

**New Disability Employment Services Program from 2018
Regulation Impact Statement**

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Introduction

This Regulation Impact Statement (Statement) has been prepared by the Department of Social Services (the Department or DSS) regarding changes to the Disability Employment Services (DES) Program, to come into effect from 1 July 2018.

This Statement considers the impact of regulation on organisations contracted to provide DES services, participants in the program and employers of participants. DES has two minor support programs: National Panel of Assessors (NPA) and Job Access.

The decision by Government to fund and commence a reform program of DES, as outlined in the 2017-18 Budget, was informed by an interim version of this Statement. A final version of this Statement is being prepared to inform the decision to develop and adopt the policy changes proposed in the Budget and to be agreed with the providers of DES. The agreement to the decision will occur in January 2018 to April 2018, and will be supported by this Statement.

In summary, the changes associated with the preferred option discussed in section 5 below will reduce the regulatory burden on DES participants and providers, resulting in a regulatory save of approximately \$42.6 million annually.

Background

DES Programs

The Australian Government (Government) invests around \$800 million each year in DES and associated services to provide open employment opportunities for people with disability. DES provides specialist employment assistance to help people with disability, injury or health conditions find and retain sustainable employment in the open labour market. DES also provides support to employers, if needed, and has a key role in assisting people in receipt of income support to meet their mutual obligation and participation requirements.

DES was introduced on 1 March 2010 and was developed through a comprehensive consultation process with people with disability and their representatives, employers and employment service providers.

DES currently offers two uncapped programs:

- DES-Disability Management Service (DES-DMS) is for eligible job seekers with temporary or permanent disability, injury or health conditions who are not expected to need regular, long-term support in the workplace; and
- DES-Employment Support Service (DES-ESS) is for eligible job seekers with permanent disability who are assessed as needing regular, long-term ongoing support in the workplace.

The 118 current DES providers are a mix of large, medium and small, for-profit and not-for-profit organisations that are experienced in providing services and support for job seekers and employers. The Government contracts DES providers in 1,895 distinct sites across Australia to provide services as set out in the *Disability Employment Services Deed* and associated guidelines. DES providers are also required to comply with the *Disability Services Act 1986*, which broadly legislates the framework for employment services to support job seekers and workers with disability.

There is a comprehensive set of Departmental mechanisms that govern and monitor the performance of DES providers. These include a well-established DES performance framework and a compliance and contract monitoring framework. Providers are also required to be certified under the *National Standards for Disability Services* in order to deliver services. The DES performance star rating system provides additional incentive for providers to achieve outcomes for their participants. To achieve these employment outcomes, a DES provider may need to overcome overt or underlying discrimination against people with disability, or a lack of understanding of disability employment issues by themselves or by employers.

DES was introduced in 2010 as part of the consolidation and reform of two previous Government programs, Vocational Rehabilitation Services (VRS) and Disability Employment Network (DEN). The DES program changed the fee structure and uncapped the number of participants eligible to receive the services. Due to these changes - DES has either matched or exceeded the number of participants in the VRS and DEN programs, once differences in policy and measurement methods are taken into account.

Disability Statistics in Australia

The Australian Bureau of Statistics, most recent, 2015 Survey of Disability, Ageing and Carers (SDAC) identified the following.

The SDAC estimated that 4.3 million Australians, or 18.3 per cent of the population, had a disability. SDAC defines disability as any limitation, restriction or impairment which restricts everyday activities and has lasted, or is likely to last, for at least six months. In 2015, the prevalence of disability in Australia remained steady at 18.3 per cent compared with 18.5 per cent in 2009 and also in 2012.

Disability can impact on a person's opportunities to participate in the labour force. People aged between 15 and 64 years with disability have both lower participation (53 per cent) and higher unemployment rates (9.4 per cent) than people without disability (83 per cent participation and 4.9 per cent unemployment rates). Lower employment rates, along with the older profile of people with disability, contribute to people with disability aged 15 years and over being more likely to live in a household in the lowest two equivalised gross household income quintiles than those without disability (48 per cent compared with 22 per cent).

DES Caseload

DES provides services to a small portion of the 4.3 million Australians with a disability. Only a small portion require services at any point in time due to the total cohort comprising a variety of needs and attributes including: people under and over working ages, a portion in work, looking for work through various services and programs or not looking for work.

Table 1 shows the composition of the DES caseload, including primary disability where the primary disability is the main barrier and constraint to obtaining employment.

Table 1 DES Job Seeker
 Characteristics by Caseload (data as
 at 30 June 2017)

Job Seeker Characteristics	Disability Management Service	Employment Support Service	Total DES	% of Total Caseload
Primary Disability				
Physical	47,675	33,499	81,174	43.4%
Psychiatric	30,290	39,726	70,016	37.4%
Specific Learning/ADD (other than Intellectual)	672	5,350	6,022	3.2%
Intellectual	195	7,660	7,855	4.2%
Neurological (including Epilepsy & Alzheimer's Disease)	2,657	4,637	7,294	3.9%
Autism (including Asperger's Syndrome)	367	6,711	7,078	3.8%
Hearing	735	1,922	2,657	1.4%
Acquired brain injury	439	1,696	2,135	1.1%
Vision	654	1,500	2,154	1.2%
Speech	65	287	352	0.2%
Deafblind (Dual Sensory)	30	176	206	0.1%
Unknown/Not Stated	15	108	123	0.1%
Total	83,794	103,272	187,066	100.0%
Allowance Type				
Newstart Allowance/Youth Allowance	75,378	70,192	145,570	77.8%
Disability Support Pension	1,341	20,457	21,798	11.7%
Parenting Payment Partnered/Single	994	740	1,734	0.9%
Other Pension or Allowance	534	722	1,256	0.7%
Non-Allowee	5,547	11,161	16,708	8.9%
Total	83,794	103,272	187,066	100.0%
Age				
Under 21	2,106	9,623	11,729	6.3%
21 - 24	4,804	11,411	16,215	8.7%
25 - 34	11,660	20,429	32,089	17.2%
35 - 44	15,112	16,384	31,496	16.8%
45 - 49	11,046	10,525	21,571	11.5%
50 - 54	12,298	11,158	23,456	12.5%
55 - 64	26,622	23,519	50,141	26.8%
65 and over	146	223	369	0.2%
Total	83,794	103,272	187,066	100.0%
Gender				
Male	43,903	58,124	102,027	54.5%
Female	39,891	45,148	85,039	45.5%

Total	83,794	103,272	187,066	100.0%
Job Seeker Characteristics	Disability Management Service	Employment Support Service	Total DES	% of Total Caseload
Cohorts				
Indigenous	4,223	6,389	10,612	5.7%
CALD (Culturally and Linguistically Diverse)	18,549	15,594	34,143	18.3%
Homeless	5,606	6,762	12,368	6.6%
Refugees	4,230	3,574	7,804	4.2%
Ex Offender	5,861	7,815	13,676	7.3%

* This data can be found on the [Employment LMIP](#)

Table 2 – Trend in Caseload by allowance type

Table 2 shows how each allowance type contributes to the total caseload. Proportionally there is an increasing percentage of DES participants receiving Newstart or Youth Allowance. This is likely to be due to external non DES policy changes that could include mutual obligations from other programs. Refer to section on increase in Newstart for more details.

DES-DMS	Mar-12	Mar-13	Mar-14	Mar-15	Sep-15
Newstart Allowance/Youth Allowance	70.5%	80.2%	85.0%	87.9%	87.5%
Disability Support Pension	6.3%	4.7%	3.9%	3.1%	2.7%
Parenting Payment Partnered/Single	6.3%	1.8%	1.7%	1.5%	1.4%
Other Pension or Allowance	1.2%	1.2%	1.0%	0.7%	0.8%
Non-Allowee	15.7%	12.1%	8.4%	6.8%	7.7%

DES-ESS	Mar-12	Mar-13	Mar-14	Mar-15	Sep-15
Newstart Allowance/Youth Allowance	42.6%	50.4%	53.6%	57.1%	59.1%
Disability Support Pension	36.9%	30.5%	30.2%	28.6%	27.0%
Parenting Payment Partnered/Single	2.9%	0.7%	0.8%	0.9%	0.9%
Other Pension or Allowance	0.9%	0.8%	0.8%	0.7%	0.7%
Non-Allowee	16.6%	17.7%	14.5%	12.6%	12.4%

DES	Mar-12	Mar-13	Mar-14	Mar-15	Sep-15
Newstart Allowance/Youth Allowance	56.4%	65.6%	68.6%	71.2%	72.2%
Disability Support Pension	21.8%	17.3%	17.6%	16.9%	15.7%
Parenting Payment Partnered/Single	4.6%	1.2%	1.3%	1.2%	1.1%
Other Pension or Allowance	1.1%	1.0%	0.9%	0.7%	0.8%
Non-Allowee	16.2%	14.8%	11.6%	10.0%	10.2%

At the end of December 2016 there were over 187,000 participants in DES. This compares to 108,000 participants when DES started in March 2010. Since the removal of restrictions on the number of people who could participate in DES in March 2010, there has been a steady increase in the overall caseload.

