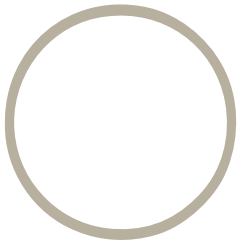




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*Analysis of Disability
Employment Services
Performance Framework Star
Ratings System*



Prepared for

Jobsupport



*Centre for International Economics
Canberra & Sydney*

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1 Introduction

Jobsupport is a specialist provider of employment support services for people with a moderate intellectual disability.¹ The Department of Education, Employment and Workplace Relations ('the Department') currently procures Jobsupport's services on behalf of people with an intellectual disability through the Disability Employment Services Deed 2010-12 and it is therefore covered by the new Disability Employment Services Performance Framework ('the Framework'). Jobsupport has a number of concerns relating to how particular Key Performance Indicators (KPIs) have been defined under the Framework and whether these KPIs can serve as an objective measure of the performance of specialist providers such as Jobsupport. Because performance on these KPIs help determine the assignment of Star Ratings to service providers, Jobsupport's concerns have significant implications for the effectiveness of the Framework in facilitating performance monitoring and comparisons of service providers by users and the Department.

The Centre for International Economics (CIE) was commissioned by Jobsupport to produce an independent report investigating and evaluating its concerns about the effectiveness of the Star Ratings system under the Framework. The rest of this report is structured as follows.

- Section 2 describes the nature of Jobsupport's operations and the market in which it operates.
- Section 3 summarises the relevant features of the new Framework and its Star Ratings system and notes some minor improvements relative to the previous Framework.
- Section 4 discusses and evaluates in greater detail Jobsupport's main concerns with the applicability of KPIs under the new framework, namely the relevance of three kinds of KPIs which together would account for 25 per cent of Jobsupport's Star Ratings and the impact of small sample sizes in the defined Employment Service Areas (ESAs) in which the performance of service providers is monitored under the Star Ratings system. The implications of these measurement issues are discussed and recommendations are provided for how the Framework can be reformed to better address Jobsupport's concerns.

¹ To be more specific, Jobsupport serves people with a Wescheler Adult Intelligence Scale (WAIS) IQ of 60 or below.

- Section 5 discusses other miscellaneous issues relating to the KPI methodology that are worthy of further investigation.
- Section 6 sets out our summary and recommendations.

2 *About Jobsupport and its market*

There are two kinds of such employment services providers – open employment services providers (Disability Employment Services) which assist the job seeker in gaining employment in the mainstream labour market and supported employment services (Australian Disability Enterprises or ADEs previously known as sheltered workshops) where the job seeker is placed in employment in an environment where the service provider pays the job seeker's wage.

Jobsupport, which began as a government funded demonstration project in 1986 to explore the potential for open employment for people with an intellectually disability, is an example of the first category of service provider. It specialises in placing adults with moderate intellectual disability into open employment.²

For instance, in April 2011, Jobsupport supported 533 people meeting the relevant intellectual disability criterion in regular jobs in the workplace. 65 per cent of these people were on an award wage, and only 35 per cent were on a productivity based sub-award (supported) wage.³

The alternative to placing people with an intellectually disability in mainstream employment with their wages being paid directly by the mainstream employer is being supported fully or largely by the disability pension and other government programs. This means that open employment services providers for people with an intellectual disability such as Jobsupport can result in large savings for the taxpayer both from reduced payments of Disability Support Pensions and increased collection of tax revenues from the income of employed disabled workers. This has been confirmed in numerous economic studies of open employment program for the intellectually disabled such as Jobsupport.⁴ These taxpayer savings have been found

² As noted previously, this is defined as people with a WAIS IQ equal to or under 60.

³ Information provided by Jobsupport.

⁴ For instance, a 2005 study found that the cost per client of open employment services was \$1692 compared to \$6358 and \$15 699 for supported employment and post school options respectively – see Econtech 2005, 'An analysis of alternative methods of government funding of employment services for people with disabilities'. Participation in a Jobsupport program by a job seeker was almost revenue neutral compared to the pension after 12 months – see Tuckerman, P., R. Smith and J. Borland 1999, 'The relative cost of employment for people with a significant intellectual disability: The Australian experience', *Journal of Vocational Rehabilitation* 13: 109–116.

to be driven by the outcome rates (that is, percentage placed in employment), employment retention and wages of the jobseekers placed by such open employment programs.

The characteristics of Jobsupport's clients

There are a number of obvious differences between the kinds of job seekers which Jobsupport serves and those which are served by other employment services providers.

Firstly, the incidence of moderate intellectual disability (which characterises Jobsupport's clients) is extremely rare in the population.⁵ This means that the total number of Jobsupport's clients served annually is a significantly smaller number than the number of clients served annually by the typical mainstream employment services provider. For example, as an illustration, roughly 140 school leavers in this category leave Sydney schools a year, roughly 35 go to Jobsupport and the remainder enter ADEs or state funded activity programs.⁶ As discussed in a later section, this has some obvious implications for the assignment of Star Ratings to providers based on their performance in defined ESAs.

