

# Chapter 2

## Background

2.1 This chapter provides a background to the provision of employment services since the first competitive tender in 1997-98 and a description of the purchaser-provider model. It also briefly covers the role of DEEWR, the performance rating system and the considerable number of reviews and evaluations that have occurred over the years.

### Background to employment services

2.2 As part of the 1996-97 Budget, the Coalition government announced its intention to replace the public provision of employment services through the Commonwealth Employment Service (CES) and its related agencies with a competitive employment services market.<sup>1</sup> Services have since been delivered through a combination of private and community-based (and originally also government) providers, known as the Job Network, under a purchaser-provider contract determined and managed by the now Department of Education, Employment and Workplace Relations (DEEWR).

2.3 Since the establishment of the Job Network in May 1998, three tender rounds, referred to as Employment Service Contracts (ESCs), have been undertaken:

- ESC1 ran from May 1998 to February 2000;
- ESC2 ran from February 2000 to June 2003; and
- ESC3 2003-2006, started on 1 July 2003 (in two stages).

2.4 Initially, contracts were to be contested every three years to ensure value for money and a competitive client service. The strategy for ESC3 was, in stage 1, to roll over around 60 per cent of the contracts based on performance (ESC 2006-09) with business set at a pre-set payment rate rather than determined by tender offers. The remaining 40 per cent went out to public tender. In the process, the remainder of the CES, trading as Employment National, was sold off to the private sector.<sup>2</sup> With stage

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1 Steve O'Neil, Parliamentary Library E-Brief, 'Job Network, the 3<sup>rd</sup> Contract', issues 11 August 2003 and updated 26 September 2003, available from: <http://www.aph.gov.au/library/intguide/ECON/JobNetwork.htm> accessed 13 May 2009.

2 Hon Mal Brough MP, Minister for Employment Services, Media Release, 'Top performers Offered New Job Network business, 23 October 2002; Christopher Jay, 'JobSearch network in for another reorganisation', 11 October 2002.

2 of ESC3, around 95 per cent of business was rolled over to already-contracted providers.<sup>3</sup>

## **Composition of providers**

2.5 The composition of the providers has changed substantially since ESC1. In 1998 the network consisted of private and community as well as government organisations with the private and community sectors gaining around two-thirds of the market for services, and the remaining third held by public providers. With ESC2 the market share of community-based and not-for-profit providers increased to around half, as did the share of private providers, whereas public providers were reduced to fewer than 10 per cent. ESC 3 more or less kept the same split between community, commercial and private providers as for ESC2 with half from non-profit organisations, 47 per cent commercial and three per cent local or state government organisations.<sup>4</sup>

## **Use of the purchaser-provider model**

2.6 In announcing the initial reforms in 1996, the Coalition government listed four key objectives:

- to deliver a better quality of assistance to unemployed people, leading to better and more sustainable outcomes;
- to address the structural weaknesses and inefficiencies inherent in previous arrangements for labour market assistance,
- to put into effect the lessons learnt from international and domestic experiences of labour market assistance; and
- to achieve better value for money.<sup>5</sup>

2.7 A purchaser-provider approach was considered the best way to focus on outcomes rather than processes and to address criticisms of the CES, including lack of flexibility to target assistance as well as inefficiencies resulting from a lack of competition.<sup>6</sup>

2.8 In 2002, the Productivity Commission review of the Job Network, agreed with the application of the purchaser-provider framework to the Job Network.<sup>7</sup> However, it

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3 Matthew Thomas, Parliamentary Library, Research paper no. 15, 2007-08, 'A review of developments in the Job Network', 24 December 2007, pp. 2-3.

4 Chellelle Murphy, 'New-look Job Network revealed', *AFR*, 28 March 2003, p. 15.

5 Sen the Hon Amanda Vanstone, Ministerial Statement 'Reforming Employment Assistance - Helping Australians Into Real Jobs', 20 August 1996.

6 For a comprehensive discussion of the purchaser-provider model in relation to employment services see Productivity Commission Report, pp 3.5-3.18.

7 Productivity Commission, Independent Review of the Job Network, Inquiry report No. 21, Canberra, 3 June 2002, pp. xxv-xxvi.

noted that provision by external organisations can be achieved through different mechanisms, such as licensing, competitive tenders, vouchers and franchising.<sup>8</sup> This issue is further addressed in chapter four.

## **Role of DEEWR**

2.9 Under the current model, the government has become a purchaser, rather than a provider of employment assistance. DEEWR purchases the provision of services to job seekers from a network of providers. DEEWR specifies, purchases and monitors services. It manages the tender process and the contracts with the providers. While not directly providing services to job seekers, DEEWR is ultimately accountable for the quality of services provided to job seekers and the achievement of results consistent with the department's outcomes and outputs.<sup>9</sup>

2.10 To purchase the services, the department runs the competitive tender process. In accordance with the Commonwealth Procurement Guidelines, the guiding principle has been the delivery of value for money to the Commonwealth. The tender process includes developing a request for tender, tender evaluation and announcement of results.

