



**Australian Government**  
**Department of Employment**

# **Employment Services 2015**

## **Regulation Impact Statement**

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Office of Best Practice Regulation ID NO: XXXX

## CONTENTS

1. Introduction .....	3
2. Background.....	3
3. Regulation .....	4
4. What is the problem? .....	5
4.1 Meeting employer needs .....	7
4.2 Provider operations.....	8
4.3 Administrative transactions, red tape and service prescription .....	9
5. The policy objective .....	9
6. Why is government action needed? .....	10
7. Policy options.....	11
Option One: Maintain the current service delivery model and contractual arrangements with providers (status quo) .....	12
Option Two: Fundamental reform of employment services (preferred).....	12
Option Three: Pay fees to recruitment agencies to place eligible job seekers in existing, advertised vacancies without regard to job seeker activation or addressing issues preventing job seekers from finding and staying in work (light touch regulatory option). .....	14
8. Cost Benefit Analysis.....	15
8.1 The Role of Employment Services in Assisting Disadvantaged Job Seekers.....	15
8.2 Evidence on the impact of employment services .....	15
Option One: Maintain the current service delivery model and contractual arrangements with providers (status quo) .....	16
Option Two: Fundamental reform of employment services (preferred).....	18
Option Three: Pay fees to recruitment agencies to place eligible job seekers in existing, advertised vacancies without regard to job seeker activation or addressing issues preventing job seekers from finding and staying in work (light touch regulatory option). .....	22
9. Consultation .....	26
10. Implementation and evaluation.....	29
11. Conclusion and recommendation .....	30

## 1. INTRODUCTION

This Regulation Impact Statement has been prepared by the Department of Employment on the operation of the new employment services model, to be called jobactive, to be delivered from 1 July 2015.

The Statement considers the impact of regulation on organisations contracted to deliver employment services. In the delivery of employment services, compliance costs are the most relevant. This includes administrative costs (primarily record keeping and reporting costs) incurred by organisations to demonstrate their compliance with the relevant deed and guidelines and substantive compliance costs incurred to deliver the contracted services.

The Statement also includes an assessment of the regulation impact on employers and individual job seekers. For individual job seekers, it does not include the completion of activities to qualify for income support and satisfy their mutual obligation requirements which are out of the scope of the Regulation Impact Statement process.

## 2. BACKGROUND

Contestable employment services have been operating in Australia since the abolition of the Commonwealth Employment Service in 1998. In that time, three distinct models have operated:

- Job Network from 1 May 1998 to 30 June 2003;
- the Job Network Active Participation Model from 1 July 2003 to 30 June 2009; and
- Job Services Australia from 1 July 2009 to 30 June 2015.

The assistance delivered under outsourced employment services is based on an assessment of individual job seeker needs and the help required for them to get and keep a job. Assistance could for example include training, job preparation or help with fares to get to job interviews. It could also include non-vocational assistance to address a job seeker's more significant employment needs related to personal circumstances such as homelessness, addiction, limited education or disability. The level of funding paid to providers is based on the job seeker's relative disadvantage in the labour market.

Providers also assist job seekers to comply with their mutual obligation requirements under social security legislation while they are in receipt of income support. This includes developing an individual plan with each job seeker, monitoring their participation in activities and reporting potential non-compliance to the Department of Human Services.

The Department of Employment's information technology system underpins the operation of employment services. It manages access to job seeker information, records provider actions, processes claims for payment and provides a real time connection between providers and the Departments of Employment and Human Services. The recording of information by providers into the information technology system plays a key role in the Department of Employment's monitoring of provider activity.

Reflective of the number of people assisted by Job Services Australia and its coverage, over 6.5 million transactions are recorded through the information technology system every day. Some providers also maintain their own system which interfaces with the Department of Employment information technology system to pass on key data through a web service.

The department monitors Job Services Australia providers to ensure they deliver the services outlined in the deed and guidelines through a range of mechanisms including desk top monitoring, site visits, targeted programme assurance activities and following up specific complaints or tip offs about inappropriate activities.

The scale of outsourced employment services, the diversity of providers and the provision of flexible and individualised services to job seekers means that the management of providers needs to balance accountability while aiming to keep the regulatory impost on providers as low as possible.

Current Job Services Australia contracts end on 30 June 2015. On 28 July 2014, the Australian Government issued an Exposure Draft for Employment Services 2015-2020 Purchasing Arrangements for public consultation. Around 60 submissions were received from employers and consumer representatives as well as current and potential providers. Information sessions on the Exposure Draft were also held in capital cities and some regional centres to gather feedback.

The Government considered feedback and changes were reflected in the final Request for Tender for Employment Services 2015-2020 released on 7 October 2014.

The new model has five services:

- jobactive providers will work with job seekers so that they are ready for the work environment and help them find and keep a job as well as ensuring that employers are referred job seekers who meet their business needs;
- Work for the Dole Coordinators will source suitable Work for the Dole activities in not-for-profit organisations such as local councils, schools, community organisations and government agencies. These activities will help prepare job seekers for the work environment and also benefit the community;
- the New Enterprise Incentive Scheme will help eligible job seekers to start and run their own small business, including accredited small business training, business advice and mentoring for up to 52 weeks as well as an allowance for up to 39 weeks; and
- Harvest Labour Services and the National Harvest Labour Information Service will support the harvest requirements of growers in the horticulture industry.

The Government announced the results of the Request for Tender on 31 March 2015. They are available at the [Employment Services Purchasing website](http://www.employment.gov.au/employment-services-procurement-information) (www.employment.gov.au/employment-services-procurement-information) before final contracts are signed.

### **3. REGULATION**

Typically, regulation costs for employment services providers include activities such as:

- data entry into the information technology systems to record that contractual activities, events or discussions have occurred;
- the collection and storage of documentary evidence to verify contractual services have been delivered and outcomes claimed;

- the retrieval and sourcing of documentary evidence when requested by the Department of Employment; and
- searching and interpreting departmental guidelines and notices to understand the regulatory requirements.

These elements are included because they are key elements used to monitor providers' compliance with their contract obligations.

Activity constituting the actual delivery of employment services is not regarded as regulation. This includes:

- contractual requirements to assist job seekers such as meeting with job seekers, keeping case notes, providing referrals to job vacancies, canvassing employers and arranging, delivering and supervising activities;
- business as usual activities required by an entity to operate effectively including staff management and training on provider operations, managing premises and infrastructure and the establishment of a complaints process; and
- business as usual activities to operate in the employment services model such as the cost of governance arrangements and tendering.

For job seekers, relevant regulation includes:

- record keeping such as requests to change providers and sourcing documentary evidence associated with the verification of employment and other details when requested by a provider.

The regulation impact on employers is included where they interface with employment services. This is primarily around verifying job seeker placements and outcomes, applications for wage subsidies and associated claiming processes and payments. Verifying job seeker participation in Work for the Dole or other activities by community organisations is also in scope.

## 4. WHAT IS THE PROBLEM?

There is currently a network of around 79 Job Services Australia providers operating from around 1700 sites in non-remote parts of Australia. Between 1 July 2009 when the current Job Services Australia model commenced and 1 March 2015, \$7.8 billion of Commonwealth funding has been directed to employment services. Of the job seekers on the Job Services Australia caseload, 51 per cent are managed by not for profit organisations and 49 per cent by profit organisations.

Between 1 July 2009 and 1 March 2015, Job Services Australia providers have made 2.2 million job placements, which have resulted in 922,500 13 and 576,000 26 week sustainable outcomes.