Secondly, the typical client of Jobsupport, given his or her intellectual disability, has a highly limited ability to generalise and therefore to apply skills learnt in one setting to another setting. This means that further education and training, particularly for the sake of obtaining qualifications will be of very little benefit to the typical Jobsupport client. The most appropriate form of training for people with an intellectual disability is 'place and train' where jobs are found first and training provided subsequent to placement.⁷ This also has implications for some KPIs set out under the current framework.

⁵ See 'Provision of services for special needs/disabled students in NSW', A report coordinated by the Public Schools Principals Forum estimated the incidence of people with an IQ less than 55 to be 1 in a 1000.

⁶ Jobsupport briefing to the CIE.

⁷ Cain, P. 2011, 'Disability Employment Services Implementation Issues'.

3 The DES Performance Framework

On 1 March 2010, the Commonwealth Government introduced a new and improved Disability Employment Services (DES) program to deliver more effective employment assistance for job seekers with a disability. DES support services are divided into two main streams:

- Disability Management Service for job seekers with disability, injury or health conditions who require the assistance of a disability employment service but are not expected to need long-term support in the workplace.
- Employment Support Service for job seekers with permanent disability and with an assessed need for more long-term, regular support in the workplace.

To ensure that providers are performing effectively in placing jobseekers, their performance is monitored through the DES Framework which includes the following elements:

- rigorous performance assessment and Star Ratings to inform and support high quality outcomes;
- a commitment to quality through compliance with the Disability Services Standards (DSS);
- a Service Guarantee reflecting the services that participants can expect from providers; and
- a Code of Practice that reflects the Australian Government's expectations of how providers will interact with participants, employers and each other.

Jobsupport, as a specialist open employment services provider for people with an intellectual disability, has its performance as an Employment Support Service (ESS) assessed under this Framework, which includes the Star Ratings system.

The Star Ratings system

The Star Ratings system is an essential part of this performance monitoring framework. Star Ratings will be published every six months starting from mid-2011 on government websites. Ratings are from one to five stars. One star is the lowest score. A three star provider is considered to be performing well, while five stars is considered the highest score.

These ratings allow potential clients (or their guardians) to decide on the best available providers for their needs. In addition, under the DES deed for 2010-12, the

Department will review each provider's performance as assessed by their Star Ratings in each ESA and at each site after 31 December 2010 and each subsequent six months over the term of the Deed. Performance in the 2010-12 funding period may be then taken into account in the Department's decisions on future procurement processes or deed extensions. Recently (in the May 2011 Budget) the Government announced that providers with a 3 star rating (or worse) would be tendered, but those at 4 and 4 stars would be rolled over.

These aspects of the Framework illustrate the importance of the Star Ratings system to Jobsupport, both in terms of being appropriately assessed by the Department for future contracts and in terms of future registrations of clients to Jobsupport as a result of how potential clients perceive its performance based on the Star Ratings assigned to it for each of its sites and in each ESA in which it operates. Thus, it is important that these Star Ratings provide as accurate and relevant a measure of provider performance as possible, given the wide diversity providers in the market for employment support services.

Star Ratings are calculated based on measurement of a provider's performance on two kinds of KPIs:

- Efficiency KPIs which comprise – the proportion of referrals made to a provider that subsequently commence in the program (KPI 1.1); and the average time that the provider takes, compared to the time taken by other providers to assist participants into employment (KPI 1.2).
- Effectiveness KPIs that comprise the proportions of participants for whom job placements and various other kinds of outcomes are achieved (KPIs 2.1 to 2.7) and the proportion of participants receiving ongoing support who remain in employment (KPI 2.8).

Jobsupport has, to date, been a consistently high performer on Star Ratings. For instance, under the previous Star Ratings system of June 2009 which included half stars, it scored four and a half stars at both its Blacktown and Chatswood sites and five stars at its Kingsgrove and southwest Kingsgrove sites.⁸

As noted previously, Star Ratings are assigned to the performance of each DES site of a service provider as well as to each provider at the Employment Service Area (ESA) level where the ESA represents the main geographic unit of assessment. Altogether there are 145 ESAs in Australia which are contained within 19 defined Labour Market Regions (LMRs).

⁸ Disability Employment Network Star Ratings June 2009.

How Star Ratings are calculated

Both the actual and expected performance of the provider on the various efficiency and effectiveness KPIs underpin the calculation of the star rating assigned to each provider as follows.

