an 'Employment Pathway Plan'. Those seeking full-time work are expected to make up to ten 'Job Search Contacts' per fortnight and record the details of these jobs on a 'Participation Contact Record'. Until 2010 claimants had to report fortnightly to the benefit payment agency, Centrelink, to report their job search, any part-time earnings and any other change in circumstances. Centrelink is now able to adjust reporting requirements with some claimants able to make their fortnightly reports by phone or on-line.

**Youth Allowance (YA)** is paid to young Australians participating in full-time study or in an Australian Apprenticeship, or actively looking for work or undertaking a combination of activities leading to employment. 'Youth' is defined as 15-24 for full-time students or 15-20 for job seekers. Young people seeking employment are subject to similar activity requirements as those claiming Newstart Allowance. YA is means tested on parental income although the full allowance can be claimed by young people deemed 'independent', for example, if they have no parent or are estranged from them.

**Disability Support Pension (DSP)** provides income support for people with a long-term disability from which, in the opinion of an assessor, they will not recover within the next two years, and which means they cannot work more than 15 hours a week. Work ability is assessed through a Job Capacity Assessment that determines both the activity requirements, if any, a claimant has to satisfy and provides referrals to employment and related support services. While DSP eligibility is being determined, claimants are placed on another payment (usually Newstart with a medical certificate temporarily exempting them from the activity test).

**Parenting Payment** is paid to principal carers of dependent children under the age of six for partnered claimants and children under the age of eight for single claimants or aged less than 16 if they were in receipt of Parenting Payment prior to 1 July 2006. This latter group may remain on this payment until their youngest child turns 16, but they are subject to participation requirements when their youngest child turns seven. Lone parents with older children lost their entitlement to Parenting Payment in 2006 and if they wish to claim benefit now must either claim the activity tested Newstart or Youth Allowance, or show they meet conditions for DSP.

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Australia has more than a decade of experience in contracting out employment services. This research summarises that experience, and identifies design and implementation lessons for the British context.

The research reviewed literature on the development and impacts of the Australian outsourced employment services system and the transition from the Job Network to Job Services Australia. Another phase included interviews with 20 senior policy makers, providers, and research and advocacy organisations in November 2010.

Although there are significant differences between the British and Australian systems, the findings from this research offer insights into contract design and the potential benefits and risks of outsourcing employment services. These findings are of relevance both to the British welfare to work market and to the implementation of outcome-based contracts in other government services.

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**DWP** Department for  
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Published by the  
Department for Work and Pensions  
June 2011  
[www.dwp.gov.uk](http://www.dwp.gov.uk)  
Research report no. 752  
ISBN 978-1-84712-986-4