As at 31 January 2015, 821,281 job seekers were being assisted by Job Services Australia. Of these job seekers:

- 56 per cent had been unemployed for more than 12 months;
- 9 per cent were indigenous;

- 27 per cent were people with disability;
- 10 per cent were homeless;
- 19 per cent from a cultural and linguistically diverse background; and
- 22 per cent were aged over 50 years of age.

Job seekers in Job Services Australia are classified into four service streams.

**TABLE 1: JOB SERVICES AUSTRALIA STREAMS**

Stream	Description	Percent of job seekers
Stream 1	For job seekers who are generally more work ready	36 per cent
Stream 2	For job seekers with relatively moderate barriers to employment	25 per cent
Stream 3	For job seekers with relatively significant barriers to employment	19 per cent
Stream 4	For job seekers with severe barriers to employment	19 per cent

Participants in Government funded employment services are generally in receipt of an income support payment.

As noted above, the higher a job seeker's stream, the higher their barriers to employment. Notwithstanding job seekers in stream 1 have fewer employment barriers relative to job seekers in other streams, it is well documented that people in receipt of income support or unemployed are at a higher risk of being disadvantaged<sup>1</sup>.

There is no imperial evidence base on the characteristics of job applicants through alternative recruitment sources. Therefore, it is not possible to compare the characteristics of people in Job Services Australia with other people who are not in receipt of income support and who may already be in the labour force seeking employment through job mobility or other mechanisms.

However, a literature review by Macquarie University into Australian recruitment practices in 2014 highlighted that the major trends in recruitment practices over the last ten years centre around the increased use of on-line resources such as jobs boards and social media. The study notes that "Access to on-line resources raised concerns about inclusion of some sectors in the employment market. The inclusion of groups with low levels of digital literacy such as older or indigenous workers, workers from a non-English speaking background as well as rural and regional workforces remains unresolved".<sup>2</sup>

Likewise the study indicates that employers are increasingly likely to use recruitment agencies. However it notes "There is evidence of underutilisation of candidate pools such as disabled (sic) workers, older workers, overseas qualified professionals arriving through the generalist skilled migration stream, youth and indigenous applicants."

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1 See for example <http://www.pc.gov.au/research/completed/deep-persistent-disadvantage/deep-persistent-disadvantage.pdf>

2 <http://www.awpa.gov.au/publications/Documents/Australian%20recruitment%20practices%20report.pdf>

Similarly, the Recruitment and Consulting Services Association does not publish information on the characteristics of candidates its members directly recruit for employers. However, it indicates that its members employ (through labour hire) on average over 327,000 full time equivalent workers, with 2003 research by RMIT University indicating that 61 per cent of the Associations' on labour hire employers being skilled or professional workers and 39 per cent being semi-skilled or unskilled<sup>3</sup>. The Association also notes that labour hire arrangements provided by its members (again separate from direct recruitment services) often provide valuable opportunities for disadvantaged people to access the labour market with reduced risk to employers.

On this basis, high performing employment services facilitate a well-functioning labour market by providing information and supporting job connections between job seekers – notably those on income support and facing other disadvantage - and employers.

It is imperative that an effective and efficient employment services system supports the operation of the Australian labour market. Australia's seasonally adjusted unemployment rate was 6.1 per cent in March 2015 with a participation rate of 64.8 per cent. Long-term unemployment also remains a significant challenge. As at February 2015, around 182,600 people were unemployed for 52 weeks or more.

To improve the overall effectiveness of the employment services system, new arrangements need to deliver fundamental reform to better meet the needs of employers, move job seekers from welfare to work sooner and for longer, increase job seeker activation and strengthen and simplify the mutual obligation framework.

Feedback on the operation of the current Job Services Australia arrangements has been gathered through analysis of job seeker and employer data and surveys undertaken by the Department of Employment, ongoing discussions with providers, briefings from key employment services representative bodies and submissions from employer, community and provider groups through public consultation processes on the future arrangements for employment services.

Based on this feedback, a number of weaknesses within the current Job Services Australia system have been identified.

## 4.1 MEETING EMPLOYER NEEDS

Employers and employer representative bodies indicate that the focus of the existing employment services system does not adequately meet their recruitment needs. Common feedback from employers indicates that:

- employers are discouraged by the lack of skills and work-readiness in the job seekers being presented by Job Services Australia providers;
- some providers do not have sufficient specialist industry knowledge to make a satisfactory placement so opportunities for real employment outcomes in industry are lost; and

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<sup>3</sup> Submission received on Employment Services 2015-2020 Exposure Draft - Recruitment and Consulting Services Association (RCSA) at <http://docs.employment.gov.au/node/34321>

- the lack of coordination in the servicing of employers by multiple providers in a location is a disincentive for employers to use current services.

This is supported by data which indicates that employer awareness of the Government's employment service system decreased from 70 per cent in 2007 to 28 per cent in 2012, with usage also decreasing from 18 per cent to 9 per cent<sup>4</sup>.

This problem has generally arisen due to the principal focus of employment services being on addressing individual job seeker barriers rather than on the vocational and employability skills that employers are looking for when hiring candidates, especially in small to medium businesses. The current Job Services Australia model has contributed to this situation by prescribing job seeker services rather than giving providers the flexibility to respond to local labour market needs and the needs of employers, with more funding paid for service fees than outcomes.

For example, departmental surveys indicate that while the majority of employers indicated that providers understood their business needs, only 61 per cent were satisfied with the level of relevant experience of referred job seekers and the reliability of referred job seekers. Twenty per cent of employers were also not satisfied with the accuracy of providers' portrayals of job seekers skills and abilities.<sup>5</sup>

The size and practical effect of poor employer engagement is reduced job opportunities for unemployed Australians. On average, current Job Services Australia providers make over 32,000 job placements each month. Given employers look to fill over 150,000 vacancies a month, there is scope to grow the share of opportunities available to job seekers to increase workforce participation and productivity.

## 4.2 PROVIDER OPERATIONS

Employment services providers report a range of factors that currently impede organisational sustainability and investment including:

- the current contract duration of three years does not support strategic investment;
- the absence of price contract adjustments;
- a fixed fee structure across all parts of metropolitan and regional Australia does not reflect the differential costs of service delivery; and
- in many locations, there are too many providers which creates confusion and inefficiency and makes business viability more challenging.

In terms of the impact on the current employment services sector, since 2009, 22 providers have voluntarily handed their contracts back the Department of Employment due to a range of business, financial and market reasons. Unanticipated exits cause considerable disruption to job seekers and employers. Overall, the potential practical effect of an ineffective employment services sector includes an increased risk of poor job seeker servicing and decreased

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4 2007 Survey of Employers and 2012 Survey of Employers by the Department of Employment

5 2013 survey of Employers' Use of Employment Services



outcomes, high turnover of staff from employment providers and poor governance within organisations.

### 4.3 ADMINISTRATIVE TRANSACTIONS, RED TAPE AND SERVICE PRESCRIPTION

There is universal feedback that the current employment services system is constrained by administrative requirements. This diverts resources away from job seeker and employer servicing to excessive administrative requirements and reduces efficiency.

This problem has generally arisen due to the level of prescription in the current Job Services Australia model and limited scope for provider-initiated service design. The incremental introduction of additional rules and requirements in response to provider queries and an outdated information technology system has also resulted in additional regulation for providers.

