

**FOLLOW UP TO ECONTECH 2005 REPORT
“ANALYSIS OF ALTERNATIVE METHODS OF
GOVERNMENT FUNDING OF EMPLOYMENT
SERVICES FOR PEOPLE WITH DISABILITIES”**

This report was prepared for
Jobsupport Inc
by Econtech Pty Ltd.

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Executive Summary

Programs for people with disabilities are managed under the Commonwealth State/Territory Disability Agreement (CSTDA). There is currently a Senate Inquiry into the funding and operation of the CSTDA.

For its submission to the Inquiry, Jobsupport Inc has commissioned Econtech to model the budgetary and economic impacts of increasing the number of clients in open employment by reducing the number of clients in post school options. This report follows on from Econtech's 2005 report¹.

The 2005 report found that open employment services² provide a net economic benefit of \$5,810 per client per year compared to a net cost of \$15,699 per client per year for post school options³. The positive net economic benefit from open employment services arises as clients earn a wage. Thus there is a gain in disposable incomes of the individuals on open employment. In addition to this, the Commonwealth government benefits under open employment as there is a reduction in spending on means-tested Disability Support Pensions while at the same time there is an increase in personal income tax.

For this report, three scenarios were modelled. The baseline scenario is based on updated estimates of open employment and post school options funding that were used in Econtech's 2005 report. The first scenario assumes an increase in the number of clients on open employment of 5 per cent (or just over 2,000 clients) with a corresponding reduction in the number of clients on post school options. The second scenario extends this further to an increase of 10 per cent (or just under 4,500 clients) in the number of clients in open employment.

By increasing the number of clients in open employment (and reducing post school options by the same number of clients), the net cost to the government budget is estimated to be lower than under the baseline scenario. This is because the net budget impact of open employment services is much smaller than the net budget impact of post school options. Not only is the cost per client less for open employment but the clients, through earning an income, pay personal income tax resulting in some benefit to the government.

Assuming that there is a 5 per cent increase in the number of clients in open employment with a corresponding reduction in the number of clients in post school options, the net cost to the government budget declines by about \$21 million (compared to the baseline scenario). If the number of clients was increased to 10 per cent in open employment rather than post school options, the net cost to the government budget declines by about \$42 million (compared to the baseline scenario).

In terms of the national economy, Econtech's 2005 report found that open employment services generate a net economic benefit while post school options generate a net economic

¹ Econtech, *An Analysis of Alternative Methods of Government Funding of Employment Services for People With Disabilities*, January 2005.

² Open employment services assist job seekers with a disability in gaining employment in the mainstream labour market, where the employer pays the client's wage.

³ Post school options are community-based services, where clients are not employed and therefore do not receive a wage.

⁴ These estimates are related to Case Based Funding which has now replaced Block Grant Funding. The 2005 Econtech report presented results for both Case Based Funding and Block Grant Funding.

cost. Therefore, by increasing open employment and reducing post school options, the combined net economic cost is reduced. Under the “5 per cent” and “10 per cent” scenarios, net economic costs are reduced by \$41 million and \$81 million respectively. These net cost savings occur as clients in open employment increase their disposable income through earning a wage. Table A contains the results from the two scenarios.

Table A
Key Results (deviations from baseline (\$million))

	gov't budget cost	net economic cost
5% movement	-21.0	-40.7
10% movement	-42.0	-81.3

In summary, funding an increase in open employment services by reducing post school options (i.e. if an additional 5 or 10 per cent of clients enter open employment and a corresponding number leave post school options) would result in a greater measured net economic benefit to Australia. This is because:

- the cost to the government budget would potentially be reduced; and
- a greater number of people with moderate intellectual disabilities would be in paid employment.

In addition, people with moderate intellectual disabilities would benefit from the satisfaction of having a job⁵.

⁵ Graffam, J., Noblet, A., Crosbie, J., Laevelle, B., Deakin University, *Keeping Quality People Engaged: Workforce Satisfaction within the Disability Employment Industry*, May 2005, page 29.

1. Introduction

Programs for people with disabilities are managed under the Commonwealth State/Territory Disability Agreement (CSTDA). Under this agreement, the Federal Government is responsible for the management of employment programs for people with disabilities. This includes the management of open employment services, where job seekers with a disability can gain employment in the mainstream labour market and receive a wage from the employer. In addition, supported employment services assist job seekers in gaining employment in environments where the service provider pays the client's wage.