Skill Levels for Employment

As indicated in Table 3, the skills required to obtain employment have been increasing. However, some disability characteristics are barriers to obtaining skills required for employment. For people with these disability characteristics it will be increasingly difficult to find employment.

Table 3 - Department of Employment projected skill levels required to obtain employment.

Skill Level	Employment level - November 2015 ('000)	Department of Employment Projections		
		Projected employment level - November 2020 ('000)	Projected employment growth - five years to November 2020	
			('000)	(%)
Skill Level 1	3723.0	4205.9	482.9	13.0
Skill Level 2	1363.8	1514.4	150.5	11.0
Skill Level 3	1733.2	1805.7	72.6	4.2
Skill Level 4	3043.1	3257.8	214.7	7.1
Skill Level 5	2037.4	2106.4	69.0	3.4
Total	11,900.5	12,890.2	989.7	8.3

Table 3 notes: Skill Level 1 is commensurate with a Bachelor degree or higher qualification

Skill Level 2 is commensurate with an Advanced Diploma or Diploma

Skill Level 3 is commensurate with a Certificate IV or III (including at least 2 years on-the-job training)

Skill Level 4 is commensurate with a Certificate II or III

Skill Level 5 is commensurate with a Certificate I or secondary education

The Australian Bureau of Statistics 2015 Survey of Disability, Ageing and Carers (SDAC) found a smaller proportion of people with disability aged 15 to 64 years reported having completed a Bachelor Degree or above compared with those without disability (17.0 per cent and 30.1 per cent, respectively). This indicates that it will be increasingly more difficult for some disabled cohorts to find employment given the trend for higher qualification requirements for an increasing number of jobs.

What is the problem?

People with disability continue to face significant challenges in finding and keeping work. Employment can provide financial independence, a better standard of living and improved physical and mental health for people with disability. Too many people with disability do not get to enjoy the social, emotional and financial benefits that work brings. The Australian Government is committed to improving employment opportunities and outcomes for people with disability.

Disability employment participation rates have declined. In 2015, the Government established a Disability Employment Taskforce (Taskforce) to address the number and complexity of the issues affecting employment outcomes for people with disability by seeking to improve disability employment participation rates. The Taskforce undertook broad stakeholder consultations and examined the limitations of the current approach to disability employment support, with a particular focus on DES. As a result, specific issues that could be addressed in a new disability employment framework to improve disability employment rates were identified.

The four main areas identified for DES improvements were:

- improving participant choice and control over the services they receive;
- generating greater competition between providers to help drive innovation and service delivery improvements;
- developing better incentives for providers to service all participants equally; and
- supporting people with disability in the workplace.

There are currently around 187,000 people with disability registered to receive support through DES. Since it began in its current form in 2010, DES has achieved more than 300,000 job placements and more than 170,000 employment outcomes of at least six months duration.

Commencements in DES over the last four years have been around 93,000 per year.

In the year to 30 June 2015, and based on a representative sample of around 16,000 DES participants, evidence from the 2015 Post Program Monitoring survey shows that 31.1 per cent of participants were in employment three months after their participation in the program. This has declined from 38 per cent in March 2013. While there was an initial faster decline in Employment Support Services (ESS) outcomes by this measure, this plateaued in early 2014, whereas the slower decline in this measure for Disability Management Services has continued steadily since it began (Diagram 1 – Page 10). However, following some improvements in the general unemployment rate there has been a slight rise in DES performance in 2016 to August 2017.

Disability employment participation rates are substantially lower than the 42.8 per cent achieved by Job Services Australia, the predecessor of the mainstream employment service, jobactive. In summary, DES is underperforming in achieving longer-term employment outcomes while participation rates for people with disability remain static. Refer Diagram 1.

The decline in performance is not attributable to a single cause. Several factors are likely contributors, including economic factors and conditions, demographic changes, community cultural expectations and approaches. Other factors include the higher level of disadvantaged job seekers on the DES caseload, which in turn places downward pressure on DES performance. However, the decline in performance should not be taken as evidence that DES is 'broken', but rather sharpens the focus on how to achieve better outcomes for DES participants.

Despite significant investment by the Government in employment services, labour force participation rates for people with disability have remained stagnant for the past 20 years and are currently around 53 per cent, compared to more than 83 per cent for people without disability. Additionally, according to the most recent Organisation for Economic Co-operation and Development (OECD) rankings, Australia was ranked 21 out of 29 for the employment of people with disability. More can be done to increase the employment participation of Australians with disability, including improving our current approach to promoting the employment of people with disability.

Economic

Economic factors are possibly the largest contributor to the decline in DES performance. The general unemployment rate increased from 4.9 per cent in December 2010 to 6.1 per cent in June 2015 (based on the most recent ABS information). The unemployment rate and the rate of unemployment benefit recipients both remain elevated, and the labour force participation rate is still below its 2010 peak. (See Diagram 1)

The Department of Employment's Internet Vacancy Index shows there were 215,800 new internet vacancies in March 2011. They declined to 138,500 in September 2013. There has been a modest recovery to almost 152,000 in June 2015, but this is still below the average (since September 2008) of 175,000. (see Diagram 1)

The mainstream employment services program, formerly Job Services Australia (JSA), also experienced a similar decline in employment outcome rate. In September 2012, the JSA employment outcome rate decreased from 48 per cent to approximately 41 per cent in June 2013. JSA has had a modest recovery since June 2013 to 42.8 per cent in March 2015. While the trends are not identical, this demonstrates that the decline in employment outcomes is not peculiar to DES. (see Diagram 1)

Economic modelling by Deloitte Access Economics in 2011 found that if labour force participation by people with disability increased by 10 percentage points (from 54 per cent to 64 per cent at the time), and the unemployment rate for people with disability decreased by 0.9 percentage points (from 7.8 per cent to 6.9 per cent at the time), Australia's gross domestic product would increase by approximately \$43 billion over a decade. All Australians, especially people with disability, should benefit from their increased economic and social participation.

Mix of Clients

A higher level of disadvantaged job seekers on the program caseload

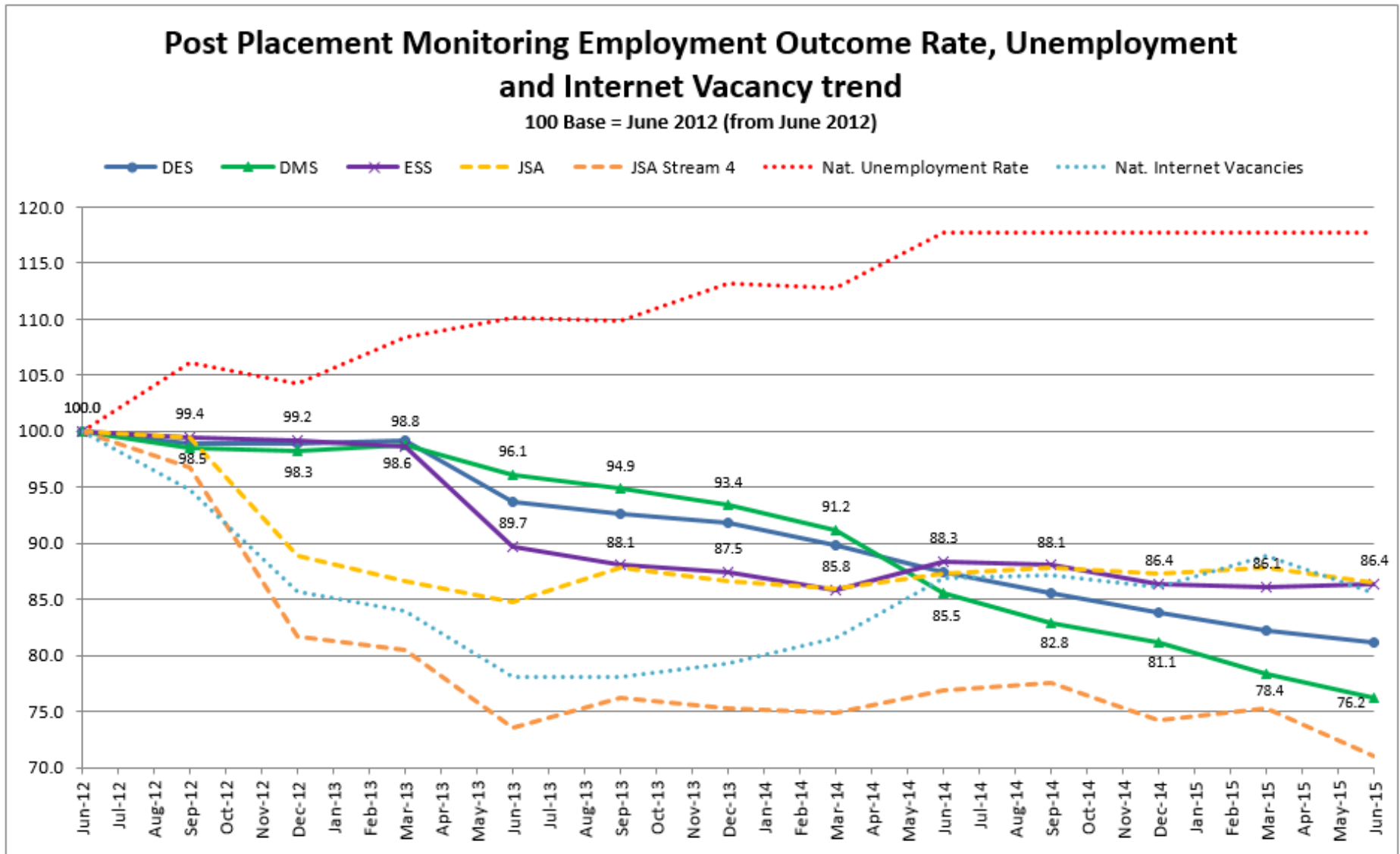
The Job Seeker Classification Instrument (JSCI), introduced in 1998, is a tool for identifying the likelihood of a job seeker remaining unemployed without assistance. It provides an objective measure of a job seeker's relative labour market disadvantage based on individual circumstances and is used as the main entry point for JSA service provision. The fundamental purpose of the JSCI is to ensure job seekers receive the services most appropriate to their level of disadvantage as soon as possible. The tool has a fundamental role in the operation of Australian Government employment services.