- The **expected performance** of a provider on the effectiveness and efficiency KPIs is calculated based on the performance of all providers (for example, outcomes achieved for job seekers by all providers) using control variables in a statistical regression to take account of factors that may be outside the individual provider's control.
- The **actual performance** of the provider on the KPIs is calculated.
- The ratio of the actual performance of the provider to the expected performance **for each effectiveness and efficiency performance measure** (after controlling for factors specific to each provider) is calculated.
- The resulting ratio for each provider is then standardised so that they are on the same scale. This is to take account of the fact that these ratios can have different ranges depending on the particular measures. The standardisation is performed by looking at how the score (encapsulated in the ratio calculated above) for each performance measure by each provider compares against the average for all providers. The extent to which the individual provider's score is above or below the average is then calculated.
- The resulting standardised score for each performance measure for the individual provider is then weighted accordingly and the weighted sum for all performance measures attained by each provider is calculated. The respective weights assigned to each performance measure is summarised in table 3.1.
- Finally the overall scores resulting from the above process for each individual provider is allocated to the five star rating band as summarised in table 3.2.

As the next section discusses in further detail, Jobsupport has specific concerns about the appropriateness of particular KPIs for adequately capturing and measuring Jobsupport's performance for its job-seekers. Insofar as there are problems with specific KPIs, these would impact on the applicability of the second step in calculating the Star Ratings outlined above, namely the calculation of Jobsupport's **actual performance**. In addition, as discussed in a later section, Jobsupport also has concerns about whether appropriate controls are being used in the statistical regression performed at the first step, which go towards estimating its **expected performance**.

3.1 Weights assigned to specific KPIs for Employment Support Services

KPI	Performance measure	Weighting
		%
Efficiency 1.1	Commencement to referral ratio	5
Efficiency 1.2	Time taken to achieve full 13 week employment outcome	5
Effectiveness 2.1	Job placements	5
Effectiveness 2.2	13 week full outcome	20
Effectiveness 2.3	13 week pathway outcome	5
Effectiveness 2.4	13 week bonus outcome	5
Effectiveness 2.5	26 week full outcome	30
Effectiveness 2.6	26 week pathway outcome	5
Effectiveness 2.7	26 week bonus outcome	5
Effectiveness 2.7	Ongoing support	15

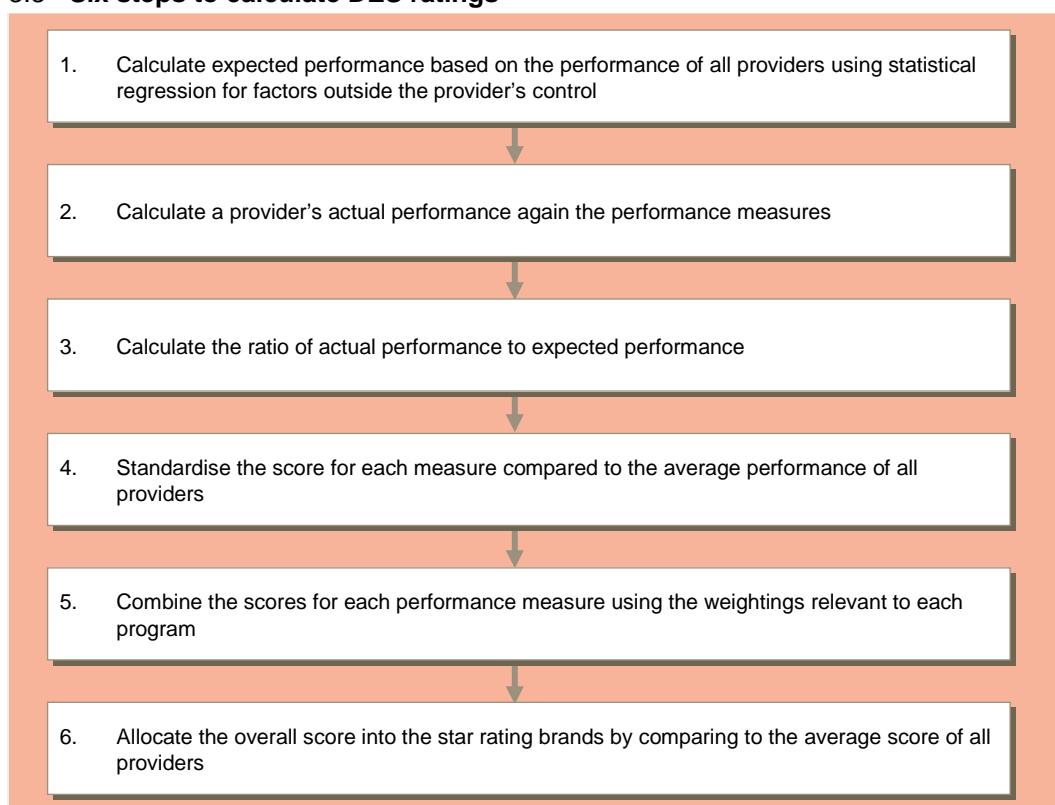
Source: DEEWR.

3.2 Distribution of DES Star Ratings

Rating	Performance
5	40 per cent or more above average
4	20 per cent above to less than 40 per cent above average
3	20 per cent below to less than 20 per cent above the average
2	Higher than 50 per cent below to less than 20 per cent below the average
1	50 per cent or more below the average

Source: DEEWR.