Meanwhile, state and territory governments fund community based activity programs for people with high support needs. These include 'post school options' where clients are not employed and therefore do not receive a wage.

In May 2006, a Senate Inquiry into the funding and operation of the CSTDA was opened. For its submission to the Inquiry, Jobsupport Inc has commissioned Econtech to model the budgetary and economic impacts of increasing the number of open employment places and reducing placements for post school options. This report follows on from an earlier 2005 report by Econtech.

In 2005, Econtech finalised a report for Jobsupport which found that open employment services are valuable in assisting people with an intellectual disability to find jobs in the open labour market⁶. It found that open employment services deliver greater benefits to the nation at a lower cost than supported employment and community based activities. Open employment services for people with intellectual disabilities are also more beneficial to participants compared to the alternatives.

This report is structured as follows.

- Section 2 outlines alternatives available to school leavers with intellectual disabilities.
- Section 3 presents the key findings of Econtech's 2005 study.
- Section 4 explains how the impact of adjusting the mix of open employment and post school options is modelled.
- Section 5 presents the results of the modelling.

While all care, skill and consideration has been used in the preparation of this report, the findings refer to the terms of reference of Jobsupport Inc and are designed to be used only for the specific purpose set out below. If you believe that your terms of reference are different from those set out below, or you wish to use this work or information contained within it for another purpose, please contact us.

The specific purpose of this report is to present the budgetary and economic impacts of more open employment outcomes and fewer post school options, as a follow up to Econtech's 2005 study.

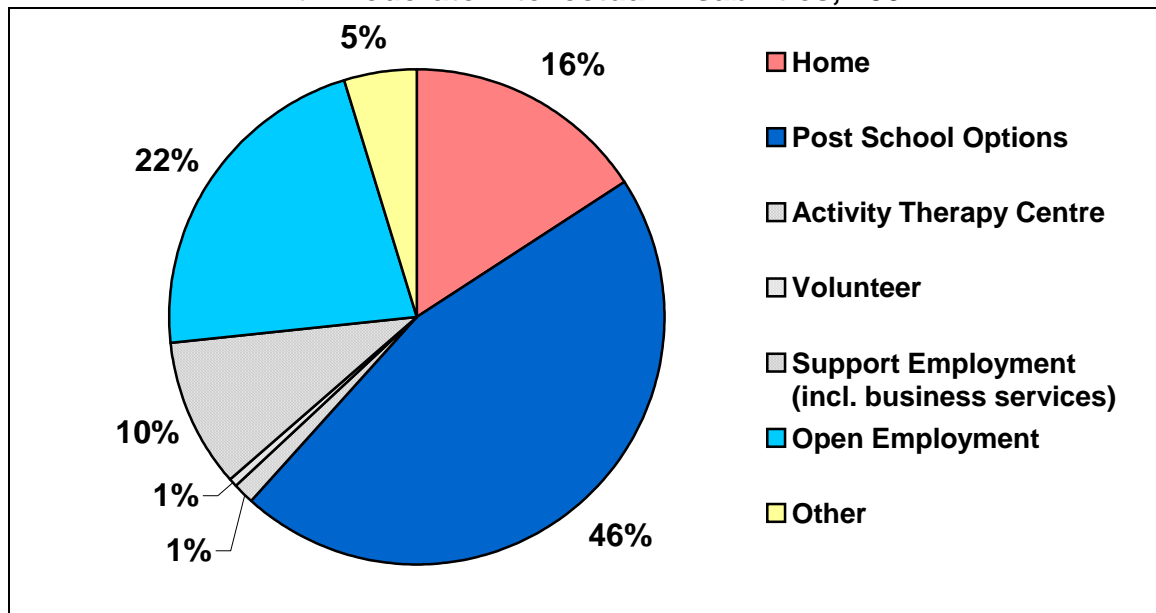
⁶ Econtech, *An Analysis of Alternative Methods of Government Funding of Employment Services for People With Disabilities*, January 2005.

The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be used whenever using this information. Should you require clarification of any material, please contact us.

2. Alternatives Available to School Leavers with Intellectual Disabilities

For people with moderate intellectual disabilities, there are a range of options that can be pursued after they complete their schooling. Based on a sample of people with moderate intellectual disabilities from Sydney, Chart 2.1 shows that most school leavers participate in post school options. The next most popular alternative is open employment services. These two options are the focus of this study.

