Appendix B Case study: Employment services

Key points

- Government-funded employment services aim to help income support recipients who can work to find employment, and so assist them to be self-sufficient, improve their wellbeing and reduce the fiscal costs of income support.
- Employment services evaluations show they are moderately successful in helping clients to leave income support, but only a few studies show that they increase the economy-wide level of employment.
- The New Zealand Ministry of Social Development (MSD) provides most employment services in-house; while the Australian Department of Employment manages a market of contracted non-government organisations to provide employment services.
- MSD has, since 2013, been implementing an Investment Approach to designing and targeting employment services. Together with complementary changes in income support policy, the approach has contributed to a substantial reduction in caseloads and the expected future fiscal cost of the welfare system.
- As part of the Investment Approach, MSD contracts Youth Service (YS) providers to help at-risk young people to achieve education outcomes and so reduce their risk of long-term dependence on income support. YS has been very successful in engaging at-risk young people and improving their educational outcomes.
- The Australian Department of Employment and its predecessors has managed a market of employment service providers since 1998. The market design has evolved over time to provide stronger incentives for providers to serve the full range of clients. The Department gives providers ratings for their effectiveness in getting clients into jobs, and adjusts their market share according to performance. There are now fewer, but larger providers who have quality certification from independent assessors. Most recently, payments for employment outcomes have been strengthened.
- Employment services involve a large volume of transactions and a relatively low intensity of interaction with clients. Generally, both in-house and out-sourced providers face a high level of prescription that limits their ability to try innovative approaches to working with clients. There has been an ongoing search for ways to mitigate provider concerns about compliance costs in Australia.
- Both in-house and contracted-out employment services systems are viable, and each has advantages and disadvantages that, to be evaluated, require detailed analyses of country-specific circumstances. This includes complementarities between the income support and employment services systems, the need to serve remote and rural areas, the potential availability of service providers in different locations, and the role that modern electronic networks can play in reducing monitoring and communication costs.

Employment services are one of four case studies that the Commission has selected in response to the inquiry terms of reference. The case studies draw out lessons that can be applied more widely across the social services landscape rather than draw conclusions about the effectiveness of particular services.

B.1 Purpose of the case study

Most core employment services in New Zealand have, since 2001, been provided by Work and Income, a division of the Ministry of Social Development (MSD). More recently MSD began contracting out services designed to engage youth not in employment, education or training (NEET) in learning; and employment services for sole parents and for people with disabilities. The targeting and design of MSD's directly provided and contracted employment services has increasingly been focused on reducing the actuarially determined cost of future benefit payments (ie, the *future welfare liability* – see Box B.1).

Publicly funded employment services in Australia (targeted to jobseekers in receipt of income support) have since 1998 been delivered by non-government providers contracted by the relevant government department. A number of other jurisdictions, including the United Kingdom, the Netherlands and some states in the United States and provinces in Canada contract out employment services either generally or for specific client groups.

However, most developed countries provide employment services directly through government agencies, albeit sometimes supported by private providers of job placement and training services (Immervoll & Scarpetta, 2012).

In selecting employment services as a case study, the Commission particularly expects to learn:

- which features of contract design best give providers incentives to achieve outcomes without creating undesired consequences;
- the influence of complementary service provision (eg, income support) and of geography (small population centres) on the most effective way of commissioning services;
- the use of population analytics, programme evaluation and an investment framework, to design and target social services;
- the advantages and disadvantages of commissioning non-government providers to provide services compared to providing them in-house; and
- if contracting out, the advantages and disadvantages of using a managed market for service provision.

B.2 Employment services – context and issues

Rationale for government funding of employment services

Government-funded employment services (for brevity referred to as "employment services" in this case study) are generally offered as an integral part of a broader welfare system. Such a system includes temporary or long-term income support for people who are for various reasons unable to undertake paid employment (WWG, 2011). In funding employment services, governments usually recognise both "the importance of paid work to social and economic well-being …[and] equally, [that] people who are capable of working and looking after their dependents should be required to do so" (WWG, 2011, p. 37).

In practice, governments provide income support to people capable of working on the condition that they actively seek work. Employment services are a means both to help recipients of income support find work, and to test their willingness to do so. Services are usually combined with work search or preparation for work obligations and sanctions (Immervoll & Scarpetta, 2012).

Employment services can therefore increase the supply of workers in the economy and improve wellbeing, while at the same time reducing the fiscal cost of the income support system.

Yet someone assisted into work by employment services may take the place of someone else, who then ends up on income support (referred to as "displacement"). Jobs created to suit a particular type of worker assisted by employment services may substitute for jobs suited to other types of workers ("substitution"). The fiscal cost of income support and employment services must be met through taxes; higher marginal tax rates in turn affect the propensity to work.

On the other hand, if employment services succeed in getting more people into work, then service providers can work more intensively with remaining difficult-to-place income support recipients. Displacement effects may fade over time and people who have found employment as a result of employment services may encourage others who have not participated to find work. Measuring the net effects of employment services on the cost of income support and on economy-wide employment and earnings is therefore challenging (Boone & van Ours, 2004; OECD, 2005). Employment services may produce net economy-wide gains in employment and earnings to the extent that they cost effectively reduce the costs to employers of finding suitable workers (including the costs of holding vacancies); raise the skills, capabilities and motivations of available workers; and reduce the fiscal cost of the income support system.

Active labour market policies

Employment assistance programmes take three main forms:

- job search assistance
- vocational training and further education; and
- work experience. (Davidson, 2011)

Countries vary in the extent to which they use vocational training and education programmes, but job search assistance is a common base.

Evidence on the effectiveness of active labour market policies (ALMPs) is mixed (OECD, 2005; Card, Kluve & Weber, 2012). This is not surprising given the wide differences across and even within countries in:

- the mix of services that are offered;
- which groups ALMPs are targeted to;
- the work obligations that operate alongside ALMPs and how stringently they are applied;
- labour market conditions;
- how effectively the employment services system is managed over time to increase successful outcomes;
- the choice of outcomes used (for instance, time off benefit, duration of employment gained and earnings) and the length of time over which they are measured; and
- the data available, and the monitoring and evaluation techniques used.[1]

Card, Kluve and Weber (2012) look at recent evaluations of the effects of 97 ALMPs on improving outcomes for programme participants. The evaluations used a variety of methods to provide evidence on short (one year), medium (two year) and longer-term (three year) effects. The outcomes covered include various measures of duration of income support, probability of employment at a future date or wages at a future date. Over the whole sample, ALMPs were more likely to have a statistically significant positive effect on outcomes than a statistically significant negative effect. ALMPs were:

- more likely to reduce time on income support than to increase the probability of employment at a future date;[2] and
- more likely to have positive effects in the medium term and longer term than in the short term (especially if the ALMP involves on-the-job training or classroom learning).