3.3 Six steps to calculate DES ratings



Source: DEEWR.

Recent changes to the DES Performance Framework

Before discussing and evaluating in greater detail the concerns of Jobsupport, it is worth noting that the present DES Framework incorporates some notable changes from previously formulated frameworks with respect to the Star Ratings methodology. In particular, compared to the Star Ratings methodology for the previous Disability Employment Network (DEN) and Vocational Rehabilitation Services (VRS), the current Star Ratings system does not use half stars or depend on fixed distributions.

This change makes the new framework an improvement over the previous one because it means that service providers are ranked based on their performance relative to the average rather than being placed into a forced distribution which may create arbitrary rankings not reflective of actual differences in performance.

4 An evaluation of Jobsupport's main concerns with the Star Ratings system

Jobsupport has concerns regarding the appropriateness of the following KPIs in measuring its performance given the specialist nature of its operations:

- KPI 1.1: Commencement to referrals ratio;
- KPIs 2.3: 13 week pathway outcome and 2.6, 26 week pathway outcome; and
- KPIs 2.4: 13 week bonus outcome and 2.7, 26 week bonus outcome.

In addition, Jobsupport also questions the appropriateness of issuing Star Ratings at an ESA level.

Each of these concerns is discussed and evaluated below.

Problems with the commencement to referrals ratio

KPI 1.1 – the commencement to referrals ratio – has a 5 per cent weighting in calculating service providers' actual performance under the Star Ratings system. However, Jobsupport argues that this KPI is irrelevant for assessing the performance of specialist providers of employment services to people with a moderate intellectual disability because such providers receive few of their clients through referrals. Instead, in the case of the people with a moderate intellectual disability, the usual procedure is for people to come to providers such as Jobsupport through direct registration. However, direct registrations are excluded from the calculation of this ratio. Jobsupport also argues that in any case it is not clear what the purpose of this ratio is since providers are obliged to accept all referrals in the absence of extraordinary circumstances anyway.

The CIE agrees with Jobsupport's assessment, given that only five referrals commenced across Jobsupport's 12 Sydney ESAs between March 2010 and April 2011. The remaining 82 new Jobseekers entered via direct registration.⁹ Because in practice, clients come through direct registration, specialist providers for the people with a moderate intellectual disability such as Jobsupport would be unable to calculate a meaningful ratio as required for this indicator.

⁹ This refers to new commencements between March 2010 and April 2011.

If, for instance, over the relevant period of measurement there are no referrals at all, the ratio would result in division by zero, which would lead to an inapplicable result. Alternatively, if over that period there were only a few referrals, these referrals would be accepted anyway since all referrals have to be accepted in any case.

In the former case, the indicator would lead to a meaningless result and some other means of processing this indicator would have to be found. The Department has proposed that under the first scenario, the national average performance for the performance measure would be substituted for the meaningless ratio and has argued that Jobsupport would then be neither advantaged nor disadvantaged by this result.¹⁰

However in the CIE's assessment, the Department's assessment of the consequences of this proposed approach is flawed. The indicator has a 5 per cent weighting. The Department's proposed approach would result in 5 per cent of Jobsupport's total score being given an 'average' rating. This would still disadvantage Jobsupport relative to other providers to whom the KPI is applicable and who are able to achieve an above average score on that KPI. In addition, if a specialist provider achieves an above average score on all applicable KPIs, being automatically assigned an 'average' score on a KPI which has a 5 per cent weighting on the total score would in effect 'water down' its performance in a manner which is unrepresentative of what it has achieved in applicable KPIs. Therefore the CIE agrees with Jobsupport's assessment that the Department's proposed approach is inadequate for addressing its concerns. This concern is particularly poignant given the decisions to tender services with a 3 star rating or less. A superior approach would be to ignore this KPI altogether when calculating ratings for Jobsupport and other providers in a similar position, and re-weight the KPIs so that only applicable KPIs receive ratings.

Problems with the 13 week pathway outcome and 26 week pathway outcome KPIs

Jobsupport has argued that the 13 week pathway outcome (Indicator 2.3) and 26 week pathway outcome (Indicator 2.6) are both inapplicable to its operations and to jobseekers with a moderate intellectual disability.

These indicators are aimed at reflecting the proportion of clients who are successfully placed in a so-called 'pathway' employment where they will eventually end up in sustainable employment or education after a phase where they work less than their benchmarked hours. The alternative basis for scoring on this indicator, namely remote education opportunities, would also not be an especially relevant consideration for the jobseekers with a moderate intellectual disability which

¹⁰ As documented in Jobsupport's 21 December 2010 correspondence to the Department.

comprise Jobsupport's client base. All of Jobsupport's clients, being people with a moderate intellectual disability, are already allocated the minimum benchmarked hours possible, namely eight hours a week. This means that none of Jobsupport's clients or jobseekers who fall into a similar category as Jobsupport's clients (that is, those who are moderately intellectually disabled) would be able to qualify for a pathway outcome since there is no 'pathway' from working below what are already minimum benchmarked hours to a 'full' outcome.¹¹

This means that the denominator for these two indicators in Jobsupport's case will always be inflated by participants which do not under any circumstances, qualify for a pathway outcome while the numerator will always be zero. Alternatively, in the scenario where every client at a Jobsupport site or ESA has already been placed in a defined employment outcome (that is, one of the 'full outcomes'), the denominator of the ratio will also be zero, resulting in a meaningless number. Each of these indicators has a 5 per cent weighting, so together these two indicators would account for 10 per cent of Jobsupport's total score under the Star Ratings system.