Chart 2.1
Post School Destinations for Sydney School Leavers
with Moderate Intellectual Disabilities, 2002



Source: Job Support

Open employment services assist job seekers with a disability in gaining employment in the mainstream labour market. Under this option the employer pays the job seeker's wage. Open employment programs are the main avenue used by people with an intellectual disability to gain employment in the open labour market. Unlike people with other types of disabilities, people with a moderate intellectual disability do not enter the labour market through the Job Network system operated through the Department of Employment and Workplace Relations. Chart 2.1 shows that 22 per cent of school leavers with moderate intellectual disabilities entered open employment in 2002.

Jobsupport is an example of an **open employment** program for people with a moderate intellectual disability. In Sydney, Jobsupport is responsible for around 70 per cent of the open employment placements for people with a moderate intellectual disability.

For school leavers that pursue employment, **supported employment** is an alternative to open employment. The majority of the supported employment population has an intellectual disability. Under this program, the supported employment service provider pays the client's wage. Wages paid by supported employment services are generally much lower than wages paid by mainstream employers under the open employment program.

Post school options provide another alternative for people with disabilities. A high proportion of clients in this program have an intellectual disability. In these community-

based services, participants are not employed and therefore do not receive a wage. Chart 2.1 shows that in 2002, 46 per cent of school leavers with a moderate intellectual disability participated in the post school options program 12 months after leaving school.

Open employment programs have become a valuable service for people with a moderate intellectual disability in gaining employment in the open labour market. In a recent study, members of Deakin University investigated workforce satisfaction within the disability industry. The study found that, “members of the disability employment industry workforce, on average, have a high level of satisfaction with their jobs”⁷. The report also found that organisational commitment was high. Based on this evidence, it seems that employing people with disabilities increases their overall well-being.

Econtech’s 2005 report showed that open employment services for people with intellectual disabilities deliver a higher net national benefit at a lower cost to the government than do either supported employment services or post school options. The next section of this report summarises Econtech’s 2005 report.

⁷ Graffam, J., Noblet, A., Crosbie, J., Laevell, B., Deakin University, *Keeping Quality People Engaged: Workforce Satisfaction within the Disability Employment Industry*, May 2005, page 29

3. Summary of Econtech's 2005 Report

Econtech's 2005 report estimated the government budget and economic impacts of open employment, supported employment and post school options. The government budget effects were modelled by estimating the benefits received from each program and the costs of running each program.

The net national benefit presented in the 2005 report and this report are a broader and more appropriate measure for assessing these programs than the net impact on the budget alone. This can be seen from the following identity.

$$\text{net national benefit} = \text{gain in disposable incomes of clients} - \text{net budget impact}$$

The net budget impact only takes into account the impact on government. The net national benefit takes into account not only the impact on government but also the impact on the disposable incomes of persons with disabilities. It appropriately gives an equal weighting to both of these impacts, following the principles of standard cost-benefit analysis. There is no justification for only taking into account the impact on government and disregarding the impact on persons with disabilities.

The earlier report estimated government and economic impacts under the block grant funding system and as well as the Case Based Funding (CBF) system. The CBF system has now replaced the block grant funding system. The CBF system for open employment services offers two main advantages over the block grant funding system.

- Funding levels under CBF depend partly on the achievement of employment outcomes, which is expected to lead to higher employment outcome rates compared with block grant funding.
- Funding levels under CBF take into account the needs of clients, whereas under the block grant system the funding levels per client were negotiated with individual service providers and bore no relationship to the individual needs of the clients.

The findings from the 2005 report on the consequences for the government budget and national impacts are summarised below. The figures reported below have been updated where possible for latest information.

Government Budget Impacts

Open employment services are the cheapest option for people with a significant intellectual disability. Specifically, the net costs per client of open employment services is estimated to be \$4,284. This compares to an estimated net cost of \$13,871 for post school options. The favourable result for open employment services is due to its relatively high wage outcomes. Specifically, the average wage received by people with an intellectual disability is \$319⁸ per week, which compares to no wage for post school option participants. Thus there is a benefit to those clients on open employment from higher disposable incomes. In addition, higher wages benefit the Commonwealth Budget by reducing eligibility for means-tested Disability Support Pensions (DSPs) and boosting personal income tax collections.

⁸ These estimates are taken from Jobsupport outcomes. Jobsupport achieves above average outcomes compared with other providers in terms of outcome rate, average wages and a higher proportion of workers to clients.

National Impacts

The 2005 Econtech report showed that only open employment services deliver a net national benefit. This means that the value of the labour services that are created by open employment services exceed the operating cost for open employment services. In contrast, the value of the labour services that are generated by supported employment services fall short of the operating cost of supported employment services. The post school options is the poorest performing program as it combines the highest operating costs of \$13,871 per client per year with no employment benefits.