Programmes that offered jobs created in the public sector were generally less successful than other ALMPs, consistent with findings in earlier studies.

---

[1] These are all reasons why it is also extremely difficult, if not impossible, to compare the cost effectiveness of different employment services systems across countries.

[2] The authors note (p. F467) that the reason for this is not clear, but assignment to an ALMP may cause people to leave the benefit system without moving to a job. "In this case programmes will appear to be more effective in reducing registered unemployment than in increasing employment."

Because of the diversity of outcome measures used in the 97 evaluations, Card, Kluve and Weber (2012) do not look at the size of the effects of ALMPs on participant outcomes. They note that few evaluations contain information on programme costs, so even a crude assessment of benefits relative to costs is not possible.

"Work first" policies (aiming to get income support recipients into work as soon as possible) have better measured outcomes in the first year or so after programme participation, but, at least for some groups, policies aimed at building skills can have better outcomes in the longer term (OECD, 2005; Card, Kluve & Weber, 2010). Yet, historically some countries were indiscriminate in offering classroom-based vocational training and public sector employment, even to clients who would have found employment without assistance. During the late 1990s and 2000s governments, particularly in anglophone countries, turned to more fiscally sustainable "work-first" policies instead (Carcillo & Grubb, 2006; Immervoll & Scarpetta, 2012).

OECD (2005) makes the point that seemingly the same programmes differ widely in their success – pointing to the need for ongoing evaluation and adjustment to get the sought-after improvements. The devil is in the implementation detail. Also, even if services are effective at a point in time, conditions are continually changing.

There are few cross-country studies of the macro-economic effects of ALMPs (Kluve, 2006). Macro-economic studies usually find that ALMPs reduce the unemployment rate of a population, but only a few have found that ALMPs increase the employment rate (Boone & van Ours, 2004). Boone and van Ours (2004) use data for 20 OECD countries including New Zealand over the period 1985-1999 to look at the separate effects of training, public employment services and subsidised jobs on unemployment and the population employment rate. They found that expenditures on labour market training had the largest effects on both reducing the unemployment rate and increasing the population employment rate. Public employment services reduced the unemployment rate but had no effect on the employment rate. Subsidised jobs had no effect on labour market outcomes.

Employment services typically involve high volumes of clients. For instance, in Australia more than one million people participate in employment services in a year (OECD, 2012). In New Zealand, around 144 000 MSD clients received jobseeker support payments at some time during the year to 30 June 2014, while other client groups also participated in employment services (Taylor Fry, 2015). The sheer volume of clients makes it necessary to be highly selective in targeting more intensive services that are expensive to deliver. Intensive case-management services typically involve one hour of monthly face-to-face contact – far less intensive than many other types of social services. MSD case managers supplement face-to-face contact time with other engagement methods such as phone and email contact and referrals to courses and seminars. Contact time increases when clients participate in training and work readiness services.

A corollary of high client volumes is that even modest improvements in average outcomes can accumulate over time into significant fiscal, economic and social benefits (Davidson, 2011).

Services are highly transactional in nature and electronic recording – often at the point of contact between client and case manager – reduces the need for multiple entry of information. Transactions generate a high volume of data that can be used for audit, performance management and monitoring and evaluation. Small improvements in the efficiency of transactions can generate big savings in the overall cost of employment services. Yet front-line service providers (whether in-house or contracted) can often feel that they are on a transactional treadmill that limits the time they have to engage effectively with clients.

Matching services to clients and extending work obligations

Matching services to clients is a key task for cost-effective employment services. Jobseekers using government funded employment services vary greatly in their backgrounds, work history, capabilities and impairments and in attitudes. Many are only temporarily unemployed and require minimal or no assistance to find work. Others with long-term health conditions (including mental health conditions and drug or alcohol addiction) or disabilities may need intensive and ongoing support before they are capable of getting and holding down a job. Some jobseekers may need more education and training as a base for finding and sustaining employment.

The volume of employment services and who they are targeted to differs across countries and over time. While the number of people out of work partly depends on the state of economy, it also depends on social attitudes; for instance, the extent to which people with health and disability conditions and sole parents are expected to work. Across OECD countries there has been a trend to a greater proportion of the population not working because of health conditions and disabilities, with consequent increased pressures on welfare systems. Rates of sole parenting and of sole parents relying on income support vary greatly across countries and have been relatively high in New Zealand (WWG, 2011). People with health conditions and disabilities and sole parents are the large majority of working age welfare beneficiaries (Taylor Fry, 2015).

Many countries, including New Zealand, have introduced policies to provide greater assistance to people with health conditions and disabilities to find sustainable employment to the extent that they are able (Carcillo & Grubb, 2006). Recent policy reforms in New Zealand have also expanded work obligations for sole parents receiving income support. The reforms were based on the assumption "that most people of working age can work, not that they cannot work" (WWG, 2011, p. 1).

B.3 Employment services in New Zealand

History

Employment services and income support in New Zealand were administered by separate departments until 1998 when they were merged to form the Department of Work and Income. The Department of Work and Income was in turn merged with the Ministry of Social Policy to form the Ministry for Social Development (MSD) in 2001. MSD began moving towards "a greater emphasis on 'investment' in clients to achieve longer-term outcomes, in particular sustainable employment" (Garlick, 2012, p. 247). MSD introduced WRK4U (Work for You) services and the Jobs Jolt in the mid-2000s to accelerate their clients moving towards paid work. The expense of the additional services was to be met by savings in benefit payments. Combined with strong labour market conditions, these initiatives were associated with a substantial fall in the number of income support recipients (OECD, 2005). At the same time, MSD increased its work with employers, by setting up the Work and Income Business Sector Unit. MSD contracted service providers to select participants, train them for vacant positions, place them with employers and provide post-placement support.

Recent reforms

As a result of extra demand for employment services arising from the global financial crisis, MSD dropped most one-to-one case management from its suite of employment services in 2008 (OAG, 2014). In 2010, Future Focus increased work obligations for some clients. Concerned about the rapid rise in working-age welfare recipients and an underlying steady rise in longer-term recipients, the new Government established the Welfare Working Group (WWG) to advise it on the means to reduce long-term benefit dependency.