## **Performance of providers**

2.11 During the contracts, the performance of providers across Australia was assessed by DEEWR using a star rating system which began in March 2001. Ratings varied from a minimum of 1 star, indicating room for improvement, to a maximum of 5 stars, which reflected excellent performance.<sup>10</sup>

2.12 The star ratings were determined using a norm referencing approach developed with the assistance of the South Australian Centre for Economic Studies. The ratings reflected the relative performance of the providers and conveyed no information about the absolute level of performance of the overall effectiveness of Job Network services. For example, a low rating did not mean a provider was not performing satisfactorily but that it was performing at a level below that of other providers.<sup>11</sup>

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8 Productivity Commission, Independent Review of the Job Network, Inquiry report No. 21, Canberra, 3 June 2002, p. 3.5

9 ANAO Audit Report No. 32 2006-07, Administration of the Job Seeker Account, p. 32.

10 See [http://www.workplace.gov.au/NR/rdonlyres/B2BB34FD-5BD8-448F-A280-83366B736F56/0/JNP\\_StarRating\\_web.pdf](http://www.workplace.gov.au/NR/rdonlyres/B2BB34FD-5BD8-448F-A280-83366B736F56/0/JNP_StarRating_web.pdf) for a description of the system. See also ANAO Audit Report No. 6 2005-06, Implementation of Job Network Employment Services Contract 3, pp. 140-149 and Access Economics, Final Report, Independent Review of the Job Network Provider Star Ratings Method for the Steering Committee of the Review, March 2002.

11 DEWR, Submission to the Productivity Commission Independent Review of Job Network, January 2002, p. 41.

2.13 The Productivity Commission described the operation of the ratings as follows:

The star rating model is designed to assess the performance of Job Network members for each service in each region in which they operate. The model uses a set of performance indicators and associated weights based on the performance indicators outlined in the Job Network Contracts...A provider's actual performance is assessed against its expected performance where expected performance is adjusted to take account of variations in client mix (such as age, educational attainment and duration of unemployment) and local labour market conditions (adjusted using ABS unemployment rates and jobs growth). Scores are distributed between one and five stars such that 70 per cent of providers in a region are rated at three stars or better.<sup>12</sup>

2.14 In one of their reports, the ANAO emphasised that the star ratings were a comparative measure of performance, not absolute performance which means:

- each site's star rating compares it with every other site;
- if the performance of all sites across the Job Network were to change uniformly (up or down), their star ratings would not. Only a change in relative performance between any one site and all others can cause a change in a rating; and
- a site whose own performance is constant while the Job Network as a whole improves may experience a decline in its star rating.<sup>13</sup>

2.15 The ANAO found that the performance information was rarely used by job seekers to choose their provider and the ratings were primarily a means for DEEWR to press providers for higher levels of performance. While finding the system had value, the ANAO noted opportunities for the department to improve the transparency of the system and better inform job seekers how to use the ratings.<sup>14</sup>

2.16 Despite reviews which have concluded that the star ratings method is sound,<sup>15</sup> over the years providers identified problems with the performance framework, complaining that it was overly complicated, does not allow fair comparisons, discourages the skilling and training of job seekers and leads to business uncertainty. To address these issues, a new performance framework will operate from 1 July 2009. This is further described in chapter three.

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12 Productivity Commission, Independent Review of the Job Network, Inquiry report No. 21, Canberra, 3 June 2002, p. 4.16.

13 ANAO Audit Report No. 6 2005-06, Implementation of Job Network Employment Services Contract 3, p. 140.

14 Ibid, pp. 148-149.

15 Ibid., p. 148; Access Economics, Final Report, Independent Review of the Job Network Provider Star Ratings Method for the Steering Committee of the Review, March 2002.

## Previous reviews and evaluations

2.17 A substantial number of reviews and evaluations of various aspects of the purchaser-provider model have been undertaken since the establishment of the competitive employment services market. These include:

- eight reports by the Australian National Audit Office (ANAO);<sup>16</sup>
- an OECD analysis of the Job Network<sup>17</sup>;
- an extensive Inquiry Report by the Productivity Commission in 2002;<sup>18</sup>
- an independent review of the star rating system by Access Economics in 2002<sup>19</sup>; and
- a significant number of reviews conducted by DEEWR and various other stakeholders.

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16 See the following ANAO reports: Audit Report No.7 1998-99 Management of the Implementation of the new Employment Services market; Audit report No 44, 1999-2000 Management of Job Network Contacts; Audit Report 51, 2004-05 DEWR's Oversight of Job Network Services to job Seekers; Audit Report 6, 2005-06 Implementation of Job Network Employment Services Contracts 3; Audit Report 49, 2005-06 Job Placement and Matching Services; Audit Report 32, 2006-07 Administration of the Job Seeker Account; Audit Report 38, 2007-08 Administration of the Job Network Service Fees and; Audit Report 17, 2008-09 Administration of Job Network Outcome Payments.

17 J. Quiggin, 'Contracting out: promise and performance', Economic and Labour relations review, 13:1, 2002. Note: The Parliamentary Library 2007 research paper notes that the OECD was heavily reliant on information provided by the Coalition Government and as a result the findings solely mirror those reported by DEWR in its earliest evaluations of the Job Network.

18 Productivity Commission, Independent Review of the Job Network, Inquiry report No. 21, Canberra, 3 June 2002.

19 Access Economics, Final Report, Independent Review of the Job Network Provider Star Ratings Method for the Steering Committee of the Review, March 2002.

