

State of Play: jobactive financial viability

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OVERVIEW

Over recent weeks Jobs Australia members delivering jobactive have been consistently reporting that the jobactive contract is not adding up for them financially. Of course, no one expected it to make a return on investment in Year 1: as we discussed in our [State of Play on the tender result](#), the way the payment model was designed, providers were always going to have to bear large start-up costs and then try to recover them through the subsequent 4 years of the contract.

The problem is that the current losses are larger than expected, which makes it harder to make the contract add up over the five-year term.

jobactive shifted the payment model towards outcomes, and therefore shifted risk onto providers, and so if the margins become too thin then the providers may start questioning whether it's worth it. A bump in the labour market, a change in policy, or other factors beyond the control of providers could kill off any remaining chance of recovering costs.

Some providers are already reporting that they are questioning their continued delivery of the program. Others are looking closely at their costs and looking for ways to reduce them – generally, by shedding staff.

LATEST DEVELOPMENTS

Recently, the Department has made some adjustments to the program in response to lobbying by peak bodies and providers. Some of these may help (a little) with financial viability. These include a payment of up to \$100 per place for lead providers, automated invoicing in the IT system, and changes to outcome payments to allow a 'significant increase in hours' to count towards an outcome when a job seeker has pre-existing employment.

Other changes, however, have negatively affected the financial viability of the contract. These include a savings measure in the [Mid-Year Economic and Fiscal Outlook](#) (MYEFO) late in 2015 which altered the policy around stronger participation measures for young people. The change cuts \$126.4 million from jobactive over 3 years.

The introduction of the separate youth program, [Transition to Work](#) (TtW), will also reduce job seeker flows into jobactive, again negatively affecting the revenue available in the jobactive contract.

A further negative effect of the changes is that each adds another layer to the many existing layers of administration of the program that distract frontline staff from a direct focus on getting people into jobs.

ISSUES: ON THE DOWNSIDE

WORK FOR THE DOLE COST VS BENEFIT

Work for the Dole (WfD) has proved to be an enormous administrative burden, much of which was not known at the time of tendering for business and which has resulted in considerable unforeseen but unavoidable costs. We have heard reports from some providers suggesting that WfD consumes up to 40% of their resources.

BOX 1

PURPOSE OF WORK FOR THE DOLE

([Senate Estimates, 11 Feb 2016](#))

Senator CAMERON: *Okay, but fundamentally this is about getting people into work?*

Ms Leon: *No. Work for the Dole—*

Senator CAMERON: *Work for the Dole is not about getting people into work? ...*

Mr Hehir: *You read out the intent of the program earlier. Improving people's desire to look for work and improving people's employability skills are the key factors. It is recognised that there is a significant range of factors that impact on a person getting a job, but the Work for the Dole process has an activation effect, which we have talked about previously, both prior to people being put into Work for the Dole and while people are within Work for the Dole. In the earlier answer I gave I think the figure was that 81 per cent of people felt an increased desire to find work. There are a number of aspects to it.*

Senator CAMERON: *There is a desire to find work?*

Mr Hehir: *It increases their desire to find work.*

Worst of all, and even according to the Department of Employment's [own evidence](#), it does not generate employment outcomes. The diversion of resources to WfD without any return of income in a contract that is already very lean is proving to be a huge financial and administrative burden for providers – one that many would now say is financially unsupportable.

The complicated WfD arrangements have also created an administrative nightmare and driven perverse behavior – problems we [highlighted early](#) but which are yet to be fully addressed.

While the Government may see the purpose of WfD as increasing the job seekers' desire to find work (see Box 1, above), Jobs Australia members delivering jobactive generally report that many job seekers are unwilling to take part in WfD placements. This is reflected in the Department's own data: as at March 2016, only 14.9 per cent of job seekers with an Annual Activity Requirement are in a WfD place.

Past research indicates that this disappointing outcome could have been foreseen. The [evaluation that the Government commissioned](#) into the WfD trials in 2014-15 showed that the additional investment only resulted in an increase in employment of 2%.