The WWG recommended in November 2011 sweeping reforms that included collapsing benefit types into a single work-focused category – "jobseeker support" – and extending part-time or full-time work obligations and employment services to a much wider group of beneficiaries. It recommended that the Government adopt an actuarial approach to deciding which services should be targeted at which clients, measuring success in terms of reducing the future liability of the benefit as associated with current and recent benefit recipients. Finally, it recommended that a new Crown agency be set up "at arm's length" from the Government to administer welfare benefits and to contract out employment services to third-party providers.

The Government has since followed the main thrust of the WWG recommendations, especially in adopting an "Investment Approach" to the design and delivery of employment services (Box B.1). The approach is guided by a yearly independent actuarial evaluation of the future liability of the benefit system.

Box B.1 **Ministry of Social Development's investment approach**

The Welfare Working Group (WWG) recommended that the Government manage the performance of a work-focused welfare system by regularly calculating the expected lifetime cost of welfare to guide its investments in employment services. The WWG expected that, compared to the previous system, the investment approach would shift attention of services away from the easy to move off benefit towards "those with greatest disadvantage where investment based on managing a long-term cost would make the greatest difference" (WWG, 2011, p. 131).

MSD has in response adopted an investment approach.

- The Investment Approach uses an independent actuarial model to evaluate the likely long-term costs (future welfare liability) of paying benefits to current and recent income support clients. The valuation is based on what has happened in the past to other people with similar backgrounds (using 30 years of data on patterns of benefit receipt). This may be the first time in the world that an actuarial approach has been taken to evaluating the costs of a pay-as-you-go welfare benefit system.
- MSD staff analyse the details of the yearly valuation to identify the drivers of long-term costs and opportunities for initiatives to reduce those costs.
- MSD, in the initial stages of the Investment Approach, "prioritise[d] investment on 'short-term high intensity' services targeted towards clients whom the Ministry expects to achieve a positive outcome in a short period" (OAG, 2014, p. 29). MSD recognises, though, that more time is needed to effect lasting change for "those people most vulnerable and at risk of long-term dependency" (MSD, 2014, p. 6).
- MSD tests new service designs through randomised controlled trials (RCTs). In these trials, MSD's evaluation team (iMSD) allocates clients to service designs according to an assessment of who is most amenable to achieving positive change. iMSD randomly streams one in ten clients into a control group so as to identify the effects of different service designs. To protect the integrity of the trial, clients and case managers are not able to influence the allocation. Currently, the effectiveness of service designs is measured in terms of "days off benefit" of participants compared with the control group, over a given period of months or years.
- MSD uses the information generated by the actuarial model and RCTs to set priorities for investment in (and disinvestment from) services. MSD is developing a return on investment (ROI) framework to make this process more systematic by identifying the costs of delivering services down to the level of individual clients and by incorporating both immediate fiscal savings from reduced time on benefit and reductions in the future liability. The framework will enable investments with longer-term payoffs to be evaluated alongside those with nearer-term returns.

The actuarially determined future liability of the benefit system reduced from $76.5 billion to $69.0 billion in the year to 30 June 2014. Taylor Fry (2015) attribute $2.2 billion of the $7.5 billion reduction to "better than expected performance over the year – as a result of policy and operational changes over the year that influenced benefit dynamics" (p. 3).

The Australian Reference Group on Welfare Reform recently recommended that the Australian Government adopt and adapt the New Zealand Investment Approach to "improve outcomes for people at risk of dependence on income support" (Reference Group on Welfare Reform, 2015, p. 126).

The Government has not, however, established a new Crown agency and has moved cautiously on contracting out more employment services. Instead, it has been strengthening MSD's capability to deliver case management services to clients. MSD has implemented the welfare reforms over several years and the process is continuing. The reforms implemented include:

- Reforms to youth payments were introduced in August 2012, with an emphasis on encouraging youth who are NEET back into education and training to reduce their likelihood of long-term benefit receipt.
- Work obligations (including part-time work obligations) were extended to a wider range of beneficiaries (including sole parents, widows and other women alone) from October 2012.

- All the previous types of main benefits were collapsed into three new categories – jobseeker support, sole parent support, supported living payment – from July 2013.
- "Work Ability" assessments were introduced from February 2014, as part of a policy to support people with health conditions, injuries, or a disability to participate in the labour market.

The WWG estimated that, as a result of the reforms, work obligations (and so employment services) would be extended from the then current 37% to 77% of working-age income support recipients. From July 2013 this entailed an increase from 50 000 to 130 000 in the number of clients who had to show they were looking for work (OAG, 2014). WWG estimated the additional cost of employment support (including childcare assistance) at between \$215m and \$285m (the then base was \$770m) (WWG, 2011). MSD told the commission that, in addition to these numbers, a further 30 000 sole parents had part-time work obligations from July 2013.

MSD's service delivery models are evolving as it uses the investment approach to identify what works best for whom. Box B.2 sets out the current suite of case management services delivered in-house.

Box B.2 **Ministry of Social Development's service delivery models**

MSD in 2014 employed 1780 full-time equivalent case managers in over 160 service centres. It also employs work brokers, who hold employer accounts and negotiate subsidised employment and related training for clients. MSD's service delivery model is configured as follows:

- Work Focused Case Management General (WFCM Gen), with caseloads of no more than 121 for each case manager;
- Work Focused Case Management Health Condition or Disability (WFCM HCD), with caseloads of 100 for each case manager;
- Work Focused Case Management Integrated Service (WFCM IS) with caseloads of 80, working with clients under 25 years of age at entry, with a priority given to clients moving to a main benefit from youth payments;
- Work Search Support (WSS) with caseloads of no more than 217 for each case manager;
- General Case Management (GCM) – the default option for clients not allocated to other streams, with no restriction on caseloads.

MSD employed 736 work-focused, 874 general and 170 work-search support case managers.[3]

The role of the WFCM and GCM case managers is to:

- check and progress benefit entitlements and make referrals for other types of support, including childcare and housing; and
- apply sanctions (reductions in benefit) if clients fail to meet their work, work preparation, or social obligations (eg, ensuring the immunisation and attendance of children in school).

WFCM and WSS case managers also:

- review the job search progress of their clients, give advice, and refer clients to training providers when required; and
- work with clients to find solutions to matters that are preventing them from working.