Based on the JCSI, DES participants are harder to place in employment. The DES Program also uses JCSI information to help calculate the correct funding level needed to service the job seeker's needs.

The effectiveness of the JSCI is contingent upon the accurate collection of information, the updating of this information as circumstances change and the willingness of job seekers to disclose information about their circumstances.

The average JSCI score for new commencements has increased by 6.3 per cent in DES-Disability Management Service (DES-DMS) and 4.1 per cent in DES-Employment Support Service (DES-ESS) between June 2012 and September 2015. The average JSCI score for the caseload has also increased over time, with a noticeable shift to the right (higher JSCI scores) in the distribution of JSCI scores across the overall caseload. Independent of any other changes, both new commencements and the total DES case load is increasingly made up of those who are less likely to find employment, than in the past.

Diagram 1.



Increase in Newstart Allowance and reduction in volunteer participants

In recent years, there has also been a significant growth in the percentage of Newstart/Youth Allowance participants in DES. All other cohorts in DES including Disability Support Pension (DSP), Parenting Payment Partnered/Single Allowance, Other Pensions/Allowances and people not receiving other Allowances have reduced proportionally. The percentages of these other cohorts has reduced but not the total number of in each cohort. Refer to table 2 for percentages. These changes would largely reflect changes in income support policy (increased participation requirements).

The *Evaluation of Disability Employment Services 2010-2013: Final Report* (the DES Evaluation) found that participants on income support payments had significantly lower employment outcomes than participants who did not receive income support.

Of those participants that were on income support, DSP recipients achieved higher outcome rates than recipients of Newstart Allowance or Youth Allowance and their outcome rates were consistent across the two DES-ESS funding levels.

Administrative data confirms the DES evaluation findings, with Non-Allowees performing around 30 to 40 per cent higher than the overall rate.

It should be noted that the increase in JSCI scores and the increase in the proportion of Newstart/Youth Allowance participants are likely to be related to some degree.

Another more recent change is workforce participation requirements introduced from 2014 for DSP recipients aged under 35.

Recognising the differences in outcome rates between these cohorts are levels of disadvantage and part of the barriers in gaining employment. To improve the likelihood of employment for all cohorts - cohort type form part of the proposed changes to the funding model. Refer to the Section 5 Proposed Options for more detail.

Decline in Real Value

The DES provider fee structures were announced in 2008 and remain unchanged, this equates to a real value decline of 20 per cent. The DES reform consultations confirmed a recommendation to index provider payments. The Productivity Commission has also regularly reported on the declining real value of DES services.

As the predominant cost of delivering DES is labour costs, the effect of real reductions in payments is to require providers to decrease staffing levels in order to reduce their costs to remain within available revenue. Reduced staffing means less time spent supporting each participant, fewer services provided and less time working with employers. If indexation is not introduced, then over the next five years it is likely that the real value of payments will decline a further seven percentage points by 2023, resulting in further reductions in support to job seekers and reduced engagement with employers.

The Department of Employment's jobactive and Transition to Work Programs have mid-term increases in their rates of payments. jobactive is a counterpart to DES, servicing around approximately 750,000 job seekers including 200,000 people with disability. On 1 January 2018, the mid-term point in the current five year contract from 1 July 2015 to 30 June 2020, jobactive fees will increase by 7.8 per cent, which roughly equates to an annualised indexation rate of 1.5 per cent over the five year term. At the Transition to Work's mid-contract point on 1 July 2018, upfront and outcome payments will increase by 3.4 per cent and 3.7 per cent respectively. Payments to Australian Disability Enterprises are indexed at 2 per cent per annum. The funding pool for Employment Assistance and Other Services program, which also supports people with disability is indexed-based on the Department of Treasury wage indices. This means that the value of funding to support job seekers with

disability across the Government's major employment support programs is maintained, except for DES. There is no express rationale or clear basis as to why DES payments should not be indexed.

Understanding the Problem and Context

The current DES provider contracts, associated program guidelines and departmental compliance activities have also been strengthened since the commencement of DES. This has primarily been undertaken to reduce any risks of potential inappropriate behaviour of providers placing participants into inappropriate positions such as short-term or enclave-type arrangements, in order to maximise their performance ratings and revenue. It is possible that the tightening of guidelines and associated compliance activities led to providers taking a more cautious approach in placing people in jobs compared to the period before the updates were implemented.

Based on the general principles identified by the Taskforce, the four primary areas for improving DES, applicable to both DES-DMS and DES-ESS are outlined below.

A. Improving participant choice and control over the services they receive, and from whom they receive them, to help improve participant satisfaction with the DES Program.

While many DES providers are responsive to participants, current arrangements do not require providers to be responsive. Currently, participants have limited choice and control in the type of DES supports they receive and who they receive them from. Most DES participants are restricted in choosing their provider and have limited awareness of the services they can receive and how they can receive them. For example, the typical DES participant attends a provider within their local Employment Service Area (ESA) to whom they were referred by Centrelink (the Department of Human Services), and must meet certain criteria in order to change providers. Participants therefore have little information or ability to choose between providers. It is possible a mismatch of provider service delivery and participant expectations may occur – with Participants unhappy with Providers unable to change Provider.

It is also a requirement that participants are to attend a provider within their local ESA and cannot, for example, choose to attend a provider located across the road because it is in a different ESA. This mechanism restricts the capacity of participants to choose their provider, reduces competition between providers who have a captive market, and lessens the pressure to innovate and make attractive service delivery offers to prospective participants.

While the services are supposed to be tailored to the needs of the individual, stakeholder feedback and DES performance suggest that this is not necessarily the case for all providers. At a minimum, it should be easier for participants to choose which provider they go to, and to change providers when they are unsatisfied, with funding following the participant, so providers have incentives to focus more on attracting and retaining participants, meeting their needs and finding them employment. Increased choice and control should also create a sharper focus on participant views in provider and participant discussions on the content of agreed job plans.

Removing barriers to participant choice and giving them more control to select a provider, and to change provider if their needs are not being met, will improve overall service delivery.

B. Generating greater competition between providers to help drive innovation and service delivery improvements.

DES provider success should be contingent on two objectives - attracting and retaining participants and achieving employment outcomes.

Providers who do both, significantly better than average, should have the ability and opportunity to expand into new markets. Providers who perform poorly at both should be at risk of exiting the DES Program. The current contract and procurement structure constrains the entrance of new providers, and the growth of existing providers into additional areas, for the term of the contract. This is because the current DES market is highly regulated. For example, DES providers are restricted from entering the DES market outside of the five-yearly tender process. In addition, existing DES providers can only expand into new areas if they are successful in being offered business through a semi-regular business reallocation process. These restrictive market arrangements reduce competition between providers; significantly restrict opportunities for growth by successful providers; and allow poorly performing providers to continue to have job seekers referred to them in proportion to agreed market share, unless and until their business is subject to reallocation. Innovation in DES is currently not rewarded because it does not lead to increased growth and revenue for the innovating organisation.

C. Developing better incentives for providers to service all participants equally.

The current funding arrangements do not adequately link provider performance to revenue. The majority of provider revenue comes from quarterly service fees paid for each participant. Poorer performing providers can maintain their financial viability through these service fees, while achieving relatively low level outcomes with easier-to-place participants. This can also result in underservicing of those participants who are more challenging to place. In addition, providers working in difficult labour markets receive no greater award for achieving outcomes. This can result in providers having less revenue to work in tougher labour markets, further reducing performance.

D. Supporting people with disability in the workplace.

Some people with disability need continuing support in the workplace while they are in a job. Currently, DES helps people with disability in the workplace through Ongoing Support and Job-in-Jeopardy (JIJ) assistance, but there is a need to improve the effectiveness of both programs so people with disability, who need support to stay in a job, get the required support. Areas to improve these assistance methods are outlined below.

Ongoing Support assists eligible DES participants maintain an employment outcome while they are in the workforce. Once an eligible DES participant achieves a 26-week outcome, their provider may assess them for their need for Ongoing Support and assigns them to a funding level (Flexible, Moderate or High). At present, Ongoing Support participants are not required to be working at their assessed employment benchmark hours in order to receive Ongoing Support, which is inconsistent with the rest of DES.