A UK [evaluation that used a random control trial](#) also showed that investing additional resources in a WfD-like program called Mandatory Work Activity (MWA) was less effective than investing resources in additional case management services. The UK Government initially expanded MWA despite the findings, but recently [announced that it would be scrapped](#).

In conclusion, jobactive requires providers to allocate significant resources to WfD when those resources could be

invested in more effective interventions resulting in job seekers finding good jobs.

COMPLEX ARRANGEMENTS ADD ENORMOUS COST

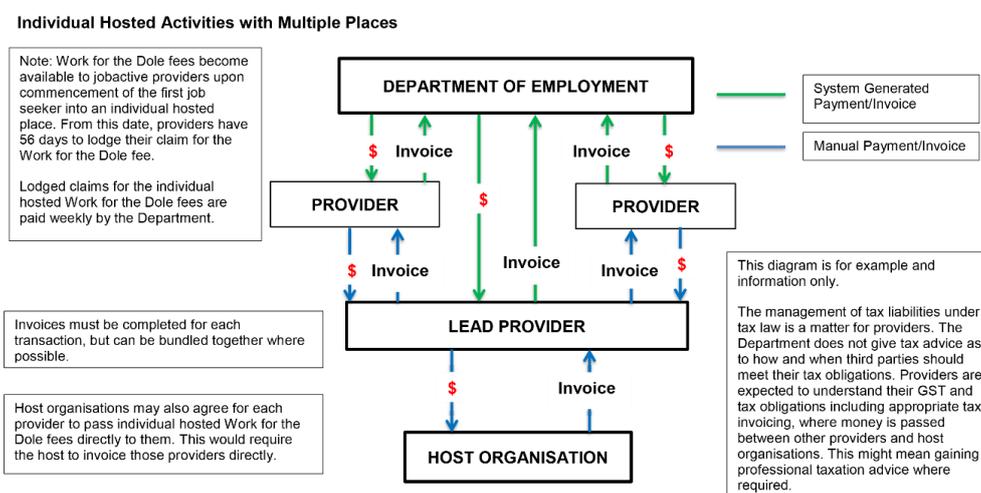
As [we explained at the very start of the jobactive contract](#), WfD arrangements relating to the Lead Provider model are extraordinarily complicated.

Some of the issues that emerged early were related to IT systems, and the Department has made good inroads into addressing some of those issues. In response to our [Issues and Options paper](#), the Department established a WfD Working Group, with representatives from Jobs Australia, other peak bodies and providers, to work through implementation issues. However, in Jobs Australia's view, some of the more significant issues in WfD can only be addressed with policy changes – some of which may require some re-negotiation of existing contracts.

For example, the invoicing arrangements that are currently in place are incredibly complicated (see Figure 1). The green arrows indicate invoices that the Department intends to automate through the IT system. The diagram thus represents the 'simplified' arrangements that the Department intends to implement. Note that this diagram only illustrates arrangements for an activity with multiple individual places – the arrangements are slightly different for a group activity.

The invoicing arrangements are just one example of the complications that flow from the Lead Provider model, all of which result in enormous administrative and compliance costs to providers.

FIGURE 1: INVOICING DIAGRAM FROM THE DEPARTMENT OF EMPLOYMENT



(Source: Department of Employment – available on the Provider Portal)

YEAR 1 WAS ALWAYS GOING TO BE TOUGH

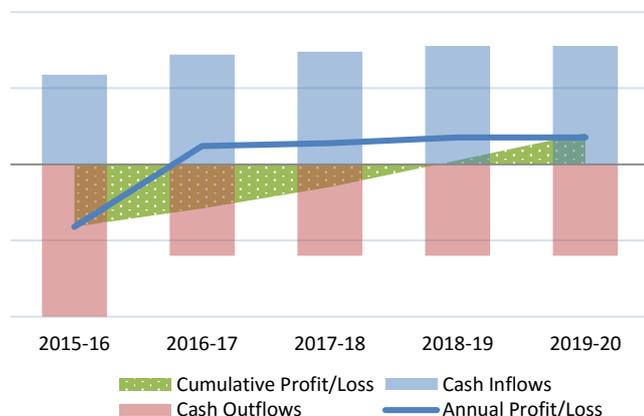
The shift to jobactive consolidated the number of providers from around 90 in the final year of Job Services Australia (JSA) to 44 at the start of jobactive. Contract regions roughly tripled in size, on average, and the payment model shifted funding more towards outcomes, providing less money up-front. In addition, the overall envelope seems to have been trimmed (we estimate by around 10-15 per cent).