Currently, the Commonwealth Government funds open and supported employment while State/Territory Governments fund post school options. By pooling the Commonwealth and State/Territory government funding, the mix of open employment and post school options could be changed. The impact of pooling government funding is investigated in this report. Before this investigation is presented, the modelling is explained in the next section.

4. Modelling

In this report, the impact of changing the mix of open employment places and post school options is investigated. Specifically, the effect of increasing the number of open employment places by reducing the number of placements in post school option is estimated. The impact of the change is presented in terms of the impact on the government budget and the private sector. The combined government and private sector impact is then used to estimate the national economic impact.

Under a baseline or business as usual scenario, it is assumed that existing numbers of open employment and post school options are maintained. This scenario is based on the same approach that was used in Econtech's 2005 report but updated where possible for more recent information. In the two scenarios, open employment services are increased by 5 and 10 per cent with a corresponding decrease in post school options. This results in changes to the overall cost to the government.

1. Baseline scenario – this scenario makes the same assumptions as contained in the 2005 report but updated where possible for new information.
2. 5% Move to Open Employment scenario – this scenario assumes that there is a 5 per cent increase in clients who enter open employment with a corresponding decrease in the number of clients in post school options.
3. 10% Move to Open Employment scenario – this scenario assumes that there is a 10 per cent increase in clients who enter open employment with a corresponding decrease in the number of clients in post school options.

The next section presents the findings of these scenarios. These findings are based on the same approach that was used in Econtech's 2005 report but updated where possible for more recent information.

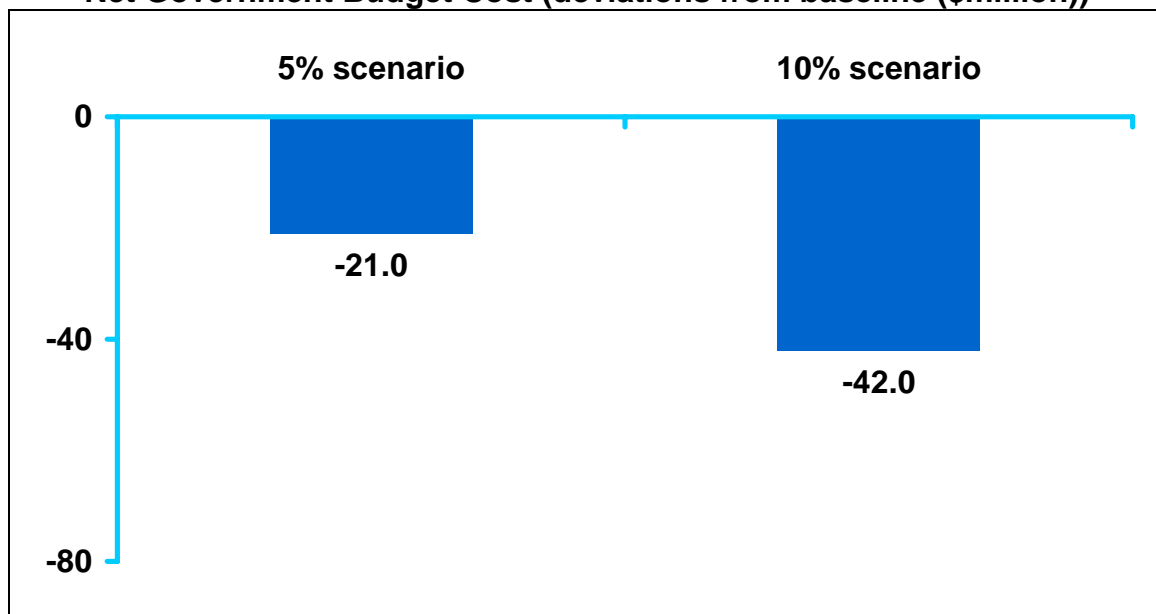
5. Adjusting the Mix of Open Employment and Post School Options

As explained in Section 3, open employment services deliver a net economic benefit to Australia, while post school options generate a net cost. In this section, the effect of simultaneously increasing open employment services and decreasing post school options is estimated on the government budget and economic welfare. These scenarios assume that Federal and State/Territory government funding of open employment and post school options is pooled.