JIJ assistance provides immediate and appropriate support to a person in employment who is at risk of losing their employment due to the impact of their injury, disability or health condition. DES providers work with the JIJ participant and their employer to enable the participant to build their capacity to maintain their employment.

JIJ assistance must be delivered in a flexible way which takes into account the person's work requirements as well as their other individual circumstances. JIJ will be rebranded as Work Assist to be more acceptable and apply more positive work connotations in the workplace.

Work Assist will include the same services as JIJ assistance, such as, but not limited to:

- providing advice and assistance to the participant and their employer to identify barriers to maintaining the participant's employment and implementing strategies to overcome these barriers;
- providing advice and assistance to the participant and the employer about how the work may be redesigned;
- providing assistance and information to employers and staff to support the participant in the workplace;
- interventions such as physiotherapy, occupational therapy, pain management or psychological counselling; and
- access to services, workplace assessments and modifications available through the Employment Assistance Fund.

Ongoing Support is not always offered when it could assist in maintaining people in employment. The Taskforce found during consultations with the sector that Ongoing Support should be better tailored to the needs of participants. Anecdotally, this may be due to an anomaly in the Star Rating performance ratings that reduces their ratings when the participant leaves Ongoing Support (some providers have advised that is why they have not put participants onto ongoing Support). A review of the Star Ratings will investigate this issue and make changes if appropriate.

In the case of the JIJ Program, there is low awareness amongst employers and the employed that assistance is available. Also there is an aversion to using the program due to the name 'Job-in-Jeopardy'. DES providers have raised concerns that the name 'Job-in-Jeopardy' presents a barrier to effective marketing and should be changed. Employers of people with disability have reported that they are hesitant to use JIJ because of concerns with perceived legal ramifications associated with stating an employee's 'job is in jeopardy' due to their disability. This is consistent with the findings of the Evaluation of Disability Employment Services 2010-13, which found the name 'Job-in-Jeopardy' was inappropriate and did not reflect the positive intent of JIJ policy. Unfortunately, overall participation in JIJ is declining, with the number of people with disability commencing in the program having halved from nearly 100 per month in 2010 to less than 40 commencements per month in 2016. There is no evidence to suggest this is due to fewer people with disability being at risk of losing their job.

Table 4 shows the JIJ commencements being less than 1 per cent of the DES caseload. The sector has indicated it provides a very useful and needed service for employers. In 2014-15 an audit recommended documentary evidence changes which reduced the number of eligible participants.

Table 4 - JIJ commencements

Financial Year	No. Commencements
2009-10	271
2010-11	1,091
2011-12	1,336
2012-13	1,272
2013-14	1,179
2014-15	576
2015-16	410
1 July 2016 to 31 December 2016	225

Why is Government action needed?

The Australian Government has policy responsibility for the development and operation of employment services for unemployed people across Australia, and is committed to improving employment outcomes for people with disability and getting more people with disability into jobs.

The DES Program plays an important role in improving the social and economic participation of people with disability in Australia, with the Government investing around \$800 million a year in the program. Increasing the employment participation of people with disability also has broader economic benefits from a larger and more diverse labour market, and through increased independence and social participation of people with disability which in turn, has benefits for peoples' health and well-being.

Improving employment outcomes for people with disability is also an international priority under the United Nations Convention on the Rights of Persons with Disabilities and a national priority under the National Disability Strategy 2010-2020.

Proposed Options

Consistent with the 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 minor reform of DES to address some of the identified problems.
3. Undertake a substantial reform of DES to address the identified problems with indexation of provider payments.

Non regulatory option

Please note that the Department has not presented a non-regulatory option as DES is an existing Commonwealth program and discontinuation of this service is not being considered given the national commitment made to assist people with disability into employment.

Option One: Maintain the current service delivery model and contractual arrangements with providers (status quo)

The current DES Deed expires in March 2018. Continuing the program as it currently stands would not address any of the issues or deficiencies identified within the current program. A new Deed would be required with new providers allowed to enter the market when the current Deed expires: However, entry would be restricted throughout the length of the contract.

The regulation imposed on providers, individuals and employers would remain unchanged.

Option Two: Undertake a minor reform of DES to address some of the identified problems

Option Two will undertake a refresh of the DES Program with:

- improved service delivery and contract selection and establishment; and
- a main reform of generating greater competition between providers that aims to improve service to participants.

This option includes the necessary refresh of the Program at contract end and also introduces minor changes for improvements.

The changes below aim to remove these barriers to competition to improve service quality for participants and value for money for Government:

- Establishing a standing panel of DES providers to create an easier pathway for new providers to join the DES market during the five-year contract period and for existing high performing providers to expand their businesses into new regions.

To improve competition and contestability between providers, a new panel of DES providers will be established to make it easier for interested organisations or individuals to deliver DES services, and for existing DES providers to expand into new areas. This new arrangement will reduce the fairly onerous barriers to entry for providers, making it easier for more providers to join the DES market, with the aim of improving provider diversity, increasing competition and contestability between providers, leading to improved participant choice and better overall DES performance.

Instead of bidding for market share as part of a tender process, providers would apply to deliver services in ESAs of their choosing for a five-year term. The less onerous panel application process will reduce the barriers prospective DES providers face in entering the DES market. Providers that are managing high performing contracts, for example, contracts that perform at 3 (out of 5) or above average stars, would be automatically offered an invitation-to-treat under the new arrangements.

- Introduce a single selection process for DES providers, replacing the current dual arrangements for tendering DES-DMS and the grants-based DES-ESS sub-programs.

This element will reduce red tape for providers and simplify government procurement process for DES by consolidating separate procurement process for the current two sub-programs, DES-DMS and DES-ESS, into a single grants process. The new model will retain the existing distinction between DMS and ESS services and will not impact assessment for a participant's funding level under the risk adjusted funding model.

- Generating greater competition between providers to improve service to participants by ceasing market share arrangements that guarantee revenue for providers.

The current DES model guarantees revenue to poorly performing DES providers while restricting the growth and expansion of strongly performing providers through market share arrangements. This model will abolish market share arrangements in DES. Instead of providers being referred participants from Centrelink based on their market share, they would have to appeal to job seekers based on an attractive service offering and the prospect of an employment outcome. Increasing the strength of the DES market should help drive innovation, competition and choice in DES.

This element of the new model aims to stimulate innovation in service delivery by increasing competition between providers, with the ultimate goal of generating more employment outcomes for people with disability and improving the overall performance of DES.

Option Three: Undertake a substantial reform of DES with indexation to address the identified problems

Option Three will undertake a refresh of the DES Program with:

- improved service delivery and contract selection and establishment; and
- all the main reforms, as identified through the extensive community consultation process, to improve competition between providers and provide improved employment opportunities for people with disability.

This option includes the necessary refresh of the Program at contract end and also introduces the main improvements highlighted in consultations. Option Three aims to address the barriers to competition outlined in Option Two, as well as improve participant choice and control, better incentivise providers and improve participant support within the workplace.

With the current DES Program contracts ceasing in March 2018, there is opportunity to improve Program performance. The disability employment sector has been participating in consultations and co-design processes on the proposed DES Program reforms since April 2015.

The Department's consultations found that stakeholders do not see the current DES Program as 'broken' and in need of replacement, but rather in need of select changes, that build on its core strengths through an evidence-based approach.

Option Three is therefore the Department's preferred option to address the issues identified with the current Program.

Under this option, proposed changes to the revised DES model from 2018 include the following:

- **Improving participant choice and control**

Government service delivery is moving towards a more participant-focussed approach where the individual has control over who provides them with services, which services they receive and how they receive them. In Australia, participant-focussed reforms have been implemented in aged care and are currently being implemented in the National Disability Insurance Scheme (NDIS).

By increasing participant choice and control, overall service delivery will improve as providers will have to meet participant needs to attract and retain participants. Improving participant choice and control generally leads to better outcomes and gives participants more power over who provides them with services and how they receive them. By removing restrictions, the aim is to improve DES participant satisfaction with the Program, increase job seekers' engagement and sense of responsibility, and stimulate competition between providers to generate better service offerings and ways of working with job seekers to achieve more sustainable employment outcomes for people with disability. As such, improving participant choice and control will:

- remove allocated market share arrangements that restrict participant choice;
- relax geographical restrictions on participant's choice of provider;
- allow more flexible service delivery in how participants meet with their providers;
- relax restrictions on participant transfers to ensure providers work to attract and retain participants and the associated revenue;
- allow pro-rated provider service fees to follow the participant if they change providers or exit the Program, so providers are no longer paid for services they do not deliver;

- improve participant information through control of a smartphone and tablet application to assist them to better exercise choice and control; and
- develop Job Plans that provide a basis for both participants and providers to understand the agreed actions each will undertake to achieve an employment outcome.
- **Generating greater competition between providers to improve service to participants**

DES can generate greater competition and innovation in service delivery through a more competitive and dynamic marketplace. The Taskforce's consultations highlighted several elements of the current DES arrangements that prevent new or high performing organisations from expanding and delivering services to participants.