The net result is a model that requires providers to make a significant initial investment in services in the early years of the contract, with the expectation of returns in later years.

As a rough indication, income and revenue over the five years of the jobactive contract might look something like the following chart. Note that, in this example, the provider starts earning a surplus / profit in year two of the contract, but does not fully recoup their start-up investment until year four.

The precise points will vary for each provider and will be affected by business reallocations, shifts in economic conditions, and changes to the program or related programs.

CHART 1: INCOME AND EXPENDITURE IN JOBACTIVE



OTHER CHANGES

As mentioned above, the December [Mid-Year Economic and Fiscal Outlook \(MYEFO\)](#) included a cut to the jobactive funding of \$126.4 million over 3 years. MYEFO also reallocated around \$110m from jobactive to the new TtW contract. Although jobactive providers will service fewer young job seekers, some of their costs are fixed and will not vary. They will also have a smaller pool of job seekers to work with and so are likely to face a reduction in income.

While the cuts themselves are relatively minor, the bigger issue is that the payment model has been altered in Year 1 of a five-year contract, creating a perception of instability in the

contractual arrangements. There is a serious risk that we may see further cuts to the jobactive funding envelope in the May 2016 Federal Budget, and further changes to the program. Every new adjustment inevitably impacts on service delivery, the administrative costs for providers, job outcomes and provider viability.

ISSUES: ON THE UPSIDE

EARLY PERFORMANCE DATA IS PRETTY GOOD (IF YOU BELIEVE THE DEPARTMENT)

According to the Department's evidence in [Senate Estimates \(11 February, 2016\)](#), placement and outcome rates in jobactive are tracking well. The Department regards the figures as indicating that the start-up period for jobactive has gone somewhat better than the start-up period for Job Services Australia (JSA) in 2009.

Although the caseload is lower, there have been more placements: 198,671 in jobactive, compared to 193,244 at the same point in JSA. Conversion of placements to outcomes is significantly stronger, particularly for 4 week outcomes: there have been 71,371 4 week outcomes in jobactive, compared to 45,226 2 week paid placements in JSA.

Data for 13 week and 26 week outcomes was also positive – but, given how early it is in the contract, the figures are somewhat unreliable (particularly for 26 week outcomes).

This comparison is, however, seriously flawed. The two programs are completely different, particularly in terms of their cost structures, and the economic context is completely different too. In 2009 the market was much weaker (due to the impact of the GFC), unemployment was trending upwards and participation was falling – indicating that the labour market conditions were so bad that some people were giving up on looking for work altogether.

Moreover, the picture painted by the Department does not ring true with what Jobs Australia is hearing from providers. Our members delivering jobactive tell us that they are well behind their projections for the new contract and struggling to make it add up. Widespread reports of staff shedding are a telling reflection of the degree of financial pressure now being experienced by our members.

If the system was performing as well as the Department suggests then that should also mean that providers' costs would broadly lie within the cost frameworks they projected and planned for at this point in the contract. Again, the widespread reports of staff shedding and deep concern at Board level suggest that this is not the case for many of our members.

LABOUR MARKET HAS BEEN STRONG

Official [statistics from the ABS](#) suggest that the labour market was surprisingly strong during the first six months of jobactive. The unemployment rate, in seasonally adjusted terms, was 6.3% in July 2015 and dropped over the first six months of the contract to 5.8% in December. Participation rates were also up indicating that the economy added jobs.