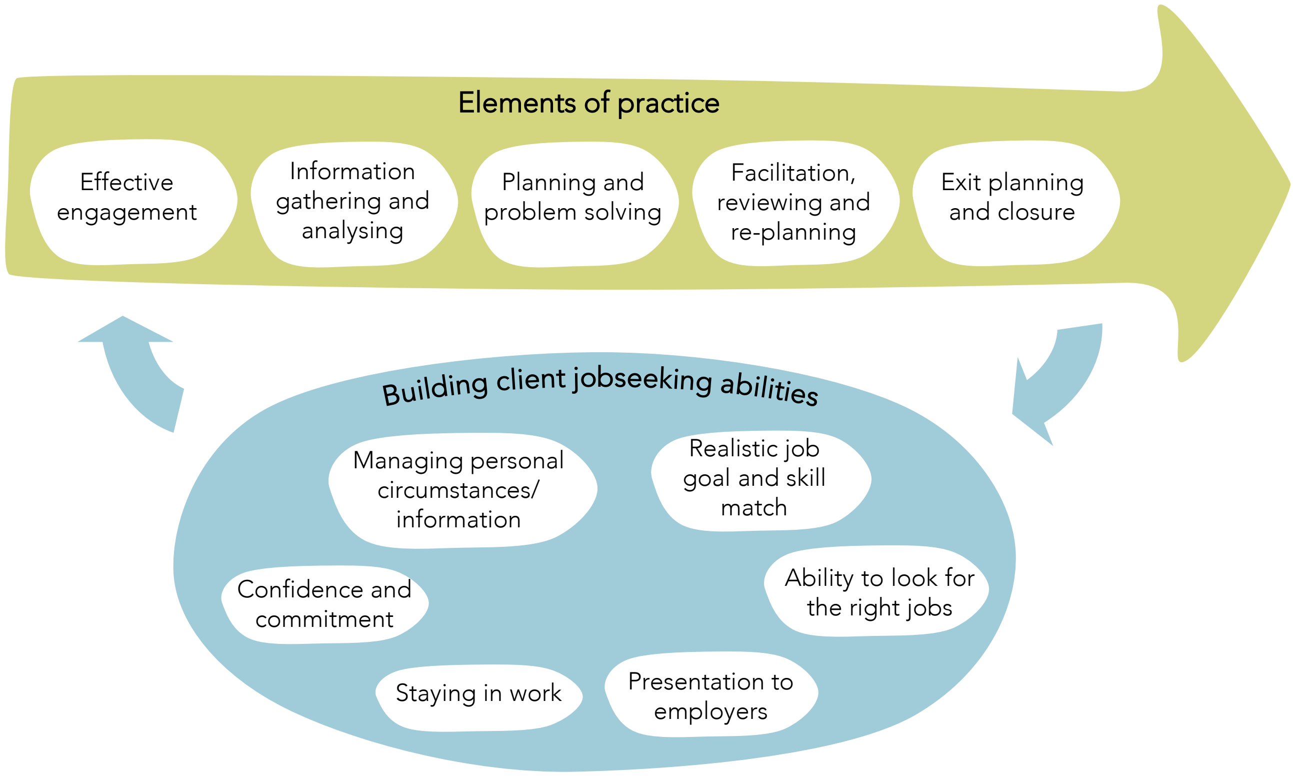
In addition, WSS case managers deliver seminars and provide other training to groups of jobseekers.

Sources: OAG, 2014; Ministry of Social Development.

[3] These numbers are full-time equivalents.

Figure B.1 shows the role of MSD's case managers.

Figure B.1 Ministry of Social Development case management model



Source: OAG, 2014; Productivity Commission.

MSD has recently developed a case management model to focus on clients with complex needs. A national practice team and regional practice leaders are working to refocus training roles and develop case management capabilities. The Commission was told that, until recently, staff training had been focused more on managing income support requirements than on helping clients achieve employment outcomes.

MSD also uses work brokers to engage with employers and link them with suitable clients. MSD may support these clients with work-specific training and job subsidies. Case managers and work brokers can refer clients to a range of services provided by third parties. These include assessments of ability to work for clients with health conditions and disabilities, specialised services to address barriers to work such as alcohol and drug addiction, and work-related training. MSD fully contracts out case management services for youth (section B.4), sole parents and also for selected clients with mental health issues. MSD retains the responsibility for income support services for these clients, while providers deliver active case management. In some services, such as the Youth Service, providers make recommendations to MSD on income support matters.

Annual appropriations to cover contracted-out services are in the order of $41 million. For comparison, the cost of in-house general and work-focused case management and work broker services are in the order of $240 million per year. A further $307 million covers the administration of income support (Government of New Zealand, 2014).

While appropriations are linked to particular programmes, the new multi-category appropriations (MCAs) provided for in reforms to the Public Finance Act in 2013, allow MSD to shift resources between programmes. Shifts in resources can include shifts between services provided in-house and those provided by third parties. Assessments of programme effectiveness (ROI) and of amenability of categories of clients to particular services guide MSD in its deployment of resources (Box B.1).

In 2014, an appropriation of $16 million was transferred to the MCA for employment services outcomes for people with disabilities. A further $73 million remains in an appropriation for services to support community participation and inclusion of people with disabilities.

B.4 Youth services in New Zealand

The WWG identified that "compared to other OECD countries New Zealand has a relatively high proportion of young people [aged under 18] who end up not participating in either education or employment" (WWG, 2011, p. 47). It noted that such young people were at high risk of very long periods of benefit receipt. The WWG also noted that "for young people, long-term benefit dependence is especially damaging and represents a considerable loss to the wider community" (WWG, 2011, p. 47). The first valuation of the benefit system found that the lifetime costs of young entrants to the benefit system are higher than for any other group (Taylor Fry, 2011).

Compared to other OECD countries, a high proportion of New Zealand 16 and 17 year olds (up to 13 500 school leavers each year) does not participate in either education or employment (OECD, 2010). More than half of those who first go on benefit at 16 or 17 years will spend at least five of the next 10 years on benefit. More than a third of those on the former domestic purposes benefit (DPB) became parents as teenagers and almost half of all those on the DPB have no formal school qualifications.

The Youth Service

The Youth Service (YS), which went live in August 2012, responds to the issues identified by the WWG. YS is targeted at young people aged 16 to 18 inclusive. There are three groups of clients:

- young people aged 16 or 17 years who receive the Youth Payment (YP) from MSD because they do not receive support from their parents. The YP was previously known as the Independent Youth Benefit (IYB);
- young parents aged 16 to 18 years who receive Youth Parent Payments (YPP); and
- other young people aged 16 or 17 years who do not receive income support but who are NEET (referred to as NEET clients) and who are thus at risk of entering the benefit system at age 18. The service is voluntary for NEET clients, and the YS does not capture all potentially eligible clients.