The quality of services and employment outcomes for participants can be improved by introducing new ways of administering DES that enable successful providers to expand their services to more participants in more places, while also allowing new providers to enter the market. These settings are complemented by giving participants more control over who they receive services from and more information upon which to base their choice.

The changes below aim to remove barriers to competition to improve service quality for participants and value for money for Government, seek to encourage greater competition between providers, and stimulate innovation in DES. Greater competition and contestability will be facilitated by:

- ceasing market share arrangements that guarantee revenue for providers;
- establishing a DES Provider Panel to support flexible market entry of new providers, and for existing high performing providers to expand their business into new regions;
- reducing red tape through a single procurement method for DES while retaining the distinction between the DES sub-programs; and
- retaining the existing 110 ESAs, while permitting participants to cross regional boundaries to access their provider of choice.

Currently Providers tender to deliver a defined level (percentage) of services within an ESA. Assessing and allocating the market share amounts restricts participant choice and is an onerous application process for providers. Improvements to DES will allow providers to apply to deliver services in an ESA rather than having to define prescriptive market share levels. The less onerous application process will reduce the barriers prospective DES providers face in entering the DES market. Providers that are managing high performing contracts, for example, contracts that perform at 3 or above stars would be automatically offered an invitation-to-treat under the new arrangements.

- Introduce a single selection process for DES providers, replacing the current dual arrangements for tendering DES-DMS and the grants-based DES-ESS sub-programs.

This element will reduce red tape for providers and simplify government procurement process for DES by consolidating separate procurement process for the current two sub programs, DES-DMS and DES-ESS, into a single grants process. The new model will retain the existing distinction between DMS and ESS services and will not impact assessment for a participant's funding level under the risk adjusted funding model.

- **Better incentives for providers to offer service all participants equally**

The Taskforce found that the current funding arrangements do not provide the right incentives and do not adequately link provider performance to revenue. As a result, providers can generate enough revenues to sustain a viable operation by just having DES participants on their caseload, while achieving relatively few employment outcomes for them.

To ensure that all providers are seeking to maximise employment outcomes for DES participants, a revised funding model will be developed. The 'risk adjusted funding model' acknowledges some participants will require more support to place in work than others and will introduce a new way of calculating outcome fees. A participant's funding level will be determined by a number of factors, including labour market data, demographic characteristics, disability type and other relevant statistical data.

Revising outcome fees to be proportional to the difficulty of achieving an employment outcome, based on the participant's likelihood of achieving an employment outcome, creates incentives for providers to work with all participants. Providers will receive a relatively high level of payment if a participant is assessed as having a low probability of achieving an employment outcome, while receiving a relatively low level of payment for supporting participants with a high probability of achieving an employment outcome. This proportionate approach to outcome payments will help to ensure the willingness of providers to work to achieve employment outcomes for more disadvantaged participants, including many NDIS participants.

Complementary changes include:

- calculating outcome fees based on the assessed probability that a participant will achieve an employment outcome;
- decreasing service fees and increasing outcome payments to achieve a 50:50 balance in outlays on service fees to outcome fees;
- pro-rating quarterly service fees when a participant transfers to a new provider or exits, with recovery from the relinquishing provider to better link participants to their funding;
- paying job placements after four weeks rather than two to improve job matching and quality of initial job placements;
- introducing a 52-week outcome payment to provide incentive for longer term sustainable employment outcomes;
- tightening of education outcome payments to ensure participants are meeting a Year 12 education equivalent through DES; and
- introducing a payment to providers to support internships, matching in DES those available in jobactive.

The changes are designed to get more people into employment by providing greater service and outcome payments for servicing people in harder to gain employment areas and less in easy to place areas

These measures aim to increase the performance of DES from within the existing funding envelope and are broadly in line with the feedback from the Taskforce consultations. By getting the incentives right for providers by making payments proportional to the difficulty of achieving outcomes through a revised funding model, more people with disability should be assisted to successfully transition into work.

The Department also commissioned actuaries Taylor Fry to undertake an analysis of outcome rates for all job seekers in DES over a period of at least 12 months, to calculate the

probability of a participant achieving an employment outcome and assigning them to a funding level. The payments model would better reflect the probability of a DES participant achieving an employment outcome while rewarding the provider for supporting them towards an outcome, rather than the current system. It is proposed that the model be updated annually using the most recent available data to ensure it reflects changes in labour markets and participant characteristics and the relative chances of successful outcomes.

- **Improved participant support with disability in the workplace**

Some people with disability need support to help them while they are in a job. DES delivers this service through Ongoing Support for participants who have successfully completed the initial support period for employment and, through JIJ for people with disability who are at risk of losing their job.

DES will continue to provide support to help people with disability keep their job once they have achieved an employment outcome, through Ongoing Support, and also to help people with disability who may have never participated in DES, but need additional support to maintain their employment through JIJ assistance. Changes to Ongoing Support and JIJ include:

- aligning eligibility for Ongoing Support with the rest of DES by introducing a minimum requirement of working eight hours a week to maintain eligibility; and
- rebranding JIJ as 'Workplace Assist' and undertaking concerted activities to improve awareness of and remove barriers to employer participation in the program.

Regulatory Benefit Analysis

Option One

Under Option One, there would be no net benefit in terms of regulation or better outcomes for DES participants.

Option Two

Under Option Two, the Department has estimated that there will be a regulatory save of approximately \$0.178 million per annum averaged over ten years if these changes are implemented.

Regulatory Burden Estimate Table:

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	-\$0.178	\$	\$	-\$0.178

Reflecting Option Two, below, are tables outlining the proposed benefits by stakeholder groups and changes with regulatory impact (cost/save), and its policy benefits. Overall, this option provides substantive opportunities to reduce the regulatory burden on providers, while focussing on participant outcomes.

Stakeholder Group	Summary of stakeholder benefits
Participants	<ul style="list-style-type: none"> Providers are available from July 2018 to continue the service to participants Participants will have better performing providers allocated through the refresh assessment process as lower performing providers are removed Providers able to be added throughout the duration of the program if required to replace providers who may leave – providers always available for participants
Providers	<ul style="list-style-type: none"> More streamlined application process – one simpler and smaller application for both DMS and ESS Able to join the program during the duration of the program if required to supplement areas with insufficient providers
Employers	<ul style="list-style-type: none"> Refreshed program from July 2018 to continue and providers able to join if required throughout the program to deliver suitably skilled and qualified people to work for employers

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
Regulatory <u>Saves</u>			
<p>Providers are required to tender for both DES-DMS and DES-ESS separately at site level and therefore have separate contracts for each service type. In practice, these services are delivered side-by-side by the same staff at the same locations.</p>	<p>Estimated Save: \$0.23m averaged per annum.</p> <p>Risks for this approach include providers may not like a changed selection and establishment however this is mitigated by making a significantly easier process.</p>	<p>More streamlined application process for organisations to become a DES provider. An easy application process benefits providers with less administration and application response effort and participants if more providers are likely to apply to be a DES service provider (presuming the joining process is easier). An easier application process facilitates more providers and more choice of providers for participants. The benefits will be achieved by implementing a less onerous application form – around 50% less information required and one application form for both DMS and ESS services.</p>	<p><u>Save</u>: Reduced time taken for providers to apply for services. With a view to reducing the administrative burden for providers, it is proposed that DES providers do so under a single contract covering both current DES-DMS and DES-ESS, with Ongoing Support in the workplace provided to participants who need it. In practice, all providers would need the capacity to supply the current equivalent of DES-DMS, DES-ESS and Ongoing Support.</p> <p>The time of activity is based on documentation per ESA, rather than time for the provider to complete a full application. This is because the total population is based on the number of bids per ESA rather than provider.</p> <p>While there will be subsequent application points and not just one at the start, new providers will only have to apply once in a five year period to become a DES panel member.</p>
Regulatory <u>Costs</u>			
<p>There is currently a heavily regulated provider market which makes it difficult for new providers to enter the DES market</p>	<p>Estimated Cost: \$0.05m averaged per annum. Risks to participants include new providers being added to the panel</p>	<p>Benefits should flow on to participants through improved job outcome rates and better</p>	<p>Cost: More DES providers entering the market and additional time. It is proposed that a DES Provider Panel be introduced to make it</p>

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
Regulatory <u>Saves</u>			
<p>during the five year term of the Deed. High performing providers are also restricted in expanding business to new and existing markets during the five year term of the Deed.</p>	<p>that may not have appropriate levels of service or performance as current high performing providers. This has been mitigated by including a thorough assessment process for all new providers added to the panel.</p>	<p>overall provider performance.</p> <p>These benefits will be achieved by participants more likely to be allocated better performing providers - indicated by star ratings for achieving employment outcomes.</p> <p>Providers allocated to the 2018 DES program will be those demonstrating higher performance levels of employment outcomes.</p>	<p>easier for existing providers to expand and for new providers to enter the DES market. It is anticipated that the proposed Panel arrangements would lead to increased competition and stronger incentives for providers to make competitive service delivery offers to participants.</p> <p>It is not anticipated that there will be a major influx of new providers, given that there will be regular opportunities to enter into DES provision subsequent to the initial round. It is also unlikely that there will be major shifts in the flow of participants to providers from the outset as it will take time for participants to understand and exercise choice and control.</p>

Option Three

Under Option Three, the Department has estimated that there will be a regulatory save of approximately \$42.6 million per annum averaged over ten years if the new model is implemented.