In terms of the size of this issue, work commissioned by Jobs Australia in 2010 indicated that Job Services Australia providers spend 50 per cent of their time with any one job seeker time on administration and compliance and that close to 30 per cent of this administration time (or 15 per cent of overall time) was spent on unnecessary administration and duplicated effort. They considered that a re-orientation away from administrative effort and compliance to job seeker servicing has at least an annual \$130 million efficiency and effectiveness gain (2010 Nous report commissioned by Jobs Australia, noting these estimates are based on an estimated hourly rate of \$60).

The practical effect of excessive administrative requirements is a diversion of resources from employment services providers away from job seeker servicing.

## 5. THE POLICY OBJECTIVE

The Australian Government is committed to building a strong and prosperous economy that promotes workforce participation and helps more job seekers to find and keep a job.

The key policy objective of reform to employment services is to promote stronger workforce participation by people of working age and help more job seekers move from welfare to work.

The aims include:

- ensuring job seekers better meet the needs of employers;
- increasing job seeker activation by removing the option of passive welfare and introducing stronger mutual obligation requirements;
- increasing job outcomes for unemployed Australians, particularly Indigenous Australians; and
- reducing service prescription and cuts red tape.

Progress against these aims will be considered in the evaluation of the new model as outlined on page 28.

## 6. WHY IS GOVERNMENT ACTION NEEDED?

The Australian Government has policy responsibility for the development and operation of employment services for unemployed people across Australia. It will invest approximately \$6.8 billion over 2015-16 to 2018-19 in mainstream employment services in non-remote Australia.

Further, under the International Labour Standards, Australia has ratified the Employment Service Convention, 1948 (No. 88) and the Employment Policy Convention, 1964 (No. 122) which outline commitments to support specific employment goals.

The recruitment methods used by employers vary significantly by business size, industry and the skill level of the vacancy.

Multiple large and small recruitment agencies deliver labour exchange services to employers and individuals on a fee for service basis separate from Government-funded employment services. These range from large multinational recruitment agencies to small niche agencies that specialise in jobs in particular industries.

In general these agencies deal with people with existing vocational qualifications or work experience and employers seeking skilled or experienced staff, without undertaking preparatory work with disadvantaged individuals. Most charge a fee to the candidate, employer or both. Some larger employers also outsource their recruitment services and screening mechanisms to external parties.

Other recruitment services rely on on-line matching. Again they do not undertake preparatory work with individuals but instead rely on automated tools to screen and match candidates.

One third of vacancies are not formally advertised and use informal methods such as word of mouth, being approached by job seekers or placing a sign in shop windows. Informal methods of recruitment are most commonly used by employers in regional areas or when filling unskilled vacancies<sup>6</sup>. It is therefore essential that job seekers are equipped with the necessary employability, communication and networking skills to tap into these opportunities.

The literature review identified above by Macquarie University indicated that 'recruitment is segmented by industry and skill. It would appear that the health care and the social assistance sector and professional, scientific and technical services sectors have the most strategic approach to recruitment of skilled labour followed by education and training, construction and manufacturing. Retail and accommodation and food services make the most use of informal social network recruiting but this is poorly documented'.<sup>7</sup>

The segmented approach and the general focus on skilled labour and work ready candidates by other recruitment agents mean that, without government intervention, no market mechanisms operate to activate, prepare and sustain unemployed people in work. Each month, employers look to fill over 150,000 vacancies and more than 90,000 people change jobs. Many skilled people and those with recent work experience find new employment without the use of intermediaries. However, this is difficult for disadvantaged job seekers, as they often lack recent contact with the labour market, do not have skills relevant to local job

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6 Recruitment methods by employers at <http://lmip.gov.au/default.aspx?LMIP/RecruitmentAnalysis>

7 <http://www.awpa.gov.au/publications/Documents/Australian%20recruitment%20practices%20report.pdf>

opportunities, or face other barriers to employment. This is supported by the operation of employment services (either outsourced or public) across developed countries.

Evidence from the Organisation for Economic Cooperation and Development (OECD) demonstrates that well-targeted and managed activation strategies can be successful in improving labour market outcomes for jobseekers and encouraging greater labour force participation. In 2012, the OECD reviewed Australia's activation policies and found that the "quasi-market" employment services model was unique among OECD countries as it is a fully outsourced model.<sup>8</sup> The review concluded that the model appears to be highly effective in activating job seekers.

In addition to the individual financial benefits of moving into work, employment brings a range of other benefits. In 2011, the Australasian Faculty of Occupational and Environmental Medicine of The Royal Australasian College of Physicians released a Consensus Statement on the Health Benefits of Work.

Realising the Health Benefits of Work presents compelling international and Australasian evidence that work is generally good for health and wellbeing, and that long term work absence, work disability and unemployment generally have a negative impact on health and wellbeing.<sup>9</sup>

## 7. POLICY OPTIONS

Consistent with Regulation Impact Statement requirements, this Statement presents three options:

1. maintain the current service delivery model and contractual arrangements with providers (status quo);
2. undertake a fundamental reform of employment services to address the identified problems (preferred option); and
3. pay fees to recruitment agencies to place eligible job seekers in existing, advertised vacancies without regard to job seeker activation or addressing issues preventing job seekers from finding and staying in work (light touch regulatory option).

Given the uniqueness of the Australia's model as fully contestable, an alternative approach could theoretically be to reinstate a public employment service. This has not been considered in this Statement due to:

- no stakeholder feedback indicating this was a practical, feasible or desirable alternative;
- evidence that the outsourced model is cost-effective – the cost of putting a disadvantaged person in a job is today less than under previous comparable labour market programmes;

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8 <http://www.oecd.org/employment/activating-jobseekers-9789264185920-en.htm>

9 <http://www.racp.edu.au/page/afoem-health-benefits-of-work>

- the loss of innovation and individually tailored services that an outsourced model delivers; and
- the logistical impracticality of reinstating Australian Government infrastructure, staff and procedures by 1 July 2015 across Australia.

## OPTION ONE: MAINTAIN THE CURRENT SERVICE DELIVERY MODEL AND CONTRACTUAL ARRANGEMENTS WITH PROVIDERS (STATUS QUO)

Deeds with the existing Job Services Australia providers enable the Government to extend the current contract period for up to a maximum of six years. One such extension for a period of three years was implemented from 1 July 2012 to 30 June 2015.

The Employment Services Deed 2012-2015 specifies the current obligations of contracted Job Services Australia providers to deliver employment services and support job seekers and employers. Further operational detail for Job Services Australia providers is detailed in supporting guidelines. These deeds and guidelines encompass Job Services Australia providers assisting job seekers into work and current arrangements for the New Enterprise Incentive Scheme, Harvest Labour Services and the National Harvest Labour Information Service.

Under the status quo option, a further extension to the current deeds with all existing providers until 30 June 2018 could be made. This means there would be no change to the current incentive structure for providers, with income weighted more heavily to services over outcomes.

The regulation impact for providers, job seekers and employers would also be generally unchanged and the makeup of organisations would be stable unless providers voluntarily withdrew or performed poorly.

This option would see the continuation of current problems with the system and defer any opportunity to deliver tangible benefits to job seekers, employers and providers.

The key risks would be high performing organisations would have limited opportunity to deliver employment services. Poorer performing organisations would however be able to continue service delivery.

As the terms of the deed would be generally unchanged, the contracts would be managed by the Department under the current frameworks.