YS clients receive more intensive, individualised services than most of MSD's employment service adult clients. YS replaces the Youth Transition Services (YTS), which operated in some centres, but had no uniform design and did not link to the income support system.

MSD contracts a network of non-government provider organisations to deliver the YS in most localities. In-house MSD caseworkers provide the service in Wellington and Whanganui. Most parts of the country have only one provider in each community. Providers hold outcomes-based contracts to improve the proportions of young people in education, training and employment. They also help clients into settled accommodation and to learn to budget their money.

Providers also make recommendations to MSD about income support payments including payments for hardship. Benefits are administered by MSD through the Youth Service Support Unit. When the YS was introduced, youth benefits were simplified to a payment for unsupported young people and another for young parents. MSD sets up direct payments on behalf of clients for costs such as rent and utilities. Youth beneficiaries have a card to pay for groceries, and receive cash payments for other living expenses. Providers can recommend that MSD withholds payments if clients do not meet obligations (eg, attendance at training). MSD pays incentives for activities such as completing a budgeting course.

Establishing Youth Service providers

MSD judged that non-government providers were better placed than in-house MSD caseworkers to set up positive relationships with young people, and would be able to work in more flexible ways to attract and retain the engagement of young people in education, training and employment. Against expectations, MSD have found their own in-house service operating in two locations is good at enrolling clients and engaging them in school but not good at getting them off benefit.

MSD selected 41 providers, using an open tender.

Selection criteria included:

- a demonstrated ability to attract young people;
- a demonstrated ability, and clear processes to work with other service providers to ensure young people could access the right services for them; and
- location in the right places around the country, to cover the client population.

Most successful tenderers were already providing youth social services, so they had few set-up costs to begin providing YS. Provider numbers have varied a little since the first tender round. MSD experimented with supporting high-performing providers to expand into new geographic areas. The results were disappointing. It generally found that a provider performs well because they are well known in their own community.

MSD set prices at the cost, including overheads, of delivering the service in-house, using a case worker to client ratio of one to 40.

MSD structures fees to reward providers for successful outcomes. It pays an administration fee upfront; a further third of possible payments for achievement of milestones, such as a client enrolling in education; and a bonus third for the client completing specified results, such as gaining credits for the National Certificate of Educational Achievement (NCEA). MSD calibrates the fee structure to allow the provider to make a profit if a sufficient proportion of clients reach their goals. MSD provided tenderers with prices and the fee structure to help them assess their viability prior to tendering.

Operating a Youth Service

MSD uses information on young people from its own records and those of the Ministry of Education to identify and refer clients to providers. Usually MSD does not refer young people already within the criminal justice system. Providers may decline a referral on some grounds. As a result of the early success of YS, schools are now seeking help from providers to keep at-risk young people in school. YS providers are able to enrol and attract payments for young people over the age of 16 who are still at school. They can only enrol people aged under 16 if that person has a school exemption and has left school.

While different providers appeal to different young people, in most localities there is only one provider. Where there are more providers and the young person does not express a preference, MSD makes referrals based on the client’s address.

An operational manual governs the service. The bulk of the prescription covers procedures for acting as the agent of MSD to manage benefit applications, recommend payments and monitor how clients meet their obligations. The guidelines also cover issues like information sharing; how to handle complaints; notifications to Child, Youth and Family; working with advocates and agents; and accessing education opportunities.

There is less prescription around how providers provide support for young people to improve their outcomes. Providers vary in their approach to working with clients. Some offer very supportive environments, while others have opted for more “tough love”.

Providers receive referrals and enter monitoring information through the Activity Reporting Tool (ART). This serves the dual purpose of ensuring all records relevant to benefit payments are accessible to MSD, and of monitoring programmes.

Monitoring progress – early results

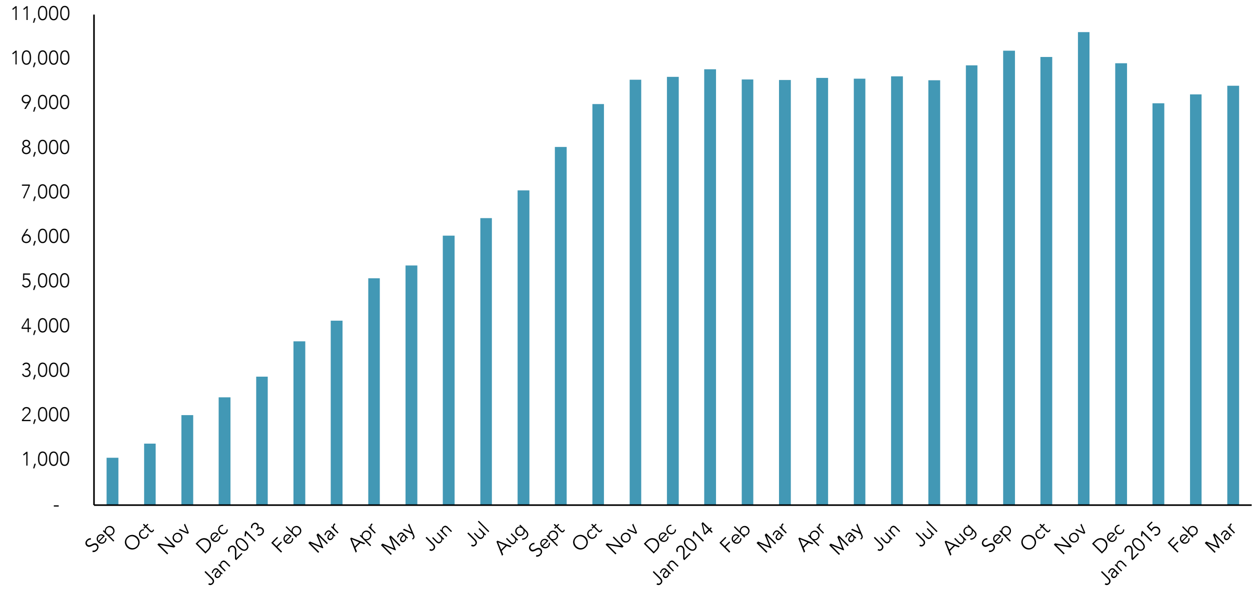
MSD unobtrusively monitors the uptake of YS weekly, using ART and in-house benefit information. It receives a monthly report on exits to employment or education

For more qualitative feedback MSD regional contract managers provide local analysis, and MSD surveys providers about best practice. The experience to date suggests success is the result of all the elements of the system working well together rather than any one factor, such as the right incentives or the quality of staff.