Regulatory Burden Estimate Table:

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	\$1.2	\$	-\$43.8	-\$42.6

Below are tables outlining the proposed benefits by stakeholder group and changes with regulatory impact (cost/save), and the policy benefits for Option Three. Overall, this option provides substantive opportunities to reduce the regulatory burden while better incentivising providers and focussing on participant outcomes. It is the option likely to meet the objectives to reduce red tape while delivering improved outcomes for job seekers and better meeting the needs of employers.

Stakeholder Group	Summary of stakeholder benefits
Participants	<ul style="list-style-type: none"> Participants are able to choose the provider themselves or change providers (upto a maximum of 5 transfers) if needed to get a provider that best meets their needs Participants can now select a provider outside of their ESA if required Participants now receive an extra 26 weeks of support when in employment Participants have flexible contact arrangements and don't have to attend as many mandatory face-to-face meetings which could potentially save time and travel Providers are available from July 2018 to continue the service to participants Participants will have better performing providers allocated through the refresh assessment process as lower performing providers are removed Providers able to be added throughout the duration of the program if required to replace providers who may leave – providers always available for participants
Providers	<ul style="list-style-type: none"> Providers will benefit from participants being able to select them if they provide a good service as shown by star ratings Poor providers indicated by star ratings will be managed and may be removed allowing higher performing providers to remain in the program to provide services Providers receive 52 week outcome payments to get and keep participants in employment Providers don't have to conduct as many face-to-face meetings which may be less travel time or office costs organising meeting rooms

Stakeholder Group	Summary of stakeholder benefits
	<ul style="list-style-type: none"> • More streamlined application process – one simpler and smaller application for both DMS and ESS • Able to join the program during the duration of the program if required to supplement areas with insufficient providers
Employers	<ul style="list-style-type: none"> • Providers receive 52 week outcome payments to get and keep participants in employment providing competent workers for employers • Poor performing providers based on star ratings will be managed and may be removed leaving higher performing providers delivering better employees • Participants have less mandatory face-to-face meetings which may mean less time away from work to attend meetings • Refreshed program from July 2018 to continue and providers able to join if required throughout the program to deliver suitably skilled and qualified people to work for employers

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
Regulatory Saves			
<p>DES participants and providers are currently required to meet face-to-face for 24 contacts per year. For most participants, this means that they must attend a provider site for their initial interview and for six contacts every three months when they are looking for work.</p>	<p>Estimate Save: \$43.8m per annum averaged over ten years.</p> <p>The risks associated with making the face-to-face meetings optional is that provider/participant communication and understanding may be reduced. This risk is being mitigated by focussing on outcomes delivered and better data management to review performance.</p>	<p>More flexible service delivery based on participant needs. Some face-to-face meetings are now optional, saving participants travel if they prefer to meet with their provider in other ways (including by phone, video or on the job).</p> <p>These benefits will be achieved by participants not having to attend the non - mandatory face-to-face meetings saving potentially difficult or time consuming travel to attend the optional face to face meetings.</p>	<p><u>Save:</u> Reduced travel time for participants.</p> <p>It is proposed to remove the requirement to have face-to-face contacts between providers and participants beyond the initial meeting. The initial contact would continue to be face-to-face to help build a solid participant-provider relationship</p> <p>There is an assumption that there will be a 50 per cent reduction of face-to-face contacts, resulting in 12 face-to-face contacts per year, per participant. The average visit time is around 40 minutes.</p> <p>The face to face interviews being removed are not related to the mutual obligation requirements.</p>

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
<p>Providers were required to tender for both DES-DMS and DES-ESS separately at site level and therefore have separate contracts for each service type. In practice, these services are delivered side-by-side by the same staff at the same locations.</p>	<p>Estimated Save: \$0.23m per annum averaged over ten years. Risk participant quality of service or service delivery may be reduced by combining contracts. This has been mitigated by conducting a broad review of the new contracts (grant agreements) to ensure no change in services provided or performance levels.</p>	<p>More streamlined application process for organisations to become a DES provider. An easy application process benefits providers with less administration and application response efforts for providers. More providers are likely to apply to be a DES provider if the joining process is easier. An easier application process facilitates more providers and more choice of providers for participants. The benefits will be achieved by implementing a less onerous application form – around 50% less information required and one application form for both DMS and ESS services.</p>	<p><u>Save</u>: Reduced time taken for providers to apply for services. With a view to reducing the administrative burden for providers, it is proposed that DES providers do so under a single contract covering both current DES-DMS and DES-ESS, with Ongoing Support in the workplace provided to participants who need it. In practice, all providers would need the capacity to supply the current equivalent of DES-DMS, or DES-ESS and Ongoing Support. The time of activity is based on documentation per ESA, rather than time for the provider to complete a full application. This is because the total population is based on the number of bids per ESA rather than provider. While there will be subsequent application points and not just one at the start, new providers will only have to apply once in a five year period to become a DES panel member.</p>
Regulatory Costs			
<p>The current payment model for DES includes service fees, job placement fees, outcome fees (including 'pathway outcomes,' such as participation in training), and ongoing support fees.</p>	<p>Estimated cost \$1.12m per annum averaged over ten years. Risks associated with providers having to claim for more outcome fees are mitigated by the</p>	<p>Better provider incentives for achieving sustained outcomes to reward long-term and sustainable jobs; placing young job seekers into an</p>	<p><u>Cost</u>: Claiming new outcome payments as an extra outcome payment will be available for 52 week outcomes. To help improve sustainability of outcomes, it is proposed that a 52-week outcome</p>

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
<p>Currently, there is no payment available if a DES participant is still in employment at 52 weeks.(Only a performance indicator currently exists with no outcome payment available for DES providers when a participant completes an internship; and pathway and full outcomes are paid for ineffective education placements).</p>	<p>additional payments that they will receive. The format of the 13, 26 and 52 week outcome payments claims are the same so there is no new process required to be learned or understood. Documentary evidence for the 52 week outcome payment is required as per the 13 and 26 week payment claim.</p>	<p>internship to maximise the chance of them getting a job; and effective education placements in the program. Providers will now receive payments for keeping a participant in employment at the 52 week point where previously outcome payments stopped at 26 weeks. These benefits are achieved with better performance of participants in employment for 12 months.</p>	<p>payment would be introduced where longer term outcomes are achieved.</p> <p>Tightening education outcome payments to ensure participants are meeting a Year 12 education equivalent through DES, and internship payments for providers will also be introduced.</p> <p>There will be an overall increase in the number of outcome claims expected for the new payments.</p>
<p>There are strict requirements placed on participants wishing to voluntarily change providers and participants often have to justify the need for the transfer even if they want better servicing. These restrictions prevent participants from changing providers simply if they are unhappy with the level of service they are receiving and wish to get a better service from a different provider.</p>	<p>Estimated cost \$0.24m per annum averaged over 10 years. The risks related to this change include participants losing continuity of support and interrupted development toward gaining employment by changing providers.</p>	<p>Benefits include: greater participant choice and control by being able to change provider; and greater opportunity for providers to attract more participants by providing a quality service</p> <p>These benefits will be available with the new program allowing participants to select providers they want to use.</p>	<p><u>Cost:</u> Additional initial meetings with commencing DES participants; and, time to accept and finish participants changing providers</p> <p>It is proposed to reduce restrictions on participants changing providers. Removing the current restrictions on provider transfers would allow participants greater flexibility to find a provider that best meets their needs. Participants would be able to voluntarily transfer to a new provider up to three times in their first 12 months of participation, and up to twice in the following year, without restriction. Any transfers</p>

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
			<p>in excess of this would need to meet additional criteria.</p> <p>Implementing this change would make it easier for participants to transfer to a different provider, resulting in increased transfers and initial meetings. There is an assumption that there will be a 20 per cent increase in participant transfers, with around 3600 participants transferring per month.</p>
<p>There is currently a heavily regulated provider market which makes it difficult for new providers to enter the DES market during the five year term of the Deed. High performing providers are also restricted in expanding business to new and existing markets during the five year term of the Deed.</p>	<p>Estimated Cost: \$0.05m averaged per annum over ten years. Risks to participants include new providers being added to the panel that may not have appropriate levels of service or performance as current high performing providers. This has been mitigated by including a thorough assessment process for all new providers added to the panel.</p>	<p>Benefits should flow on to participants through improved job outcome rates and better overall provider performance.</p> <p>These benefits will be achieved by participants more likely to choose better performing providers - indicated by star ratings for achieving employment outcomes.</p> <p>Providers allocated to the 2018 DES program will be those demonstrating higher performance levels of employment outcomes.</p>	<p><u>Cost:</u> More DES providers entering the market and additional time for providers to apply for DES. It is proposed that a DES Provider Panel be introduced to make it easier for existing providers to expand and for new providers to enter the DES market. It is anticipated that the proposed panel arrangements would lead to increased competition and stronger incentives for providers to make competitive service delivery offers to participants. It is not anticipated that there will be a major influx of new providers, given that there will be regular opportunities to enter into DES provision subsequent to the initial round. It is also unlikely that there will be major shifts in the flow of participants to providers from the outset as it will take time for participants to understand and</p>