## OPTION TWO: FUNDAMENTAL REFORM OF EMPLOYMENT SERVICES (PREFERRED)

Based on feedback from stakeholders, a major overhaul of the current system is required to address the weaknesses identified in the current Job Services Australia system.

To encourage providers to meet the needs of employers and place job seekers into sustainable work, there would be greater emphasis on outcomes in the payment and performance frameworks. There would also be Indigenous outcomes targets to achieve parity in employment outcomes.

Contracts would move from three to five year periods to facilitate more effective business planning and reduce costs for providers. There would be measures to promote

market stability including a mid-contract price adjustment of Administration Fees and Outcome Payments (in January 2018).

In recognition of the additional costs associated with delivering services in regional locations, an additional loading would also be applied to the Administration and Outcome fees for providers in designated areas.

There would be a reduction in the number of employment regions and tendering processes would ensure the number of providers in each region support provider efficiencies and services to job seekers and encourage economies of scale.

As part of providing an overall service to job seekers to support them to move from welfare to work, providers would monitor job seekers' participation in activities and job search. These job seekers have existing reporting requirements and mutual obligation requirements.

The information technology system would have enhanced functionality that would reduce administrative burden on providers, job seekers and employers. For example, providers would not be required to collect documentary evidence for employment-outcome claims where there is data from the Department of Human Services that confirms a job seeker has met their minimum working hour requirements, or ceased or reduced their rate of Income Support. This would also decrease the administrative requirements for employers taking on an unemployed person.

Previously, Work for the Dole experienced significant levels of red tape, particularly concerning the capture of attendance information by activity supervisors and the manual transmission of that evidence to providers. New mobile Apps would allow providers, supervisors and potentially job seekers to capture attendance in real time, automatically update the information technology records and support rapid communication about potential issues.

Under this option, the compliance burden in the management of contracts would be streamlined due to the more flexible service delivery model for most job seekers, the reduced reliance on documentary evidence and the increased reliance on data sharing to verify outcomes. The introduction of a Quality Assurance Framework including the mandatory accreditation of providers against a quality standard would also support more efficient provider operations through the proliferation of best-practice operating procedures.

The services provided under the New Enterprise Incentive Scheme, Harvest Labour Services and the National Harvest Labour Information Service would be relatively unchanged under a reformed model.

The key implementation risks under this option are summarised in table 2.

**TABLE 2: KEY RISKS WITH OPTION TWO**

Issue	Strategies to address
Insufficient number of quality tenderers for new services in some locations	<ul style="list-style-type: none"> <li>• Use representative bodies to raise awareness.</li> <li>• Publication of tender in newspapers and Austender.</li> <li>• Develop gap filling strategy.</li> </ul>
Potential service gaps with a smaller number of providers and higher reliance on outcome payments	<ul style="list-style-type: none"> <li>• Encourage smaller organisations through partnering, consortia and sub-contracting.</li> <li>• Maximise the time available for partnering, consortia and sub-contracting to be formalised.</li> <li>• Undertake capacity to deliver assessments as part of the tender process.</li> </ul>

Issue	Strategies to address
	<ul style="list-style-type: none"> <li>• Develop gap filling strategy.</li> <li>• Undertake assessment of providers' financial viability through annual financial statements.</li> </ul>
Regularity savings are not delivered	<ul style="list-style-type: none"> <li>• Monitor level of savings.</li> <li>• Gather early feedback from stakeholders.</li> <li>• Ensure all implementation activity includes reporting on red tape impact.</li> </ul>
Providers are not ready to deliver services from 1 July.	<ul style="list-style-type: none"> <li>• Comprehensive provider readiness strategy.</li> <li>• Close liaison with successful tenderers.</li> <li>• Early release of guidelines and training material.</li> </ul>

### OPTION THREE: PAY FEES TO RECRUITMENT AGENCIES TO PLACE ELIGIBLE JOB SEEKERS IN EXISTING, ADVERTISED VACANCIES WITHOUT REGARD TO JOB SEEKER ACTIVATION OR ADDRESSING ISSUES PREVENTING JOB SEEKERS FROM FINDING AND STAYING IN WORK (LIGHT TOUCH REGULATORY OPTION)

A minimalist, light touch system could focus on a labour exchange function through intermediaries such as recruitment agencies. Such agencies could receive a small, fixed payment for placing an eligible job seeker into an existing employer vacancy.

This model would focus primarily on meeting the recruitment needs of employers from the existing pool of candidates rather than providing support to job seekers to overcome issues holding them back from employment or to prepare them for current and emerging jobs. There would be limited incentive for agencies to work with disadvantaged job seekers and, indeed, the likely agencies that would deliver a job matching services are not generally positioned to help job seekers overcome vocational and non-vocational barriers. If such incentives were included, the differentiation between options would be lost as the regulatory impact would remain largely unchanged.

Key elements of this option could include:

- the licensing of recruitment agencies to list vacancies on a central website and match, screen, refer and place job seekers to the vacancies;
- payments by the Government to the agencies differentiated by the length of job seeker unemployment to incentivise the agencies to focus on those individuals unemployed the longest. To streamline administration, no other differentiation by job seeker characteristic would be made. Otherwise, many of the elements that deliver regulatory savings would be reintroduced and the light touch elements of the model would be lost; and
- payment would be made on placement of a job seeker with no measure of sustainability.

The key risks associated with this option relate to a substantial decrease in access to employment opportunities for unemployed Australians and minimalist service coverage in poorer or regional labour markets.

## 8. COST BENEFIT ANALYSIS

### 8.1 THE ROLE OF EMPLOYMENT SERVICES IN ASSISTING DISADVANTAGED JOB SEEKERS

Employment services play an important role in the efficient operation of the labour market. They facilitate job seekers' transition into employment through matching job seekers with vacancies, advising job seekers on job search skills and improving the job readiness of job seekers.

Through these channels, employment services help reduce frictional unemployment, even in a full-employment environment. With Option Three (the light-touch regulatory option) only the first of these methods (matching job seekers with vacancies) would be available, but even so, some reduction in the frictional unemployment rate would be expected.

More intensive forms of employment services, such as under Options One and Two in this Statement, are expected to reduce the structural unemployment rate, through the methods mentioned above and also through other support measures such as training of job seekers to meet the needs of employers, providing wage subsidies to employers and tailoring assistance to individual job seekers to overcome their barriers to employment.

### 8.2 EVIDENCE ON THE IMPACT OF EMPLOYMENT SERVICES

Public funding of employment services is directed to the government's labour market policy and programmes to:

- improve the incentives for job seekers to actively look for employment, such as participation in Work for the Dole;
- place people into jobs through service provision to specific groups of disadvantaged job seekers, such as Indigenous job seekers, long-term unemployed people and job seekers with disability; and
- support incentives for employers to hire and retain unemployed people, such as wage subsidies.

Studies<sup>10</sup> from both Australia and abroad show that government active labour market policy and programmes improve labour market outcomes of job seekers, including disadvantaged job seekers.

- In his literature review on labour market programmes, Borland (2014)<sup>11</sup> states that some spending on active labour market programmes "is justified by outcomes such as increasing the pool of unemployed who are job ready and sharing the burden of unemployment". One of his lessons is that 'You get what you pay for', which tends to support the more intensive interventions in Options One and Two of this Statement over the light-touch regulatory option (Option Three).

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10 Borland, J. (2014), Dealing with unemployment: What should be the role of labour market programs? Evidence Base, issue 4, 2014, <journal.anzsog.edu.au>, The Australia and New Zealand School of Government.