Indeed, as pointed out by the Minister for Employment, Senator the Hon. Michaelia Cash, 'employment increased by 301,300 over the 2015 calendar year, the largest rise recorded since the 2006 calendar year'.

There are a number of drivers behind the somewhat surprisingly good data. Firstly, consumers have started [spending their savings](#), increasing consumption even though wages and wealth are growing very slowly.

Another factor is the ongoing transition away from mining and towards services. The services sector is labour intensive and often lower-paying, so as investment shifts from mining to services [more jobs are created](#).

CHART 2: UNEMPLOYMENT (TREND) 2015-2016

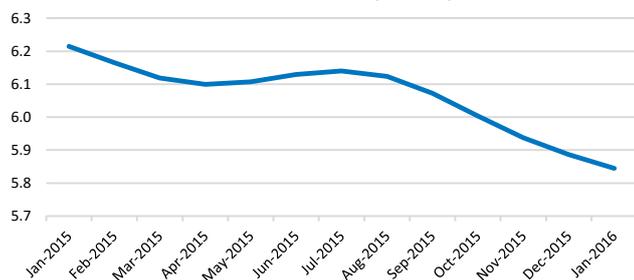


CHART 3: PARTICIPATION (TREND) 2015-2016

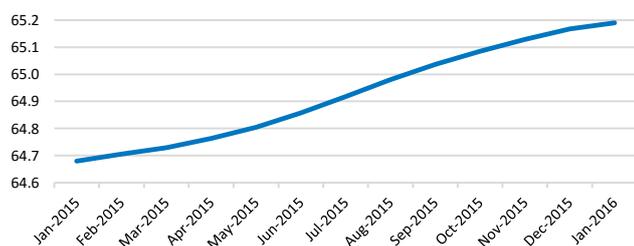
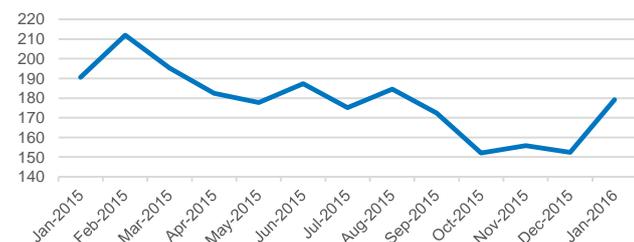


CHART 4: LONG-TERM UNEMPLOYED 2015-2016



WHERE DOES THAT LEAVE PROVIDERS?

Our discussions with providers suggest that many are looking at ways to cut costs. For most, that involves fewer staff. We have had reports of caseloads of 300 clients per case manager. Providers are clear about the imperative they face in focusing more directly on employment outcomes but the Department's demands in terms of compliance and performance are time and labour intensive and this is tricky balance. As always providers are extremely sensitive to factors that will affect their Star Ratings. This April will be a tense time across the sector. A welfare-to-work expert from the UK, Richard Johnson, has worked with Jobs Australia and a number of our members, and [his analysis](#) suggests that it should be possible to make the contract add up if providers focus on performance. However, as our members report, the contract is proving very difficult.

WHAT JOBS AUSTRALIA IS DOING

Jobs Australia has advocated for changes to reduce the costs of delivering jobactive and, in particular, Work for the Dole. For more information about our advocacy, see [our website](#) or [contact the Policy Team](#).

RESOURCES AND LINKS

[State of Play: ES 2015-2020 jobactive tender result](#)

[MYEFO: programs, income recipients & training all take hits](#)

[Transition to Work](#)

[Senate Estimates Hansard, Education and Employment Committee, 11 Feb 2016](#)

[Evaluation of Work for the Dole 2014-15](#)

[Early Impacts of Mandatory Work Activity \(UK\)](#)

[DWP scraps mandatory 'work for your benefits' scheme without fanfare](#)

[Saving grace: What's driving our stronger-than-expected GDP](#)

[Australian Bureau of Statistics](#)

[Mid-Year Economic and Fiscal Outlook \(MYEFO\)](#)

[Richard Johnson's advice for jobactive providers](#)