The Department's response is that there is already a control variable for job seekers with a benchmark of eight hours in the regression model used to determine a provider's expected performance and that furthermore, a control variable for moderate intellectual disability could also be introduced. Both these control variables would in effect account for the lower rate of bonus outcomes that would typically be achieved by clients of Jobsupport and other specialist providers for people with a moderate intellectual disability. By consequently adjusting downwards the expected performance of specialist providers such as Jobsupport, this would limit the disadvantage that such providers would otherwise face when their score is calculated from the ratio of their actual performance to this expected performance.¹²

In the CIE's assessment it is unclear that the Department's proposed response adequately addresses either of the two alternative scenarios discussed previously. In the scenario where the specialist provider ends up with a denominator of zero in calculating the KPI because all its commencements have been placed in a 'full outcome' and therefore excluded from the denominator, this leads to a meaningless result for actual performance which adjusting the expected performance alone cannot address.

However, in the scenario where the denominator is not zero because not all commencements have been placed in employment yet, the provider will still end up with a score of zero in the numerator for the reason already discussed. Under the Department's proposed approach, the control variable for benchmarked eight hours

¹¹ One exception, according to Jobsupport, is the case where three clients were mistakenly given 15 hour benchmarks though all are now in jobs working 15 hours or more.

¹² As documented in Jobsupport's 21 December 2010 correspondence to the Department.

might result in the expected performance of providers such as Jobsupport in achieving 'bonus outcomes' also being assigned as zero. This would mean that Jobsupport and similar providers would be recorded as having an average performance on these indicators. But even this scenario would be open to many of the objections which were made to the Department's proposed approach for addressing the applicable referrals to commencement ratio, but even more so given that the two KPIs together account for a 10 per cent weighting.

Firstly, Jobsupport and similar providers would still be disadvantaged relative to other providers to whom these indicators are applicable and who have above average scores on these indicators. Secondly, in the event that Job Support or similar providers were able to achieve an above average score on all other applicable KPIs, being automatically assigned an 'average' score on KPIs which together have a 10 per cent weighting on the total score would in effect 'water down' their overall performance in an unrepresentative manner.

Problems with the 13 week bonus outcome and 26 week bonus outcome KPIs

Jobsupport has expressed the concern that the 13 week bonus outcome (Indicator 2.4) and 26 week bonus outcome (Indicator 2.7) are not appropriate indicators for evaluating its performance because of the special characteristics of its clients. As discussed previously, the people with a moderate intellectual disability which form the client base of Jobsupport do not benefit from qualifications-based education and training opportunities. However these two indicators, which together account for 10 per cent of Jobsupport's total score are aimed specifically at providing an incentive for 'skills development and training relevant to the local labour market and maximising apprenticeship'.¹³ People with a moderate intellectual disability, because of their poor ability to generalise what they have learnt from one setting to another, are better suited to an arrangement where they are placed in employment first and then trained on how to perform their employment duties. While there is an alternative basis for scoring on this indicator, namely placing work for indigenous participants, insofar as specialist providers such as Jobsupport might have some clients that fit into this category, it would only be an extremely small sample size given the low incidence of the entire population which meet the criterion of moderate intellectual disability.

The Department's response to this concern is similar to its response to the issues surrounding the pathway outcomes indicators. It argues that introducing an additional control variable of moderate intellectual disability to account for the lower rate of bonus outcomes that would typically be achieved by clients of Jobsupport would adjust downwards the expected performance. This in turn would limit the

¹³ Disability Employment Services Performance Framework Guidelines version 1.1. at p. 18.

disadvantage that such providers would otherwise face when their score is calculated from the ratio of their actual performance to this expected performance.¹⁴ The Department has noted that it is trialling such an indicator.

However, while the introduction of a control variable for moderate intellectual disability would be a welcome improvement in future contracts (for the reasons discussed in further detail in the next section), in the CIE's view there are two objections that can be made to the Department's response. Firstly, a control variable for intellectual disability has not yet been introduced. Secondly, trying to control for people with a moderate intellectual disability performing poorly on these indicators does not make sense when the fundamental problem is that providers of employment services for people with a moderate intellectual disability are not actually competing in performance on these indicators as currently defined, nor would it be desirable for their clients for them to do so.