11 Borland, J. (2014), *ibid*.

- Regarding Australian studies, Connolly, Herd and Neo (2002)<sup>12</sup> estimated that a higher intensity of government active labour market programmes (measured as real Australian Government spending on labour market programmes<sup>13</sup>, per unemployed person) was followed by a reduced incidence and rate of long-term unemployment.
- Connolly and Cunningham (2003)<sup>14</sup> estimated that a higher intensity of government active labour market programmes (measured in the same way as in Connolly, Herd and Neo 2002) was followed by a reduced average duration of unemployment. In both of these studies, these effects were found even after allowing for the effects of job seekers going through multiple labour market programmes and correcting for a large number of other influences on unemployment duration such as real labour costs to business.
- Long-term unemployed people were one of the main categories of disadvantaged job seeker, and a higher average duration of unemployment can be a sign of a build-up of disadvantaged job seekers. These findings tend to support more active and intensive forms of employment services (such as Option One and Two) over lighter-touch regimes such as Option Three.
- Davidson (2011)<sup>15</sup> in his analysis of Australian and overseas labour market programmes, stated that “Overall, the most effective programs appear to be wage subsidies for temporary mainstream jobs and job-search assistance”. This also tends to support the Options One and Two which allow employment service providers to provide wage subsidies to employers and provide more intensive job-search assistance over the light-touch regime.

## OPTION ONE: MAINTAIN THE CURRENT SERVICE DELIVERY MODEL AND CONTRACTUAL ARRANGEMENTS WITH PROVIDERS (STATUS QUO)

Under this option, there is no net benefit in terms of regulation or better outcomes for job seekers. The principal benefit of this option is that existing providers would not be required to retender in the short term and would, subject to satisfactory performance, have contract certainty for a further three year period.

The Department, in consultation with Jobs Australia and the National Employment Services Association, has estimated that as at October 2013, the regulatory cost of the current Job Services Australia operations was in the order of \$259.3 million per annum. Where appropriate, the number of relevant transactions for each element in this option was determined through the current information technology system. The number of transactions

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12 Connolly, G., Herd, A. and Neo, L. (2002), The Effects of Labour Market Assistance Spending, Population Flows and Churning on Long-term Unemployment, A Paper presented to the Australian Labour Market Research Workshop 2002, Emmanuel College, The University of Queensland, St Lucia, Brisbane, 9-10 December.

13 Labour market programmes include not only employment services, but also other programmes such as employer incentives to hire apprentices and trainees.

14 Connolly, G., and Cunningham, B. (2003), The Average Duration of Unemployment per Labour Force Member as an Indicator of Australian Labour Market Performance, A Contributed Paper presented to the 32nd Conference of Economists, ANU, Canberra, 29 September – 1 October.

15 Davidson, P. (2011), “Did ‘Work First’ Work? The Role of Employment Assistance Programs in Reducing Long-term Unemployment in Australia (1990–2008)”, Australian Bulletin of Labour 37 (1), 51-96.



that occurred in the 12 month period prior to October 2013 was generally used as the basis of calculations as these were considered to be reflective of the entire Job Services Australia contract period.

**TABLE 3: BENEFITS AND ISSUES WITH STATUS QUO OPTION (ISSUES AND BENEFITS OF MOST SIGNIFICANCE ARE SHADED)**

<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
Incentives for providers	No change to the incentive structure so providers can better anticipate future cash flow	No change to the incentive structure to reward high performing providers
Compliance/red tape impact for providers	Incremental changes to policy and information technology able to be progressed	Reduced opportunity for significant reform to streamline service delivery
Market stability: number of employment regions	No change to coverage requirements	No change to configuration to better support provider operations
Market stability: providers	Subject to satisfactory performance, existing providers would have contract certainty for a further three year period	The current inefficiencies, confusion and duplication would continue
Management of contracted providers	Providers are familiar with the current arrangements	Providers regard the current compliance burden as onerous
Approach to servicing	Providers are familiar with the current arrangements and do not need to invest in staff training or new service delivery models	Current prescriptive approach to job seeker contacts and servicing with limited scope for innovation
Employment Outcomes	Providers are familiar with the current arrangements and do not need to invest in staff training or new service delivery models to deliver better outcomes	No change to the incentive structure to support providers to deliver more or better outcomes, including for Indigenous job seekers
Impact on employers	No change to employer engagement, with current providers maintaining relationships with current employers where their needs are being met	No change to services to employers, resulting in an increased risk of disengagement and limited growth in the number of employers hiring unemployed Australians
Impact on employers: regulation	No change, with no new requirements for employers.	No change, with employers still being requested for evidence to verify that a job seeker is working
Impact on job seekers: servicing	No change to services to job seekers, with current providers continuing to service job seekers	No change to services to job seekers, resulting in potential for lost opportunities from any improvements to increase job outcomes  Current prescribed approach to job seeker servicing continues, reducing provider capacity to respond to individual job seeker needs and increase job outcomes

<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
Impact on job seekers: regulation	No change to services to job seekers, with regulatory requirements continuing.	No change for job seekers with reduced potential for job seekers to use apps and other mobile technology to interact with their provider
Impact on the community	Familiarity with current arrangements and expectations	Reduced opportunity for society to benefit from a more effective and efficient model and to increase job outcomes
Impact on the Government	No transition or implementation costs	Reduced impact on increasing workforce participation

## OPTION TWO: FUNDAMENTAL REFORM OF EMPLOYMENT SERVICES (PREFERRED)

The Department, in consultation with Jobs Australia and the National Employment Services Association, has estimated that the regulatory cost of the new model is in the order of \$197.1 million per annum, which is \$62.1 million less than Option One.

This option includes a number of elements to reduce regulation on providers:

- payments to providers will be structured to promote stronger performance and emphasise the achievement of employment outcomes, not process;
- services will be more responsive to the recruitment needs of employers;
- more provider discretion on service interventions for job seekers;
- information technology that is more user friendly, reduces transactions and has more in-built checks to reduce double handling by provider staff;
- increased use of mobile apps to automate communication between providers and job seekers for job seekers to record job search, on-line acceptance of Job Plans and activity attendance;
- the existing Employment Services Areas would be replaced by 51 Employment Regions to encourage greater efficiency through economies of scale;
- a better targeted Employment Fund with more streamlined transactions;
- simplified outcome definitions and evidentiary requirements;
- streamlined administration fee claims to be largely automate each six months;
- three service streams for job seeker rather than four streams to reduce complexity;
- the introduction of Work for the Dole Coordinators to promote Work for the Dole and gather suitable places; and
- more concise guidelines.

For some specific elements of the proposed model, there will be an increase in regulation. This would primarily relate to recording that job seekers are fully meeting their mutual

obligation requirements. This will be in part ameliorated through better information technology and increased use of mobile apps to record attendance.

Overall, this option provides substantive opportunities to reduce the regulatory burden while better incentivising providers and focussing on results over process. It is the most likely to meet the objectives to reduce red tape and service prescription while delivering more outcomes for job seekers and better meeting the needs of employers.

Under this option, the number of areas providers would be contracted to service would be reduced from 110 non remote areas to 51. This responds to feedback that these areas need to be reviewed to better align with natural labour markets, transport corridors and Australian Bureau of Statistics collection areas. The Department of Employment has also received feedback that a smaller number of areas would reduce some of the obstacles providers experience in servicing employers and provide access to a larger caseload of unemployed people.