Under the baseline scenario, there are 43,831 clients in open employment services and 25,111 clients in post school options⁹. Under the “5 per cent” scenario, the number of clients in open employment would rise to 46,023 and the number in post school options would drop to 22,919. Similarly, under the “10 per cent” scenario, the number of clients in open employment services would rise to 48,214 clients and those in post school options would drop to 20,728.

Given that post school options are more costly to the government than open employment places, a reduction in post school options results in a net saving to the government budget. By increasing the number of open employment place by 5 per cent and reducing post school options by the same number of clients, there would be a reduction in the net cost to the government budget of around \$21 million. Under the “10 per cent” scenario, the impact on the government budget would be greater, resulting in a \$42 million decline in net government costs. The fewer post school options under the “10 per cent” scenario generate a greater saving to the government.

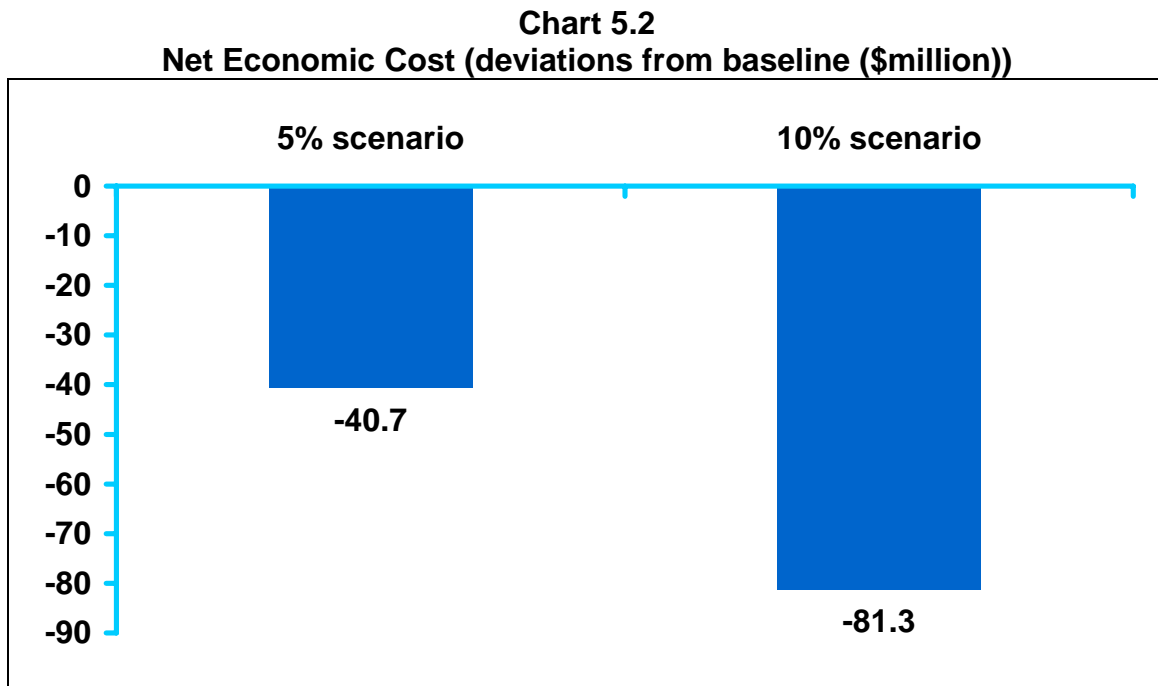
Chart 5.1
Net Government Budget Cost (deviations from baseline (\$million))



Section 3 also showed that under the baseline scenario, open employment services generate a net economic benefit while post school options generate a net economic cost. Therefore, by increasing open employment and reducing post school options, the net economic cost of

⁹ These numbers are sourced from the forthcoming CSTDA NMDS 2004/05 report.

combined open employment and post school options is reduced, as shown in Chart 5.2 below.



Under the “5 per cent” and “10 per cent” scenarios, net economic costs are reduced by \$41 million and \$81 million, respectively.

In summary, funding an increase in open employment services by reducing post school options would result in a greater net economic benefit to Australia. This is because:

- the cost to the government budget would potentially be reduced (i.e. increasing the number of clients in open employment by 5 or 10 per cent by decreasing the number of clients in post school options); and
- the total wages received by people with moderate intellectual disabilities would be increased (with more people in open employment, where wages are received).

Not only would adjusting the mix of open employment and post school options benefit the government and economy, but clients (people with moderate intellectual disabilities) would benefit from the satisfaction of having a job. As noted in the study by Deakin University, such individuals tend to have a high level of satisfaction with their jobs.