Providers get direct feedback on where they sit in "league tables". Relative success across providers is affected by disparities in access to education and training across regions. MSD has had to intervene to obtain Tertiary Education Commission funding for particular courses in some locations.

In its first year of operation the service was successful in engaging youth not previously receiving a service. NEET client numbers rose from around 2000 in November 2012 to almost 10 000 by the end of 2013 (Figure B.2).

Figure B.2 Rapid uptake of the Youth Service 2012-2014 – growth in client numbers



Source: Ministry of Social Development.

Notes:

1. Numbers are NEET clients (clients who, when recruited were not in employment, education or training) aged 16 or 17. The numbers do not include clients receiving the Youth Payment or the Youth Parent Payment.

Over 75% of NEET clients are now participating in full-time education or training or work-based training. Fifty percent of NEET clients gained NCEA credits in their first year in the service and 15% obtained NCEA Level 2.

Outcomes for YP clients (who received the YS) can be compared with recipients of the former IYB (who did not receive the YS). While 63% of YP clients gained credits in their first year, only 24% of IYB clients had done so; 14% of YP clients achieved NCEA Level 2 compared with only 5% of IYB clients.

Better-than-expected results in the first year meant that payments for outcomes to providers were higher than budgeted for. Fortunately, MSD now has greater flexibility to manage budget pressures within a broad MCA. Most providers appear to reinvest their profits in the business or build reserves. At-risk fees depend on clients participating in education and training, so the financial viability of providers is not particularly affected by labour market conditions.

B.5 Employment services in Australia

Australia was one of the first OECD countries to introduce a managed market for employment services. While the broad features of the managed market have been in place for 17 years, the details have changed periodically. The most recent changes are being introduced for the contract period beginning July 2015.

The Job Network

The Job Network was introduced in 1998 as a managed market, providing employment services through contracts between the Government and private and non-profit community providers. The Job Network was guided by three key principles:

- a focus on outcomes; that is, to deliver better quality assistance to unemployed people, leading to better and more sustainable employment outcomes;
- to address the structural weaknesses and inefficiencies inherent in previous arrangements, by changing the role of government to that of a purchaser rather than a provider of assistance; and
- using competition to increase efficiency for the taxpayer and choice for consumers.

Under this model, the Government purchased employment services through a combination of national tenders and roll-overs of existing contracts. The tenders required organisations to bid for market shares they wished to service in specified geographic areas. Under the roll-over procedures, existing contracts might be renewed based on their performance record, as assessed by star ratings (Box B.3). Four full employment service tenders were organised between 1997 and 2008, allowing changes to be made to the operation of the system as experience developed.

In the first two contract rounds, tenderers bid on quality and on price (Finn, 2011). In the second round, the department set a price floor, and successful tenders settled around this price floor. In all subsequent rounds prices have been fixed.

Box B.3 **Publishing "star ratings" of provider performance in Australia**

The Department of Employment (and its predecessors) have published comparative "star ratings" of providers' performance since 1999, at first mainly to help clients choose providers. The ratings from one star to five stars reflect providers' comparative success in achieving employment outcomes for clients.

The department has, from 2001, used a statistical model that takes account of different labour market and client characteristics to produce the star ratings. Providers do not have access to the statistical model, but can review the data used in the model.

The star ratings create strong incentives for providers to improve their performance. Over time the department awards a greater share of the market to superior performers and eliminates poor performers. In the 2003 contract round, the department simply rolled over the 60% of contracts it held with providers with three star and better ratings. In 2006, the department put out to competitive tender the 10% of contracts it held with two star and worse performers. Providers with ratings of two stars or below know that they are at significant risk of dropping out of the market altogether. For example, the former Commonwealth Employment Service, by then privatised, was initially awarded a significant market share, but by 2003 had gone out of business (Finn, 2011).

Two years after ratings were introduced, the department estimated that the rate at which clients were in employment after 13 weeks of commencing a service had risen from 15% to 35%, though some of this improvement was likely due to increases in employment in the economy (Finn, 2011).

> By 2005, services were being provided by a much reduced number of better managed agencies delivering service strategies that had been progressively refined on the basis of operational experience (Grubb, 2006; cited in Finn, 2011, p. 9).

Centrelink, an agency of the Department of Human Services, administers income support payments, and classifies clients according to the employment barriers they face. Clients may choose a provider, or instead, Centrelink refers them to one. Referrals broadly reflect the providers' contracted market share, but the rate of referral may vary somewhat above or below the contracted share according to client choice, and the providers' star ratings (Box B.3).

Job Services Australia

In 2008, a review of employment services found that the previous arrangements were not targeted sufficiently on disadvantaged jobseekers; employment service providers were not appropriately rewarded for investing in the skills of jobseekers through education and training; there was excessive administrative burden; and services were too fragmented. To address these problems, seven programmes, including the Job Network, were rolled into Job Services Australia (JSA).

Changes were made to the way Centrelink allocates jobseekers to different levels of assistance. Based on the Job Seekers Classification Instrument (JSCI), Centrelink now categorised jobseekers into four streams according to the barriers they faced in finding employment. Providers received higher fees for jobseekers facing greater barriers.

The request for tender under the new arrangements was issued in September 2008, and led to 50% of jobseekers being transferred to a different or new provider and to closures of some long-standing providers. It resulted in over 100 contracted providers from the private and not-for-profit sector competing with each other in about 2 300 locations.

Other changes included:

- JSA revised the structure of fees for providers to include:
  - quarterly *service fees* for each jobseeker on their books;
  - *placement fees* for a provider arranging a job in which a jobseeker has worked a specified number of hours; and
  - *outcome fees* for a jobseeker successfully completing 13 weeks (a "pathway outcome") and 26 weeks (a "full outcome") in an employment or education placement.
- The department moved from an initial "black box" approach to a more collaborative approach to contract management. A Charter of Contract Management set out standards of performance and conduct that providers could expect from the department's 100 contract managers. While providers still complain about administrative burden, the OECD concluded in 2012 that "[i]t is certainly arguable that Australia has developed more structured and consistent procedures for monitoring and reporting providers' service delivery than other countries have" (OECD, 2012, p. 81).
- The performance monitoring framework and the methodology for measuring performance have also evolved. For example, one performance indicator compares each provider to other providers in the achievement of employment and training outcomes for jobseekers in different streams and the time taken for them to do so.

