

## **Response to the Senate Inquiry into the Administration and Purchasing of Disability Employment Services in Australia.**

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### ***a) Impact of tendering more than 80% of the current Disability Employment Services on the clients with disability and employers they support under the current contracts.***

- EDGE Employment Solutions (EDGE) operates 3 Star DES-ESS across the three ESAs that make up the Perth Labour Market Region, where it has been successfully operating for the past 27 years (having secured almost 5500 Award wage jobs for more than 2000 people with all types of disability with varying severity).
- In the previous DEEWR tender for Uncapped Disability Employment Network services in 2005/06, EDGE expended \$40,000 in staff salaries and \$5,000 in other costs in submitting its subsequently successful tender. It is estimated that the new tender will cost approximately \$50,000 to submit. This money will need to be taken from the DEEWR employment fees. This equates to one full-time staff member for nine months or 20 Level 1 job seekers each assisted into employment over a six-month period. Extrapolated to the 80% of current 207 DES-ESS providers, this translates to \$8.28 million diverted away from supporting people with disability to get and keep jobs, or 3300 Level 1 job seekers not assisted into employment.
- The impact of being forced to tender in the next 12 months is also being felt in other areas. Recently, EDGE submitted a funding application to the WA Lotteries Commission (Lotterywest) for approximately \$500,000 to fit-out and equip an extension to its current building in Subiaco. Lotterywest expressed concern that EDGE was subject to an upcoming tender round, with the attendant risk of not securing a new contract, making it more difficult for Lotterywest to provide any funding. Given that Lotterywest is the major provider of one-off grants to DES-ESS providers (among other non-profit providers) in WA, the 95% of DES-ESS providers in WA who will be forced to tender will also potentially lose access to Lotterywest grants for the next 18 months.
- EDGE currently supports 560 people with disability in individualised supported jobs at Award wages with 200 employers. Eighty percent of workers that EDGE supports are employed in large business (100 or more employees) or the public sector. These relationships have taken many years to develop and consolidate. The impact of EDGE losing its contract in one or more of the three ESAs in which it operates is that those employers will not simply open their doors to a new DES-ESS provider about whom they have no knowledge and with whom they have developed no relationship. Workers, along with their families and support networks, in turn will be stranded in those jobs without, in the majority of cases, the vital support of EDGE. There is no guarantee that those workers will receive

replacement support in time (if ever) to prevent them from losing their jobs. Transition arrangements, such as allowing an unsuccessful DES-ESS provider to continue supporting workers to the end of their funding period, will not necessarily prevent these massive job losses, as many of these providers may simply close down or be insufficiently resourced to maintain a focus in this area.

***b) The potential impact of losing experienced staff.***

- In WA, where 95% of DES-ESS providers are 3 Star or below, it is very difficult to attract and retain competent staff in the face of significant skill shortages and competing jobs offering as much as double the salaries that DES-ESS providers are typically able to pay. The uncertainty caused by the upcoming tender is already creating concern amongst existing DES-ESS staff, with turnover rates almost doubling this year. Thus, even if EDGE were to secure business in each of its three ESAs, many experienced staff will have already left the industry by the time new contracts are awarded.

***c) Whether competitive tendering of more than 80% of the market delivers the best value for money and is the most effective way in which to meet the stated objectives of:***

- i) testing the market;***
  - ii) allowing new players into the market; and***
  - iii) removing poor performers from the market.***
- EDGE supports the removal of ‘poor performers’ from the market and welcomes the entry of ‘new players’ into the market, but strongly contests the argument that tendering 80% of the DES-ESS business is the most effective and cost-efficient way to achieve these aims. As previously stated, the proposed tender is likely to cost upwards of \$8 million of taxpayer funds to submit (equating to more than 3000 job seekers with disability assisted into employment), plus an unknown amount to assess and award. Further, potentially exposing thousands of workers with disabilities to the loss of their current DES-ESS provider, with the attendant risk of job loss, could set the DES-ESS sector back many years before recovering the current levels of workforce participation amongst DES-ESS funded workers with disability.
  - EDGE supports the requirement of 1 Star and 2 Star providers to go to tender on the grounds that, even if the practice of basing procurement decisions on logistic regression is open to question (and is even being questioned by the mathematicians who devised it for the very different Jobs Services Australia environment in the first instance), there would be sufficient doubt about the performance of these providers to warrant scrutiny via a tender process. When the current tender was originally released, EDGE shared the widely held expectation (contrary to the claims of Minister Ellis that 3 Star providers were always going to have to tender for new business) that DES-ESS providers who scored at 3 Stars or above would not have to go to tender. Indeed, EDGE based its 2010 -2012 strategic plan around delivering high-quality (i.e. high hours of employment,

high wages, quality employers, individualised jobs, ongoing on-the-job support, long-term follow-up, access to apprenticeships and traineeships, school-to-work transition programs) whilst maintaining at least a 3 Star rating in each of its ESAs.