More generally, even if in the best case scenario, such a control variable was introduced and effectively resulted in specialist providers such as Jobsupport attaining an average score on these indicators (because of the revision downwards of their expected performance), this would still be subject to the problems noted in discussing the Department's proposed approach for addressing the applicable referrals to commencement ratio, but even more so given that the two KPIs together account for a 10 per cent weighting.

Firstly, Jobsupport and similar providers would still be disadvantaged relative to other providers to whom these indicators are applicable and who have above average scores on these indicators. Secondly, in the event that Job Support or similar providers were able to achieve an above average score on all other applicable KPIs, being automatically assigned an 'average' score on KPIs which together have a 10 per cent weighting on the total score would in effect 'water down' their overall performance in an unrepresentative manner.

Problems with determining Star Ratings at an ESA level

As discussed previously, under the Framework, each provider is assigned a star rating for its performance at an ESA level. Australia is divided into 19 LMRs comprising 145 ESAs.

The problem that Jobsupport and potentially other specialist providers may face under these arrangements is that their client base is very narrow and consequently would be very spread out over these ESAs. For instance, as noted previously, the incidence of moderate intellectual disability is very low. Jobsupport serves a large percentage of this population but this still translates into very small numbers at an ESA level. Jobsupport has noted that other specialist providers such as Spinal Cord

¹⁴ As documented in Jobsupport's 21 December 2010 correspondence to the Department.

Services are in a similar position in serving a very narrow segment of the jobseeker population.

This means that in some cases that there will be insufficient numbers of Jobsupport or other specialist provider clients in some ESAs for Star Ratings, resulting in these specialist providers not being assigned a Star Rating in some ESAs and therefore not being included in Star Ratings publications which are aimed at facilitating jobseekers' ability to choose the most appropriate providers for their needs. For example, for the 1 March to 31 December 2010 Star Ratings, six out of 12 of Jobsupport's Sydney ESAs are not eligible for a star rating due to insufficient data. The Inner Sydney ESA is unlikely to be eligible for a star rating at any time during the life of the 2010-12 contract.

This problem undermines the objectives of the Framework in producing a comprehensive performance assessment system to aid jobseekers in choosing the best provider and also undermines the Department's own ability to make an informed decision on future deed extensions based on past performance.

Assigning Star Ratings to provider performance at the ESA level also leads to problems where the provider serves a very small jobseeker population because transfers between ESAs and data problems can lead to significantly volatility for recorded performance in particular ESAs over time. This is because the smaller the sample size (as would be the case for a specialist service provider's clients at an ESA level), the more likely that even small changes in numbers either in the numerator or denominator level for calculating a particular KPI can have highly disproportionate impacts on the final score. For instance, for a sample of five, placing two additional clients in employment from two previously will increase the placement rate by 40 per cent (from 40 per cent to 80 per cent) whereas for a sample of 12, the same increase will only increase the placement rate by under 17 per cent. Therefore, any errors in data will also be likely to be magnified in the final results. Again, these problems will undermine the ability of the Star Ratings system to provide a meaningful basis for comparison between service providers if it means that large fluctuations in the performance of a service provider over time may not be reflective of any substantive changes in the provider's operations but instead are merely a statistical artefact of transfers between sites or data errors.

The CIE acknowledges that assigning star ratings only to providers that have a minimum number of job seekers in an ESA is one means of addressing the problem of small sample sizes leading to unrepresentative and volatile changes in KPI scores over time due to transfers between ESAs. It may be the reason why the Department tightened the eligibility for assigning Star Ratings. However, tightening eligibility for Star Ratings also poses significant problems in itself because it means that the coverage of Star Ratings will be incomplete.

The Department's response to Jobsupport's concerns are to assert that performance data for a particular site or ESA will 'build up over the period of the contract period' and that therefore effective transfers and data entries will tend to have a 'reduced

impact on the performance data over time'. However in the CIE's assessment this is not a realistic response. Though potentially Jobsupport could build up its 'performance data' over time if it attracted more jobseekers with a moderate intellectual disability, ultimately it still operates in a very small market comprising potential job seekers with a very low incidence (not all of whom will end up as job seekers), to be spread out over potentially 145 ESAs in Australia.

The CIE agrees with Jobsupport's assessment that the best approach for addressing these problems is to assign Star Ratings based on larger defined geographical regions, at least to specialist providers such as Jobsupport. There would be no significant technical difficulties associated with such an approach. While it would introduce an additional element of complexity into the Star Ratings system because other more general providers might continue to be assigned Star Ratings on the narrower ESA level, this additional complexity seems a small price to pay for ensuring that the performance of specialist providers such as Jobsupport which might not otherwise qualify for Star Ratings in some ESAs can be properly assessed and done so with greater accuracy.

Assigning Star Ratings to niche service providers based on their performance at the LMR level would ensure that there would be an adequate sample size for calculating Star Ratings without any of the statistical discrepancies that might arise from clients transferring between different areas. It would also avoid the need to define a minimum number of participants in the defined area and the pitfalls of that approach in excluding some specialist service providers from the Star Ratings system since at the LMR level, even specialist service providers would have clients of sufficient numbers to produce meaningful KPI scores.