Given the changed area boundaries and the feedback that there are too many providers in some locations, consolidation would bring a number of benefits including:

- increasing outcomes for job seekers and employers by removing poorer performing organisations from the sector;
- enhancing collaboration across providers, with organisations able to work collectively to develop joined up solutions relevant to local labour market needs;
- reducing confusion for jobseekers, other community agencies and employers;
- reducing employer 'contact fatigue' from multiple providers contacting them with potential candidates; and
- increasing efficiencies within provider organisations and economies of scale.

Small organisations would be encouraged to participate by:

- considering group tendering arrangements if they did not wish to bid in their own right;
- acceptance of bids for part of an Employment Region (although preference would be given to tenders that geographically cover all of an Employment Region); and
- preference to tenderers that demonstrated ability and clear strategies (such as formal links with specialist organisations) to deliver quality service and achieve employment outcomes for specific client groups.

**TABLE 5: BENEFITS AND ISSUES WITH FUNDAMENTAL REFORM OPTION  
(ISSUES AND BENEFITS OF MOST SIGNIFICANCE ARE SHADED)**

<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
Incentives for providers	High performing providers would be rewarded through the payment and performance frameworks, including business reallocation	Providers would need to achieve outcomes and would not be able to rely on administration fees to remain viable
Compliance/red tape impact for providers	Significant opportunity to reform service delivery, reduce red tape and more closely align compliance and accountability	Providers would need to retrain staff and review their own internal processes on transition
Market stability: number of employment regions	Decreased number of regions would better align with labour markets. Regional loading would address costs in non-metropolitan areas	Larger regions may test some organisations' capacity to service all locations
Market stability: providers	Move to a five year contact would increase stability and sub-contracting opportunities available	Providers selected for their capacity to deliver the new programme. Poorer performing providers may lose market share or cease delivery on transition
Management of contracted providers	Streamlined due to the more flexible service delivery model and increased reliance on data sharing to verify outcomes  Independent certification of providers against an industry-specific Quality Framework to ensure optimal governance and operating models are in place	Role of providers' internal review to maintain reputation of the programme
Approach to servicing	Provider differentiation. Increased scope for provider flexibility and innovation with less service prescription	Job seekers and employers will need to understand that different providers may offer different services
Employment Outcomes	Outcome payments for employment for four, 12 and 26 weeks recognise opportunities through seasonal and short term jobs	Providers will need to understand the recruitment needs of employers and prepare and refer job seekers who meet those business needs
Impact on employers	More responsive providers under a payment and performance framework that is focussed on sustainable outcomes to better support job seekers to meet the recruitment needs of employers and increase job outcomes	Some disruption if provider changes however potential for longer relationships under five year deals and larger employment regions
Impact on employers: regulation	Decreased regulation as better data sharing with the Department of Human Services reduces need for paperwork from employers to support job outcomes	Increased reporting for community organisations hosting a Work for the Dole participant
Impact on job seekers	Increased opportunity to secure employment through providers operating under a payment and performance framework that is	Job seeker confusion or resistance to activation policies

<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
	<p>focussed on sustainable outcomes</p> <p>More tailored services to meet individual job seeker needs</p>	
Impact on job seekers: regulation	<p>Decreased regulation as better data sharing with the Department of Human Services would reduce the need for paperwork from employers to support job outcomes</p> <p>More streamlined reporting as job seekers report job search to providers rather than Department of Human Services</p>	Increased reporting of participation in annual activity requirements such as Work for the Dole
Impact on the community	<p>Expansion of Work for the Dole to provide projects of local benefit</p> <p>Increased opportunity to secure employment through providers that are more responsive to the recruitment needs of employers</p>	<p>Results of tender may change providers that are known in the community and the current location of sites</p> <p>Reporting for community organisations hosting a Work for the Dole participant</p>
Impact on the Government	Key strategy to deliver increased workforce participation	Additional transition and implementation costs

**TABLE 6: REGULATORY BURDEN AND COST OFFSET (RBCO) ESTIMATE TABLE FOR OPTION TWO**

Average Annual Compliance Costs (from Business as usual)				
Costs (\$m)	Business*	Community Organisations*	Individuals	Total Cost**
<b>Total by Sector</b>	-\$27.1	-\$29.4	-\$5.6	-\$62.1
Cost offset (\$m)				
Agency	Business	Community Organisations	Individuals	Total by Source
Within portfolio				
Outside portfolio				
<b>Total by Sector</b>				
<b>Proposal is cost neutral?</b> <input type="checkbox"/> yes <input checked="" type="checkbox"/> no				
<b>Proposal is deregulatory</b> <input checked="" type="checkbox"/> yes <input type="checkbox"/> no				
<b>Balance of cost offsets</b> <b>-\$62.1</b>				

\* Option Two assumes 52 per cent of the employment services caseload being managed by not for profit organisations and 48 per cent by profit organisation.

Assumes employer costs are 60 per cent business and 40 per cent community organisations.

\*\* This includes \$22.5 m of regulatory saves announced in 2013 and 2014.

### OPTION THREE: PAY FEES TO RECRUITMENT AGENCIES TO PLACE ELIGIBLE JOB SEEKERS IN EXISTING, ADVERTISED VACANCIES WITHOUT REGARD TO JOB SEEKER ACTIVATION OR ADDRESSING ISSUES PREVENTING JOB SEEKERS FROM FINDING AND STAYING IN WORK (LIGHT TOUCH REGULATORY OPTION).

The Department has estimated that the regulatory cost of this model is in the order of \$76.2 million per year. Such an approach would provide significant regulatory efficiencies as licensees would only need to undertake core administrative functions, which could be done through an information technology system, to demonstrate compliance such as:

- recording vacancies received from employers;
- recording job seeker referrals to vacancies; and
- confirming placements of eligible job seekers had been made.

However, such an approach would fail to deliver the policy objective to promote stronger workforce participation by people of working age and help more job seekers move from welfare to work.

As outlined in Section 4, over 65 per cent of the current Job Services Australia caseload have at least a moderate level of barriers to employment and people in receipt of income support and unemployed are at a higher risk of being disadvantaged. For example, a Productivity Commission paper on Deep and Persistent Disadvantage in Australia indicates that "People at highest risk of experiencing deep or multiple forms of disadvantage include those who are dependent on income support, unemployed people, Indigenous Australians, people with a

long term health condition or disability, lone parents and people with low educational attainment”<sup>16</sup>.

Job seekers would receive no support to undertake job search activities or vocational assistance. Disadvantaged job seekers would not receive any non-vocational assistance to overcome work related barriers. There would be reduced regulation requirements for job seekers beyond standard mutual obligation requirements and for employers as there would be reduced employer incentives.

An approach that would rely solely on recruitment agencies to access advertised vacancies would deny job seekers access to jobs advertised through other sources. As an example, recent departmental research indicates that 40 per cent of employers recruiting for lower skilled jobs used only informal methods to recruit (word of mouth, signs in windows and so forth). Surveys by the Department of Employment on Employers’ Recruitment Experiences in the 12 months to December 2014 also indicated that one in three vacancies are not advertised.

More informal recruitment methods can be seen as more convenient and easier for the employer to navigate. However, job seekers would not receive support to access vacancies through self-directed job search and agencies with connections to the broad range of occupations available in any labour market.