- EDGE proposes a more cost-efficient and effective approach to removing poor performers and attracting competent new providers to the DES-ESS sector:
  - Require 1 Star (1.4% of all DES-ESS contracts as at June 2011) and 2 Star (14.1%) providers, plus contracts with insufficient data to generate a Star rating (15.9%), to tender for new contracts. This will open up 31.4% of the current awarded contracts to open tender.
  - Invite current 3 Star and above providers to voluntarily give back existing market share. Recently EDGE voluntarily gave back 9.5% and 7% of the market share in two of the three ESAs in which it operates. Discussions with other large DES-ESS providers around Australia suggest that would be a reasonable take up of such a request from DEEWR. Although this option has not been tested by DEEWR, EDGE would estimate that this might release a further 5-10% of market share.
  - DEEWR does not make available to the sector what proportion of market share is held by 1 Star, 2 Star and contracts with insufficient data to generate a Star rating. However, it is possible that these two measures could release around 30% of current market share for open tender, without requiring 3 Star providers to go to tender. EDGE contends that this would serve the dual purpose of eliminating poor performance and opening up sufficient market share for new providers, without disrupting the bulk of existing services or the majority of people with disability using these services.

***d) Whether the Disability Employment Services Performance Framework provides the best means of assessing providers' ability to deliver services which meet the stated objectives of the Disability Services Act (1986), such as enabling services that are flexible and responsive to the needs and aspirations of people with disability, and encourage innovation in the provision of such services.***

- It is the view of EDGE, and many other longstanding DES-ESS providers in the sector that each DEEWR contract moves further away from the principles and the objectives of the Disability Services Act (under which EDGE has been continuously operating since it was first enacted). Key elements of a quality employment service that the Disability Services Act envisages would include important dimensions such as how many hours a person works, how much they earn per hour, how long they have been employment, how much they are integrated into and accepted in the workplace, and how closely the job they are doing has been matched to their skills and interests. None of these dimensions is measured in the current Star rating system, upon which contracts and tenders are based. Thus, for a person with a benchmark of 8-15 hours, an eight hour per week position in an enclave of six people at \$8.15 per hour receives the same rating as a 15 hour per week individualised job with individualised support at full Award wages. Indeed, many providers are now taking a 40 hour per

week job, splitting it up into five eight hour per week jobs, negotiating a 'supported wage', and arranging a support person to 'manage' the enclave. This is known as 'Scheming' in the sector.

- EDGE is of the view that much of the 'innovation' referred to in this Term of Reference in the sector is misdirected towards finding means to lift Star ratings to the point where a new contract is ensured, rather than finding better ways to support people with disability. This innovation is widely known to take three basic forms: Creaming, Parking and Scheming. Creaming refers to only accepting those job seekers who the agency is willing to work with by constantly rejecting other candidates. Parking refers bringing onto the register and immediately 'suspending' them until a later date without any negative impact on the agency's income streams or Star ratings. Parking also includes only focussing on the job seekers that the agency believes it can place easily and who are more likely to stick with the job, and just ignoring those that don't without suspending them. Scheming includes the example given above. It also includes: establishing a five person work crew within the agency and rotating 25 people with 8-15 hour benchmarks through the work crew each week on a one day per week basis (which generates 25 outcomes); placing workers in the agency's own or a 'sympathetic' Australian Disability Enterprise (formerly sheltered workshop) to ensure that the workers achieve their 13 week or 26 outcome payments. All of these endeavours (screaming, parking or scheming) are intended primarily to improve the DES-ESS provider's Star rating, rather than enhance the employment outcomes for the people with disability they are funded to serve.
- The DES-ESS providers who were accorded 4 or 5 Star ratings in the previous DEEWR contract, which only ended in March 2010, are completely different to the current 4 or 5 Star providers under the current contract. The major differences between the Star ratings measures across the two contracts are the removal of hours worked per week and hourly wages (both key quality employment measures), underscoring the reducing correlation between Star ratings and quality employment services.
- EDGE challenges the validity of the Star rating system on the grounds that its own intimate knowledge of many of its fellow providers allows to accurately judge the quality of their services. For example, there are seven 4 or 5 Star outlets (out of 76 outlets) in the Perth LMR, in which EDGE operates: meaning 91% of LMR outlets will be forced to tender. Common features amongst these 4 and 5 Star outlets is that all but one is quite small, almost all have work crews as their dominant service type, and half are part of larger organisations that also operate an Australian Disability Enterprise service.

***e) The congruency of three-year contracting periods with the long-term relationship-based nature of DES-ESS and the impact of moving to five-year contract periods as recommended in the 2009 Education Employment and Workplace Relations Reference Committee report, DEEWR tender process to award employment services contract; and***

- EDGE endorses the concept of five-year contracts on the basis that it takes as much as 18 months to properly understand the full operations,

implications and nuances of a new contract. This is not aided by the fact that the contracts are highly complex and prescriptive. Each contract that DEEWR releases is more prescriptive and more complex than the previous contract, which only serves to undermine the focus on outcomes whilst progressively energy and resources are directed towards complying with often arcane and restrictive contractual requirements.

***f) The timing of the tender process given the role of DES providers in implementing the government's changes to the Disability Support Pension.***

Following on from the previous Term of Reference response, the current contract has only been in operation for 18 months, with the tenders for the new contract due two years and four months after the contract commenced. The Star ratings that determine whether an agency must go to tender are based on just two years performance. As previously mentioned it has taken DES-ESS providers most of that two year period to come to terms with the new contract, adjust to the new program parameters and allocate their resources accordingly. Such a short time frame forces DES-ESS providers to be focussed on the Star ratings rather than methodically building a quality service that will deliver the best outcomes for its clients. Thus, EDGE would recommend that the current contract be extended to 28 February 2015 to allow a full five year contract term. Such a contract extension would not be tolerable, however, without the provision of reasonable indexation to cover increase costs over the further three years of the contracts.

Submission ends