Current model	Proposed changes & Risks	Policy Benefit	Regulatory Impact
			exercise choice and control.
<p>JIJ assistance is a program that provides employment support to people who are at risk of losing their job due to disability, illness or injury and helps stabilise their employment so they can stay in work. Overall participation in JIJ is declining, with the number of people with disability commencing in JIJ having halved from nearly 100 per month in 2010 to less than 40 commencements per month in 2016.</p>	<p>Estimated Cost: \$0.2m averaged per annum over ten years. The risks associated with the rebranding of this program is that participants, employers and providers may not understand what the program is or that it's a name change to facilitate better outcomes. There are no regulatory changes.</p>	<p>Increase participant uptake of program. Participants will benefit from the rebranding of this program as they are more likely to use this program to gain assistance to achieve employment outcomes. The benefit of receiving assistance by using this program is available now, but any stigma of using the program will be removed by rebranding the program.</p>	<p><u>Cost:</u> Additional participants will access the program. DES providers have raised concerns that the name 'Job-in-Jeopardy' presents a barrier to effective marketing and should be changed. Employers of people with disability have also reported that they are hesitant to use JIJ because of concern with perceived legal ramifications associated with stating an employee's 'job is in jeopardy' due to their disability. It is therefore proposed that there should be a change of name for the JIJ Program which will in turn, increase participant uptake of the program.</p> <p>There are currently 33 participants per month that access the JIJ Program. Based on 2014 figures, the Department expects an increase to 70 participants per month in the program.</p>

The proposed new DES framework under Option Three offers substantial improvements on the existing DES arrangements. It aims to create stronger incentives for DES providers and participants to increase the overall participation of people with disability in Australian society. Through a combination of more relaxed market arrangements, improved financial incentives for providers and increased choice and control for participants, DES will be in a stronger position to improve the quality and quantity of employment outcomes for people with disability.

Consultation

The purpose and objectives of the consultation undertaken during this process was to understand the real issues and changes required to improve the approach to and delivery of maximising employment opportunities for people with a disability in Australia.

The strategy and plan to achieve these objectives involved consulting broadly across Australia with key stakeholders to determine the changes required. Consultations occurred through meetings, online provision of information and by seeking feedback with all representative stakeholders groups to encourage information provision and exchange. This approach was designed to be transparent in seeking and gathering information in a genuine and timely way with targeted representative bodies, affected businesses, community organisations and individuals to understand the issues, desired changes and outcomes required in disability employment.

A broad range of stakeholders and representative bodies will be engaged to determine the approach to, and implementation of, the changes.

In recognition of the need to address the number and complexity of the issues affecting employment outcomes for people with disability, combined with the opportunity to reform DES when the contracts expire in March 2018, the Government established a Taskforce within the Department in 2015. The Taskforce examined the limitations of the current approach to disability employment support, with a particular focus on DES, and identified specific issues that could be addressed in a new disability employment framework.

The **first round** of consultations occurred in May and June 2015 and started the conversation on the effectiveness of the current disability employment system. Stakeholders raised a variety of issues with the current system, including:

- a lack of employer awareness and engagement;
- a lack of direct funding between the individual and their needs;
- unintended consequences of the DES outcomes framework; and
- a limited market for the delivery of DES services.

The **second round** of consultation took place in November and December 2015, which sought feedback on new approaches to delivering disability employment support and outlined a number of broad policy directions, including:

- working more closely with employers to create jobs;
- introducing individualised funding based on job seeker needs and aspirations;
- market-based service provision to create more flexible and innovative services;
- a greater focus on long-term career planning and capacity building; and
- improved service pathways and reduced 'red tape' for clients and providers.

The Taskforce found broad support for these directions pending further detail and discussion. It was noted that some elements of a new approach would involve significant change for participants, employers and service providers. There was wide acceptance of a need to put people with disability at the centre of changes; however, there were concerns about the capacity of participants and providers to immediately adjust to a consumer-directed service delivery in a competitive market.

During these two rounds of consultation, there were:

- 45 public forums with 1,122 attendees;
- three 2-day workshops with 84 participants;
- 150 public submissions received; and
- 294 online surveys responses received.

A DES Reform Working Group was established for 12 months to contribute to the policy development and ensure coordinated and aligned policy was developed without overlap, anomalies or regulatory burden across agencies.

Membership of this group was:

DSS Membership:

- Branch Manager, Housing, Homelessness Programs and DES Assurance
- Branch Manager, Work and Study Payments (Payments Policy Group)
- Branch Manager, Selections and Establishments (Program Office)
- Branch Manager, Policy and Legislation (NDIS Group)
- Branch Manager, Policy Strategy (Policy Office)
- Branch Manager, Client Services (IMTG)

Other Agencies:

- Assistant Secretary, Social Services and Immigration and Branch, Social Policy Division, Department of Prime Minister and Cabinet
- Assistant Secretary, Social Policy Division, Department of Finance
- Principal Adviser/Manager, Social Policy Division, Treasury
- Branch Manager, Labour Market Policy, Department of Employment
- Branch Manager, Skills Development and Apprenticeships Policy, Department of Education and Training
- Branch Manager, Working Age Programs and Compliance, Department of Human Services
- Director, Policy and Provider Management, Disability Employment Services

The Department conducted a further round of consultations on the Discussion Paper: *New Disability Employment Services from 2018*, which was released on 2 November 2016.

The key areas for change highlighted within this Discussion Paper included:

- improving participant choice and control over the services they receive and who they receive them from to help improve participant satisfaction with the DES program;
- generating greater competition between providers to help drive innovation and improvements in service delivery;
- developing better incentives for providers to service all participants equally and to remove perverse incentives in the funding model where they exist; and
- encouraging employers to hire more people with disability and assisting people with disability in the workplace.

The Discussion Paper also identified regulatory impacts associated with each change. Submissions closed on 16 December 2016, with a total of 154 submissions received from service providers, peak bodies for people with disability and people with disability or carers/family of people with disability.

In general, the submissions received were consistent with other DES reform 2018 consultations. There was broad in-principle support from a wide cross-section of stakeholder groups for the proposed changes to commence in 2018. While generally supporting the proposed reforms, some submissions proposed a phased introduction of some elements of the model, to ease transition to the new arrangement.

The taskforce consultation with the main stakeholder groups included these themes:

- participants indicated there is a lack of transparent information available for participants about what services they are eligible to receive and the quality of providers to deliver those services. By improving the information available to

participants and the means of accessing that information, participants will be better able to take advantage of new initiatives like the participant-controlled funding and the greater choice available to make a more informed choice through the market reforms;

- many participants were concerned about the lack of support from providers to help them in a way that the participant thinks will get them a job. For example, funding a particular training course;
- providers indicated that the current funding arrangements do not provide the right incentives and do not adequately link provider performance to revenue. As a result, providers can generate enough revenues to sustain a viable operation by just having DES participants on their caseload, while achieving relatively few employment outcomes for them;
- the Taskforce highlighted views that providers were doing a poor job of matching participants to employers. As a result, some employers and participants report they are dissatisfied with DES because they churn through short-term placements that do not lead to long-term outcomes;
- providers advised participants often face barriers to employment in addition to their disability that providers may need to address before they can make a successful transition into the workforce;
- concerns were raised about the reliability of assessments by generalist assessors of participants with particular disabilities. For example, in some cases a physiotherapist may be determining the support needs of a person with a mental health condition, while a psychologist may be assessing someone with a physical disability. There were also reports of assessors not having a good understanding of local labour markets and that the requirement for job seekers to provide medical evidence before an assessment prevented job seekers from being rapidly connected with a provider;
- the Taskforce found during consultations with the sector that Ongoing Support should be better tailored to the needs of participants;
- feedback from providers and the Taskforce consultations suggests a need to better to identify and support people with disability who would benefit from JIJ;
- providers reported that many employers do not appreciate the value a person with disability can bring to their organisation. For example, a 2012 survey of employers found a greater resistance to the idea of hiring a person with disability than to hiring a person from the other groups in society; and
- the Taskforce found strong employer support for greater engagement with employers to increase employer awareness of the benefits, support and demand for employing people with disability.

Several areas of the strongest support received through the submission process included:

- introducing greater participant choice, with more information on which to base that choice;
- retaining a DES provider panel with minimum performance criteria and regular opportunities for successful providers to expand into new regions;
- broad support for four and 52 week outcome payments, but also a view amongst some that with changing labour markets, time limited, part-time and casual jobs should also be recognised in DES; and
- other elements such as enhanced Job Plans and changing the name of 'Job-in-Jeopardy'.