5 *Other miscellaneous issues*

In addition to the KPI-related issues which were discussed previously, Jobsupport has also noted a number of other potential areas for reform to improve the effectiveness of the Star Ratings system:

- currently, the criterion for moderate intellectual disability, namely an IQ of 60 or under, does not feature as a control variable in the regression process for calculating expected performance of providers; and
- the new Framework has dropped ‘wages’ as a KPI and there is a case for reintroducing it given that the improved wage outcomes of the intellectually disabled under open employment programs drive a significant part of the benefits of such programs.

Each of these points is discussed and evaluated in further detail below.

Controlling for moderate intellectual disability

As discussed previously, one of the first steps in the process of estimating Star Ratings involves calculating the expected performance of the service provider. The ratio of the provider’s actual performance to this expected performance then forms the basis for the Star Rating assigned to the provider, that is, if the provider’s actual performance is above the expected performance it will ultimately end up with a higher Star Rating than if its actual performance is below the expected performance. This means that it is crucial for the accuracy of the methodology for calculating Star Ratings that the performance expected of the provider is set appropriately. Among other things, this means that the expected performance of the provider on a particular KPI should take account of any characteristics of its client base or some other aspects of its operations which it is not within its discretion to change (such as the employment patterns of local businesses and their preferences for particular kinds of workers).

The above principle as articulated is readily accepted by the Department which has already set out a list of control variables relating to participant characteristics including disability variables such as defined medical condition types, provider characteristics and labour market factors¹⁵. Notwithstanding this, the Framework guidelines do not as of yet include a control variable for moderate intellectual

¹⁵ There is a flag for IQ less than or equal to 60 in the Department’s database.

disability, either as a general participant characteristic or as a disability variable under the listed JCA medical condition types

The CIE agrees with Jobsupport's assessment that the Star Ratings could be further improved by the addition of a control variable for moderate intellectual disability as the addition of this control variable could take account of possible differences in expected performance between specialist providers of services to people with a moderate intellectual disability and providers for other kinds of disabled job seekers which are not currently captured by existing control variables. In the words of an expert psychologist commissioned by Jobsupport, existing control variables used in the regression analysis may not be of sufficient resolution to fully allow for differences in the employability of Jobsupport's clients with a moderate intellectual disability clients.¹⁶ Indeed, this point is acknowledged by the Department as well in its responses to Jobsupport's concerns about the applicability of KPIs 2.3, 2.4, 2.6 and 2.7 where it was noted that the Department has been trialling the use of a control variable for moderate intellectual disability as a means of addressing these concerns.

However, as has previously been articulated, the introduction of a control variable for intellectual disability would not be sufficient to address the concerns raised regarding the individual KPIs. In addition, it is important that the introduction of a control variable for moderate intellectual disability take account of the following considerations to ensure that additional statistical anomalies are not introduced:

- As Jobsupport covers a high proportion of the people with a moderate intellectual disability in the open job market in Australia, this may result in the 'expected performance' for similar providers being substantially based on Jobsupport's actual performance. The implication of this is that Jobsupport's actual performance may be classified as average because it overlaps significantly with the expected performance of similarly situated providers. The Department should ensure that such possible anomalies are taken into account and addressed when considering how to introduce a control variable for moderate intellectual disability.
- More generally, without access to further detail regarding how the Department performs its regressions to derive expected performance and the error terms associated with these regressions, the CIE is not able to comment on the effect of introducing additional control variables on these regressions. The Department should ensure that its approach to regression is appropriately refined to ensure that introducing additional variables does not introduce more, rather than less error terms.
- Some services are reporting difficulty in obtaining evidence for a Moderate intellectual disability loading. This implies that there may be some data issues in

¹⁶ Letter of advice from Alan Taylor, Senior Lecturer in Psychology at Macquarie University, dated 6 February 2011.

including this variable, suggesting that it may be more appropriate to include this flag in the next contract, rather than in current contracts.

Overall, the CIE considers that the introduction of an additional control variable for moderate intellectual disability is a complex task but is worth undertaking subject to the complications highlighted above being addressed. It would help ensure that any other hitherto undetected anomalies in calculating expected performance for each KPI would not further advantage or disadvantage Jobsupport and other specialist providers for jobseekers with moderate intellectual disability jobseekers

Reintroducing a wages KPI

The wages KPI was present under the older Disability Employment Network (DEN) Framework that was applied from 2006 to 2009. The KPI was specified in terms of average weekly wage, with a higher wage leading to a higher score on the KPI. However, this KPI was dropped under the new DES framework.