The subsequent decrease in outcomes for job seekers would, as outlined in Section 6, reduce opportunities for job seekers to access the financial, social and individual benefits of work. Likewise, any erosion in higher intensity government funded active labour market programmes would result in an increased incidence and rate of long-term unemployment. These impacts would be very concerning as long periods of unemployment have been shown to have potentially scarring affects which have an ongoing, harmful impact on individual aspects such as lower future income, skills validity, future employability, job satisfaction, happiness and health levels.<sup>17</sup>

Any eligible organisation that met base minimum requirements would be eligible for a licence under this option. Unlike Option One Two which would require an open competitive tender to select the best organisations, Option Three would not provide any certainty for providers – another licensee could start up nearby without notice – therefore limiting any incentive for organisations to make any up-front investment.

From 2003 to 2009, agencies were licensed to deliver Job Placement services alongside and in addition to Job Network providers. This demonstrated a range of issues with the approach including<sup>18</sup>:

- the distribution of licences was heavily biased towards metropolitan areas, with limited coverage of agencies that were not already Job Network members in regional areas;

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16 <http://www.pc.gov.au/research/completed/deep-persistent-disadvantage/deep-persistent-disadvantage.pdf>

17 [http://www.oecd.org/cfe/leed/Tackling%20Long\\_Term%20unemployment\\_%20WP\\_covers.pdf](http://www.oecd.org/cfe/leed/Tackling%20Long_Term%20unemployment_%20WP_covers.pdf)

18 Active Participation Model Evaluation: July 2003 — June 2006 , Evaluation and Program Performance Branch, Research and Evaluation Group, November 2007

- jobs advertised under the licence arrangement were more likely to be casual or part-time than those advertised by Job Network members;
- the reach of licensed agencies into semi and lower skills jobs was not as strong, with their specialisation tending to focus on “white collar” jobs, particularly managerial, professional and administrative positions;
- licensed agencies referred fewer job seekers classified as highly disadvantaged (7.2 per cent of referrals compared to almost 14 per cent in the case of Job Network members) and a higher proportion of job seekers unemployed for less than three months (42 per cent compared to 32 per cent); and
- placements which were attributed to licensed agencies and attracted a 13 week outcome were more likely than others to be followed by a return to income support, especially after the seventh month.

Because of the focus on the more job ready job seekers, employers reported higher levels of satisfaction with licensed agencies than Job Network. Licensed agencies were more likely to offer labour hire and to specialise in particular industries or occupations requiring certain levels of skill which also tended to increase employer satisfaction.

**TABLE 7: BENEFITS AND ISSUES WITH LIGHT TOUCH REGULATORY OPTION  
(ISSUES AND BENEFITS OF MOST SIGNIFICANCE ARE SHADED)**

<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
Incentives for providers	Large scale recruitment agencies could operate the service as an adjunct to current activities	Incentives based on volume of small job placement fee payments and repeat business from employers is unlikely to support standalone agencies
Compliance/red tape impact for providers	Light touch licence arrangement with limited entry requirements	No certainty and organisations would need to have other sources of funds as the small job matching fee would be unlikely to support operations
Market stability: number of employment regions	Licensed agents could apply for licences in any locations	Potential for over servicing of stronger labour markets and no coverage in other areas.
Market stability: providers	Large recruitment agencies could see this as an add-on to core business	Expected high turnover due to viability issues
Management of contracted providers	Light touch approach reliant on repeat business of employers	Light touch approach could result in collusion between agencies and employers and churning of job seekers through short turn jobs



<b>Element</b>	<b>Benefits</b>	<b>Issues</b>
Approach to servicing	Less disadvantaged job seekers could be placed in jobs quickly	Decrease in job outcomes  Job seekers would not be assisted to overcome issues holding them back from employment; job seekers would not be trained for emerging opportunities; no scope to encourage or facilitate recruitment of particular job seekers, such as Indigenous, young or mature age job seekers or job seekers with disability; and placement rates would reduce
Employment Outcomes	Simpler payment structure and efficiency in placement of work ready job seekers	Likely to be a substantial reduction in sustainable jobs for disadvantaged job seekers and in movement of people from welfare to work. Potential for increased long-term unemployment
Impact on employers	Employers seeking job ready candidates may have an increased pool of candidates as unemployed people could register with multiple recruitment agencies	No wage subsidies to incentivise employers to take on disadvantaged job seekers or support for employers who take on unemployed people who require post placement support
Impact on employers: regulation	Decreased regulation as no wage subsidies or assistance available to apply for or report on	No reporting for wage subsidies or other government support
Impact on job seekers	Potential for more choice of provider for work ready job seekers	Substantial reduction in the services available to job seekers  Job seekers would not be trained for emerging opportunities; no scope to encourage or facilitate recruitment of particular job seekers, such as Indigenous, young or mature age job seekers or job seekers with disability; and placement rates would reduce
Impact on job seekers: regulation	Decreased regulation as reduced service interventions and reporting requirements	Reporting of social security law mutual obligation obligations would return to the Department of Human Services

Element	Benefits	Issues
Impact on the community	Low cost service	Substantial reduction in the opportunity for society to benefit from a more effective and efficient model to reduce income support outlays and give community members access to the financial, social and community benefits that paid work brings  Loss of providers that are known in the community and the current location of sites.
Impact on the Government	Low cost employment service	Would not deliver increased workforce participation

**TABLE 8: REGULATORY BURDEN AND COST OFFSET (RBCO) ESTIMATE  
TABLE FOR OPTION THREE**

Average Annual Compliance Costs (from Business as usual)				
Costs (\$m)	Business*	Community Organisations*	Individuals	Total Cost
<b>Total by Sector</b>	-\$67.0	-\$109.2	-\$6.8	-\$183.1
Cost offset (\$m)				
Agency	Business	Community Organisations	Individuals	Total by Source
Within portfolio				
Outside portfolio				
<b>Total by Sector</b>				
<b>Proposal is cost neutral?</b> <input type="checkbox"/> yes <input checked="" type="checkbox"/> no				
<b>Proposal is deregulatory</b> <input checked="" type="checkbox"/> yes <input type="checkbox"/> no				
<b>Balance of cost offsets</b> <b>-\$183.1</b>				

\* Option Three assumes 80 per cent of agencies are profit organisations and 20 per cent not for profit organisations. Employer costs are assumed to be 80 per cent business and 20 per cent community organisations.

## 9. CONSULTATION

Feedback on the operation of the current Job Services Australia model and options for potential reform has been gathered on an ongoing basis through:

- job seeker and employer complaints and feedback – each year the department responds to 35,000 calls to its Customer Feedback Line;
- surveys of over 245,000 job seekers annually to gain feedback on their providers and their experience with employment services; and
- ongoing bilateral discussions with employment services providers and employment services representative bodies.

The following mechanisms were used by the Department of Employment to specially inform the potential options and overall regulatory burden:

- analysis of over 170 submissions from employer, community and provider groups received in mid-2013 through a six week consultation process on the future arrangements for employment services, including options to reduce red tape;
- analysis of feedback at information sessions and around 60 submissions on the Exposure Draft for Employment Services 2015-2020 Purchasing Arrangements that was open for public consultation on 28 July 2014 with submissions closing on 25 August 2014;
- discussions about potential regulatory impacts at meetings with the National Employment Services Association and Jobs Australia as key employment services representative bodies were conducted from July 2014 to March 2015;
- meetings of the Information Technology Advisory Group on the design and functionality of the information technology system were held on a quarterly basis in 2014 and then on a monthly basis in 2015;
- meetings with the National Employment Services Association and Jobs Australia and a sample of current Job Services Australia providers in February to test the assumptions underpinning the regulatory impact and agree what comprised regulation in employment services.