Employment Services 2015

The Australian Government made significant changes to the employment services model to apply from 1 July 2015. The changes replace arrangements under JSA. Under the new model, Centrelink categorises jobseekers into three streams, depending on the employment barriers they face. Most jobseekers are required to undertake 40 job searches a month and meet "Work for the Dole" obligations.

Key features for employment services providers include:

- a stronger emphasis on payments for performance – a standard administration fee is paid in advance, and outcome payments are paid for maintaining the jobseeker in employment for 4, 12 and 26 weeks;
- an employment fund for work-related items and post-placement support (including wage subsidies, professional services and targeted training) – as in JSA, the fund reflects the level of disadvantage faced by clients but is not tagged to individual clients;
- five-year rather than three-year funding deeds and a mid-contract price adjustment for specific payments; and
- regional loadings to reflect different labour market conditions, particularly in some rural areas.

The department is aiming for a less prescriptive approach to contracting and now requires providers to obtain certification of service quality from independent accredited assessors.

Over time, the market has gradually consolidated, with economies of scale favouring larger providers. In the most recent contract round, the department specified that it would favour a limited number of larger providers in each employment region and that smaller more specialised providers would need to merge or put forward joint bids with larger ones. Employment regions were made larger. Tendering organisations were asked to outline how they would collaborate with other organisations (including other providers), with the expectation that they would be held accountable for their plans.

B.6 Analysis of selected issues

Incentives to provide the right services to the right clients

Employment service clients vary greatly in their readiness to work. Some clients may require intensive and sustained services to be able to return to work; others may require little or no help. The way contracts are designed will shape how providers allocate their resources. How to allocate resources to different types of clients is also a central issue for in-house government agency providers.

If providers are rewarded (financially or through performance appraisal) mostly on the basis of getting more clients back into work, it will be natural for them to focus on the clients who are easiest to place and to neglect the hard to place ("cream skimming" and "parking").

> A system where providers are largely paid according to employment outcomes can give rise to perverse incentives. It is vital that evaluators understand the effects of these incentives on the assistance provided to different subgroups of jobseekers, and their subsequent impact on employment outcomes. These cannot be captured by average net impact measures for an entire program or intervention. (Davidson, 2011, pp. 76–77)

The Australian employment services system has grappled with this issue at least since services were first contracted out in 1998. A main focus has been getting the fee structure right, with a combination of payments for providing a service, for placing clients in jobs and for sustaining client job placements over a specified period. In the first years of the Job Network, the fees structure meant that providers could generate adequate income by focusing mostly on job search assistance for the easiest to place (APC, 2002). Even as late as 2006 evaluations showed that providers were more likely than intended to use pooled funds held in their jobseeker accounts to assist easier-to-place clients (Davidson, 2011).[4]

The Department of Employment (and its predecessors) have made several adjustments to the fee structure to give more weight to the sustained placement of difficult-to-place clients while allowing capable providers to earn enough income to remain viable. The department pays higher fees for difficult-to-place clients and supports this by specifying which services are to be provided for which type of clients.

Yet it is difficult to get all elements right. For instance, in the early 2000s fees depended on the client's current duration of unemployment. This gave providers an incentive to delay giving intensive services until a given duration had been reached. The Department of Education, Employment and Workplace Relations (DEEWR) responded by weakening the link between payments and duration of unemployment. When the department placed greater weight on the JSCI scores to determine client streams and fees, providers had incentives to identify further barriers to employment and to refer clients for further costly assessments (OECD, 2012).[5] This in turn led to streamlining the assessment system to lower the cost.

The most recent changes in the Australian employment services system, came into effect in July 2015. They place even more weight on payment for outcomes. At the same time, the Department of Employment is contracting with a fewer number of larger providers. Such providers are more able than smaller providers to bear the risks of relying on outcome payments.

Paying contractors to provide employment services requires commissioning agencies to think explicitly about how the payment structure affects incentives to serve different clients. Yet in-house provision of

[4] "Although Job Seeker Account funds were notionally tied to individual jobseekers and calibrated to duration of unemployment and other measures of labour market disadvantage … providers were allowed to pool the funds available to them and redistribute them according to their assessment of the needs of each job seeker" (Davidson, 2011, p. 76).

[5] By 2009/2010 expenditure on job capacity assessments was equivalent to 15% of the Job Services Australia budget (OECD, 2012).

employment services in New Zealand does not necessarily eliminate the problem of cream skimming, though administrative means can be used to reduce it (Chapter 6). The Auditor-General found:

> By focusing on the numbers of clients no longer claiming a benefit, staff were less likely to want to work with difficult clients. This is because difficult clients can take a lot of case management time and might not have a successful outcome. These are the clients who the Ministry designed the new service delivery model to help. (OAG, 2014, p. 35)

Even so, case MSD managers cannot influence the allocation of clients to streams, and the performance framework tracks improvement on performance indicators across all actively managed client cohorts, at the site and regional level.

MSD uses performance indicators to complement the Investment Approach, so that staff effort is directed to services and clients that produce the largest ROI. Yet performance indicators can have perverse effects. The Auditor-General reports that some MSD case managers were paying particular attention to clients who were about to "tip over" into the next benefit duration category because this had an influence on one of their performance indicators (OAG, 2014, p. 35).

In contracting out YS, MSD made a deliberate decision that providers would not attempt to engage with the most difficult young people – generally those already engaged in the justice system. Together with a focus on engaging clients in education and training, this reduces the risk of cream skimming and parking.

Balancing prescription with the flexibility to best meet client needs

Experience with contracted-out employment services in Australia shows the tension between giving providers autonomy to decide how best to work with clients and ensuring public accountability for the use of resources. Accountability concerns drive a compliance heavy approach that providers experience as undue amounts of "red tape" that distract them from their engagement with clients.

Compliance costs are driven by probity concerns, the need to verify compliance with contractual terms, the monitoring of quality and organisational health, and other factors (OECD, 2012). Additional requirements are often responses to publicity or audits that identify a concern such as providers inappropriately claiming fees (Besser, 2012).