Jobsupport argues that the Department should investigate the possibility of reintroducing the wages KPI. Having reviewed past economic studies of open employment programs for Jobseekers with an intellectual disability, the CIE agrees with this assessment because of the strong evidence from these studies that a large part of the taxpayer benefit from placing people with an intellectual disability in employment arise from both the savings in the level of Disability Support Pensions paid out and significantly increased taxation revenues resulting from the higher wages these jobseekers earn from being placed in mainstream employment as opposed to supported employment.¹⁷ Insofar as one aim of the Framework is to encourage continuous improvement in the performance of specialist providers such as Jobsupport, it makes sense that there should be a KPI that encourages these providers to make continuous improvements in what constitutes a key part of their value to both the taxpayer and their job seeker clients, namely helping their clients attain as high a degree of financial independence as possible. Current KPIs do not provide such an incentive as only minimum benchmark hours are set.

¹⁷ See Econtech 2005, 'An analysis of alternative methods of government funding of employment services for people with disabilities'. This study estimated that the average wage received by people with an intellectual disability at that period was \$292 per week in mainstream employment compared with \$57 per week for supported employment.

6 *Summary and recommendations*

In the CIE's view, Jobsupport has validly identified the following as areas of concern in the application of the Star Ratings system:

- the inapplicability of KPI 1.1 – commencement to referral ratio on the basis that 82 out of 87 of its new jobseekers (across 12 ESAs) are through direct registrations, which are excluded from the calculation of this ratio;
- the inapplicability of the KPIs involving pathway outcomes because jobseekers with a moderate intellectual disability are assigned the lowest possible benchmarked hours (eight hours) and therefore cannot qualify for a pathway outcome which involves placement of work at lower than benchmarked hours;
- the inapplicability of the KPIs involving bonus outcomes because normal qualifications-based education and training is not suitable for jobseekers with a moderate intellectual disability who are better off under a 'place and train' model;
- the problem of small sample size in some ESAs which will result either in some Jobsupport sites being ineligible for Star Ratings or measurement anomalies such as volatilities in measured performance which do not reflecting underlying realities.

The Department has proposed to address these problems as follows.

- In the case of the commencement to referral ratio, the Department proposes to assign an automatic average score to Jobsupport;
- In the case of the pathway outcomes and bonus outcomes KPIs, the Department argues that the insertion of appropriate control variables including a control variable for moderate intellectual disability which is being trialled should revise downwards the expected performance of specialist providers like Jobsupport and therefore bring up their overall score (which is the ratio of actual to expected performance).
- In the case of the problem of small sample sizes in defined ESAs, the Department does not think that any response is needed as performance data is expected to 'build up' over time.

In the CIE's view, the Department's proposed responses to these problems do not fully address all their negative implications for specialist providers of employment services for jobseekers with a moderate intellectual disability though the introduction of control variables for moderate intellectual disability could be useful in the next contract.

Together, the KPIs which this report has demonstrated to be either fully inapplicable or highly inappropriate for assessing the performance of service providers such as Jobsupport account for 25 per cent of Star Ratings. Cumulatively this is a significant share of ratings. It means that those providers for whom these KPIs are applicable and who score above average on these KPIs will still enjoy an unfair advantage over providers such as Jobsupport who at best might be allocated an 'average' score on these same KPIs if appropriate control variables were introduced.

Moreover, in the event that Jobsupport or similar providers were able to achieve an above average score on all other applicable KPIs, being automatically assigned an 'average' score on KPIs which together have a 25 per cent weighting on the total score would in effect 'water down' their overall performance in an unrepresentative manner.

In the CIE's assessment, the problems that Jobsupport have described are best addressed as follows.

- The KPIs for bonus outcomes, pathway outcomes and commencement to referrals should be ignored altogether and the other applicable KPIs should be scaled up in calculating Jobsupport's score.
- If the existing ESAs cannot be rationalised into larger geographical units, Star Ratings should be assigned based on the larger defined LMRs to ensure adequate sample size and reduced volatility of ratings.

In addition, the CIE agrees with Jobsupport that there is a case for introducing a control variable – in the next contract – for moderate intellectual disability into the regression model used for calculating expected performance subject to adjustments being made to ensure that it does not introduce further anomalies arising from the fact that Jobsupport covers such a high proportion of moderately intellectually disabled jobseekers. As noted, this reform, while insufficient to address the KPI problems discussed above, would provide a better assurance that any other hitherto undetected anomalies in calculating expected performance for each KPI would not create any systemic advantages or disadvantages for Jobsupport and other specialist providers for intellectually disabled jobseekers relative to other providers.

Finally, the CIE recommends that the Department should consider the reintroduction of a KPI for wages because a large part of the value of the services offered by providers such as Jobsupport to both their clients with an intellectual disability and taxpayers alike comes from their ability to place their clients in mainstream employment at market or close to market wages.

These amendments should lead to an improvement in the current Star Ratings system by:

- ensuring that the performance of specialist service providers such as Jobsupport is appropriately assessed and acknowledged both by clients and the government;
- minimising any distortions in the flow of information and gaps in coverage and increasing the transparency of the system; and

- fine tuning incentives for continuous performance improvement by Jobsupport and other specialist service providers.