Overall, the consultations confirmed the benefits of reforming employment services. A small number of stakeholders - generally current employment service providers - supported the status quo. However the majority stakeholders including providers, employer groups and community representatives supported the need for fundamental reform to the approach to employment services.

The key themes from the consultation of most relevance to this Statement include:

- broad support for a range of contractual changes to employment services arrangements including five year contracts, the introduction of regional loadings and a mid-contract price adjustment, with the strongest feedback in this area from employment services organisations;
- broad support for an increased focus on outcomes from employment services, employer and community stakeholders, with some discussion over the specific fee structure;
- broad support for the need for increased provider flexibility and decreasing the administrative impost from employment services, employer and community stakeholders to enable providers to better use their expertise to assist job seekers to meet the needs of employer;
- concerns by about how particular job seeker groups would be assisted to get and keep employment;
  - This was addressed under Option Two through the introduction of provisions to give preference to tenderers that demonstrate the ability and clear strategies (such as formal links with specialist organisations) to deliver quality service and achieve employment outcomes for specific client groups.

- some concerns around the specific timetable for tendering, with some stakeholders being concerned it will not allow organisations time to form partnerships and consortia;
  - This was addressed under Option Two through extending the timeframe for Tenderers to formalised their group tendering arrangements
- concerns that the Department of Human Services should retain responsibility for making decisions on financial penalties if a job seeker does not attend an appointment; and
  - The Government agreed under Option Two to retain decisions on financial penalties with the Department of Human Services.
- feedback that job seekers job search requirements needed to reflect their particular circumstances and the local labour market conditions, primarily from employer and community stakeholders.
  - This was addressed under Option Two by giving providers the flexibility to adjust the requirement of 20 job searches per month for most job seekers depending on the individual circumstances of the job seeker and labour market conditions.

No stakeholder in the consultation process put forward an option to increase involvement of recruitment agencies accompanied by a decrease in the level of assistance to deliver a light touch regulatory option. The Recruitment and Consulting Services Association did note the need for increased collaboration between private recruitment agencies and Government funded employment services providers in their submission on the Exposure Draft for Employment Services 2015-2020 Purchasing Arrangements<sup>19</sup>.

Meetings with the National Employment Services Association and Jobs Australia and a sample of current Job Services Australia providers in February broadly substantiated the assumptions regarding the time dedicated to regulatory activity for employment providers and employers. In these discussions participants noted that as detailed guidelines, contractual requirements and information technology requirements were work in progress, it would be necessary for the Department of Employment to review estimates post implementation. This will be done through the mechanisms outlined under the Implementation and Evaluation section below.

Feedback from the consultation process on the regulatory issues and benefits was considered at key decision points in the development of the new employment services model.

As outlined in Table 8, the regulatory impacts have been taken into consideration in the policy and operational decisions under a strong governance framework.

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<sup>19</sup> Submission received on Employment Services 2015-2020 Exposure Draft - Recruitment and Consulting Services Association (RCSA) at <http://docs.employment.gov.au/node/34321>

**TABLE 8: KEY DECISION POINTS**

<b>Decision point</b>	<b>Statement consideration</b>
Government policy announcement and release of Exposure Draft for Employment Services 2015-2020 Purchasing Arrangements	A draft Regulation Impact Statement was developed in March 2014 and considered by the Senior Responsible Officer in the development of the Exposure Draft.
Government policy announcement and release of Request for Tender for Employment Services 2015-2020	<p>The assumptions underpinning the draft Regulation Impact Statement were refined through feedback from the Exposure Draft.</p> <p>Policy, operational and implementation decisions were considered by an Employment Services 2015 Committee, chaired by the Deputy Secretary of Employment, throughout the process.</p> <p>All papers considered by the Committee included a specific section in which regulation impacts were summarised for consideration.</p>
Decision by delegate on successful tenderers	The Deputy Secretary of Employment is the Senior Responsible Officer for the project and the delegate for purchasing decisions. The delegate, in his role as chair of the Employment Services 2015 Committee, was fully apprised of the regulatory impact.
Conformation of the execution of all deeds	As deeds were returned to the Department following acceptance by successful tenderers, they were executed by the Commonwealth. As all tenderers accepted business, there was no further feedback and the Government was advised of implementation on 1 July 2015.

## 10. IMPLEMENTATION AND EVALUATION

The results of the Request for Tender for the new employment service model were announced on 31 March 2015. Comprehensive governance and reporting mechanism were put in place to support the development and implementation of the model and transition arrangements.

A post implementation review will be conducted by the Department of Employment by the end of March 2016 which will review any short term issues with the development and implementation of the new model, including the regulatory changes.

Areas for ongoing evaluation include:

- the effectiveness and efficiency of the new model in moving job seekers into employment and off income support;
- whether the new model better prepares job seekers to meet the needs of employers;
- how effective and efficient the new model is in engaging job seekers to participate in services and activities; and
- whether the new model reduces the administrative burden and service prescription for employment services providers.

A wide range of methodologies will underpin evaluation activity including qualitative data and consultations with employers and employment service providers through online forums, 22 surveys and in-depth interviews, feedback from job seekers and quantitative analysis of administrative and longitudinal data.

## **11. CONCLUSION AND RECOMMENDATION**

The Government is committed to supporting an employment services system that better meets the needs of employers and gets job seekers off welfare and into work sooner and for longer.

The current Job Services Australia system under Option One has become unnecessarily complex and prescriptive and is in need of a major overhaul to focus on meeting the needs of employers, deliver real jobs and support the activation of job seekers. This is supported by feedback from stakeholders including employers, job seekers and current employment services providers. Option One does not provide the opportunities for policy and programme reform and regulatory benefits that are available under Option Two.

While Option Three provides a light regulatory touch, it would fundamentally weaken the current approach to labour market activation that the OECD has confirmed can be successful in improving labour market outcomes for jobseekers and encouraging greater labour force participation. As outlined on page 15, domestic and international research has determined that active labour market assistance, wage subsidies and other interventions play an important role in reducing the incidence and rate of long-term unemployment. Such services would not be available under Option Three to deliver the light touch regulatory framework.

Option Three would also primarily rely on recruitment agencies to access advertised vacancies which would limit job seekers' access to jobs advertised through other sources. As the previous experience with Job Placement licenses demonstrates, the type of jobs and characteristics of job seekers with access to them would change substantially. Such an approach would therefore fail to deliver the policy objective to promote stronger workforce participation by people of working age and help more job seekers move from welfare to work.

On this basis, Option Two is the preferred approach to improve the overall effectiveness of the employment services system. Option Two would address stakeholder feedback around the current need to increase employer engagement and provide a sustainable employment services sector, Option Two would set stronger expectations for organisations to support job seekers to better meet the needs of employers and prepare job seekers to have the skills and attributes they need to be recruited and stay in a job. It is expected to drive stronger employment outcomes and provide a clearer and more integrated framework to instil pro-work behaviours in job seekers while ensuring resources are directed to those job seekers who require more support to move from welfare to work.

Option Two would also reduce the regulatory impact for employment services through a range of mechanisms including its programme design, less service prescription, enhanced information technology and more concise guidance material, while maintaining quality and accountable services. The implementation risks of such reform as outlined in Table 2 will be managed through the specific treatments identified, ongoing stakeholder consultation and strong governance and monitoring.