The following elements of the reforms received a strong reaction from stakeholders, in which the Department amended the reform direction accordingly:

- the proposed merging of DMS and ESS so DES would operate as a single program with a single contract was seen by the sector as potentially undermining providers' capacity to specialise in, for example, rehabilitating people with a short-term disability. The expectation to deliver the full range of services (i.e. across both DMS and ESS as currently defined) was seen as a risk to DES provider performance, especially those organisations specialising in ESS currently. Accepting this, the Department has proposed that DES continue to offer the option to provide either service, rather than requiring all organisations to deliver both;
- the proposed consolidation of the current 110 ESAs to 51 regions was met with concern by the service provider cohort. The preference is to continue with 110 ESAs, with the following reasons cited – larger regions will drive out smaller organisations which may not be able to easily meet the requirements to cover all of a larger region. Retaining smaller regions that make it easier for smaller providers to manage was seen as facilitating provider diversity and participant choice. Given other changes to the market, including allowing participants to choose providers from other regions, it is proposed that the existing 110 ESAs be retained; and
- achieving a balance in the funding model between service and outcome fees. Provider groups held the view that service payments had to remain sufficient enough to significantly underwrite the investment providers must make over time to assist job seekers become job ready, before an outcome can be achieved. There was concern that too great a reduction in service fees could adversely affect the financial viability of providers and their ability to support job seekers to achieve outcomes. For these reasons, the Department is proposing only a marginal shift from service payments to outcome payments.

Elements that gained attention in the consultation process that will require further work by the Department are:

- streamlining service delivery arrangements and supports between the NDIS and DES. The Department will work closely with the National Disability Insurance Agency to ensure all eligible NDIS participants not already in work have the opportunity to be supported into open employment through the revised program and are encouraged and supported to take up that opportunity; and
- support for career progression for people with disability in employment. This issue was also raised during an earlier departmental consultation process but is not being actively pursued by the Department at this time as it would represent a significant extension of government support and intervention beyond the current objectives of assisting people with disability to obtain and maintain employment.

Simultaneous to the release of the Discussion Paper, a Disability Employment Reference Group was established with key sector representatives to provide advice and information to support the design of options for a new Disability Employment Framework. Four meetings were held in late 2016 and early 2017 to discuss the proposed changes in the Discussion Paper.

An Industry Paper was released in June 2017 describing the final policy changes and process to refresh the DES service delivery arrangement. Webinars and a national series of information sessions to support the information distribution have been held with over 200 questions raised. Answers have been published on websites.

Transition, Implementation and Evaluation

Transition

The success of DES reforms will partly be measured by a continuing stable marketplace in which providers operate, providing a seamless transition for participants receiving supports and services.

The Department will support participants and providers through the transition process with information. To support a smooth transition, the Department will use the following over-arching principles:

- transition activities will be consistent with the changes to DES, while honouring existing contractual obligations;
- the efficient and sensitive commencement of participants with their DES provider of choice; and
- ensure market stability and limited disruption to how providers operate and the services delivered to participants.

The proposed changes to the DES Program are not expected to be immediately disruptive for the following reasons:

- as it will take time for participants to understand and exercise choice and control, it is unlikely that there will be major shifts in the flow of participants to other providers from the outset; and
- it is also not anticipated that there will be a major influx of new providers, given that there will be regular opportunities to enter into DES provision subsequent to the initial round. While it is hoped and expected that new providers will enter the market both at the outset of the new arrangements and over time, there are also competing opportunities and structural changes in the disability services sector – not least with the roll-out of the NDIS - that are likely to temper the rate of entry of new providers.

Implementation

The objectives that support the successful implementation of the new DES model are:

- all key milestones are met on time;
- new DES providers are ready for service delivery from 1 July 2018;
- seamless transition for participants to new servicing arrangements from March to June 2018;
- market stability and limited disruption to how providers operate and the services delivered to participants; and
- data needs are identified and available to meet monitoring and evaluation requirements.

Listed in Table 5 below are the indicative timelines for the Grant Application process. The Department is conscious that the DES 2018 Grant Application process is significantly different from previous DES purchasing processes. For this reason, the Department will actively communicate and engage with the sector during each stage. Prospective applicants can choose to attend information sessions, listen to a public webinar or submit questions to the Department.

Table 5 – indicative timeline for the grant application process

Indicative Date*	Milestone
June 2017	Release of industry information paper
June – July 2017	Information sessions and a public webinar about the industry information paper and Registration of interest process
11 July 2017	Industry Paper and public meetings providing information on changes and process
2 August 2017	Stage 1 - Registration of interest opens (4 weeks)

Indicative Date*	Milestone
11 September 2017	Stage 2 - Grant application opens (6 weeks) Organisations who completed the Registration of interest process will be invited to submit a Grant Application. Current DES providers with business performing at 3-Stars or above will be offered business for the same services in the same locations where they currently operate at that level
August/September 2017	Establish transition working groups with participant, provider and employer peak bodies to consult and guide transition
January 2018	Start field trial for eligibility and assessment review, and notification to participants of changes and transition
January - July 2018	Announcement of successful Grant Applicants; Grant Agreement s negotiated and executed; and Transition management activities including: <ul style="list-style-type: none"> • preparing to move participants from low performing providers exiting DES; and • establishing service arrangements for new providers
1 July 2018	DES and NPA Grant Agreement Commencement Date
1 July 2018	Eligible School Leavers trial commences
March 2020	18 month review of risk adjusted funding model implementation
September 2020	Eligible School Leavers trial review and recommendations to Cabinet

A DES 2018 Implementation Working Group has been established to support the policy development and implementation of the new service delivery model.

Consultation on implementation with current and potential providers, community organisations, employers and job seekers will generally be conducted through existing forums. These include ongoing meetings with peak disability bodies, joint departmental and sector working groups and ongoing liaison with providers through the departmental State Office Network. The purpose of the consultation will be to provide information to interested parties and seek feedback on the implementation of the DES 2018 reforms. The feedback will be used to inform the development of operational policy underpinning the model and then to inform ongoing implementation.

A key issue for the development of the DES model will be the interaction with other related initiatives including the NDIS and the review of welfare reform and participation changes initiatives. Interdepartmental committees and bilateral agreements, including monthly meetings of the Senior Officials Interdepartmental Committee and participation of other portfolios in working groups will join up projects to ensure consistency with Government objectives and streamlined administration.

Evaluation

A detailed evaluation strategy will be prepared by the Department. The evaluation will assess the program against its key performance indicators (KPI), policy objective and outcomes. Findings from this will be reported to Cabinet after the implementation of the main DES changes in July 2018 and trials ending in July 2020. A final report will also be provided. All evaluation reports will be presented to the Assistant Minister for Social Services and Disability Services for consideration and agreement on public release.

The main KPI that will be used to evaluate success of the delivery of the changes is:

- within the next five to ten years the average across all providers is towards the upper end of between 40 to 45 per cent of people in employment 3 months after completing a period of support in the program. The current figure is 32 per cent.

Other KPIs that will indicate program performance improvements include:

- the correlation of disability employment in Australia compared to employment levels in the overall community - based on the jobactive employment rates;
- the Post Placement Monitoring employment outcome rates; and
- the provider performance levels as described by quarterly star ratings.

These KPIs are impacted by many factors including: other program changes, community and cultural changes, and the uptake of the program, referrals and exit numbers.

Conclusion

The Australian Government is committed to improving employment outcomes for people with disability and getting more people with disability into jobs. The DES Program facilitates this aim.

In the year to 30 June 2015, evidence from the DES Post Program Monitoring survey shows that 31.1 per cent of participants were in employment three months after their participation in the program. This has declined from 38 per cent in March 2013. While there was an initial faster decline in ESS outcomes by this measure, this plateaued in early 2014, whereas the slower decline in this measure for DMS has continued steadily since it began.

Declining DES performance is not attributable to a single cause with economic factors a likely contributor. Other factors include the higher level of disadvantaged job seekers on the program caseload. These factors notwithstanding, there is significant scope to improve DES performance by structural reforms to its operation.

Option One does not provide the opportunities for policy and program reform and regulatory benefits that are available under Option Three. The regulation imposed on providers, individuals and employers would have minimal change.

Option Two would only focus on providers and would not provide more choice and control for participants, in line with Government preference for more participant control in disability services. This option is a light regulatory touch but does not offer significant change for DES participants.

Option Three is the preferred option to improve the quality and quantity of employment outcomes for people with disability. Option Three would offer substantial improvements on the existing DES arrangements to provide the most likely improvement in employment outcomes for people with disability that could be achieved. Reforms under Option Three have generally been supported by feedback from stakeholders including employers, job seekers and current employment services providers.

Option Three also aims to create stronger incentives for DES providers and participants to generate long-term employment outcomes and increase the overall participation of people with disability in Australian society. Through a combination of more relaxed market arrangements, improved financial incentives for providers and increased choice and control for participants, DES will be in a stronger position to improve the quality and quantity of employment outcomes for people with disability. Option Three would also set stronger expectations for providers to support participants to better meet the needs of employers and

prepare participants to have the skills and attributes they need to be employed and stay in a job.

The proposed reforms under Option Three would provide substantive opportunities to reduce the regulatory burden while better incentivising providers and focussing on participant outcomes. 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. Changes to the DES Program will aim to build on the strengths of the current system while maintaining stability for participants, employers and providers.