> The current system [in 2012] includes multiple types of constraints and reporting requirements: minimum service requirements, documentation requirements such as "casenoting" client interviews that are the basis for service fees, Centrelink requirements for participation reports to be valid … a multiplicity of outcome fees which require documentation of employment or education status, credits to the EPF [Employment Pathways Fund] which can be spent flexibly but within limits that raise borderline issues, and DEEWR's demands for information relevant to assessing various dimensions of "quality"…It is not difficult to understand why most of these features were introduced, although their cost in terms of red tape may not be appreciated. (OECD, 2012, p. 82)

The Commission was told that 50% of provider frontline staff time is spent on administration,[6] and that the Department of Employment and its predecessors had issued over 3000 pages of guidelines that were continually being updated.[7]

This cannot be easily compared with the experience of New Zealand's MSD case managers who also administer income support. The administration of income support and work-focused case management is closely integrated. Bearing this in mind, the Auditor-General reports:

> Processing transactions takes up about 60% of case managers' time and equates to more than 2250 full-time case management and other staff. (OAG, 2014, p. 38)

[6] In a 2008 survey, frontline employment service workers reported that they spent 25% of their time on "contract compliance to meet government reporting/administration requirements" (OECD, 2012, p. 21). A 2010 survey "found that providers spend half of their time devoted to a particular jobseeker on administration and compliance, some of this representing duplication of effort with Centrelink (OECD, 2012, p. 80).

[7] In response to similar claims in 2011, DEEWR indicated that contract rules and formal guidelines totalled 591 pages "with additional material being optional summary or diagrammatic rephrasing of the core content" (OECD, 2012, p. 80).

Moreover, the Auditor-General found that there is an enormous volume of electronic guidance material available to MSD case managers in the Manuals and Procedures (MAP) system.[8] Negotiating the MAP system is "not intuitive" and many staff rely on asking colleagues rather than finding the relevant information themselves (OAG, 2014, p. 36). The Auditor-General found that extensive guidance and "clunky" IT meant that "it can take two years for a case manager to become effective" (OAG, 2014, p. 30).

MSD is undertaking a simplification project to reduce the administrative burden of income support and work-focused case management. The aim is to reduce transactional processing times through better sharing and matching of information and more intuitive systems.

In contrast to the prescriptiveness of in-house provision of services to adult clients, there is very little prescription about the wrap-around services of YS. MSD requires providers to record client progress and outcomes electronically to assist with monitoring programme performance, but undertakes the administration of income support in-house. The relative lack of prescription of services may reflect the well-defined target population and the easily verified outcomes sought. The programme is in its early days. It may yet experience compliance creep as a result of events that attract adverse attention from the funder, the public or the government of the day.

A search for ways to mitigate concerns about compliance costs and procedural inflexibility has been ongoing in the Australian system. In the latest contract period (to begin in 2015), the Department of Employment is placing greater emphasis on payment for outcomes and has introduced a requirement for independent certification of provider quality. It intends at the same time to reduce the compliance burden on providers and to give them more flexibility in the way they deliver services to clients.

A heavy emphasis on compliance can militate against open and honest communication between funder and provider that, in itself, should reduce the need for more prescriptive approaches. The funder can mitigate this problem by encouraging a more collaborative approach:

> To signal a more collaborative approach to contract management under JSA, in consultation with providers DEEWR formulated an Employment Services Charter of Contract Management, which accompanies the formal legal contract and sets out standards of performance and conduct that providers can expect from the Department's contract managers. … On top of this Charter, the state or district office signs a Communications Protocol with each provider, which is continuously reviewed in bilateral meetings. This protocol lays down the intensity of contacts and details of performance measurement review. (OECD, 2012, pp. 79–80)

Another way to give providers more flexibility to meet client needs is to have an element of funding with more discretion around its use. Employment service providers in Australia have access to a pool of funds that can be used for work-related items, professional services, post-placement support and specific, targeted training to help jobseekers on their caseloads to find work (Department of Employment, 2014). Each jobseeker on their caseload attracts a credit into the fund that varies by their stream, but the fund can be used flexibly to provide services to any jobseeker or group of jobseekers. The WWG recommended a similar arrangement for New Zealand (WWG, 2011).

Complementary service provision, geography and the make or buy decision

The Commission understands that one reason that MSD has retained the bulk of employment services in-house is that it believes that high-volume, low-intensity employment services fit well with the provision of income support services. Further, if employment services were all contracted out, then MSD's smaller service centres in rural towns might become unviable. In such centres it might be difficult, in any case, to sustain a managed market of competing providers; as a result, reducing the benefits of contracting out.

In Australia, income support payments are administered by the Department of Human Services through Centrelink, while the Department of Employment contracts non-government providers of employment services. Providers have some responsibility for monitoring and enforcing income support obligations.

[8] "We copied 'Jobseeker Support' table of contents from MAP and pasted it into a separate documents. The headings ran to 26 A4 pages … This represents just a fraction of the guidance in MAP" (OAG, 2014, p. 36).

Providers in rural areas with thinner labour markets receive a higher level of payment to reflect the greater difficulty they face in placing clients into work. Such providers are likely to lack economies of scale and of specialisation. Matching clients to suitable job opportunities is more difficult than in urban centres.

In each very remote area, the Australian Department of Prime Minister and Cabinet now contracts a single provider of a range of services and assists them to develop their capability. In these areas, providers may have to travel for hundreds of kilometres to deliver services, and a majority of clients are indigenous Australians (DEEWR, 2008a). The change in arrangements reflects problems with the previous approach (administered by DEEWR), particularly with assessment of the barriers that clients face to employment and with the engagement of indigenous jobseekers (Jobs Australia, 2011). Under the previous approach, DEEWR paid providers service fees 70% above those in metropolitan areas. It paid outcome payments for a broader range of educational and skill outcomes than in other areas. Only 4% of all employment services clients lived in such areas.

If employment services are separated from income support services (as they are in Australia), then the two services need to communicate to decide on the allocation of clients to different services, to monitor the enforcement of obligations and decide when and how to apply sanctions, to monitor provider performance and to report on client outcomes. The same is true when aspects of the administration of income support are contracted out, as with the YS in New Zealand. Typically the administering department provides an electronic platform to facilitate these communications.

The evidence from Australia and New Zealand together suggests that a range of configurations of income support and employment services are viable. These arrangements balance economies of scope against the advantages of specialisation, which will vary by the type of employment service being offered, the scale of activity in a particular locality, and the availability of technology to network dispersed providers with the centre.

Using an investment framework to design and target social services

MSD’s Investment Approach is an attempt to increase the effectiveness of social services through better investment and targeting of investment (section B.3).

The Investment Approach prioritises clients and selects interventions based on expected effects on future welfare liability. This liability is an imperfect proxy of future net benefits; however, it is a significant improvement on traditional approaches and there is scope for further improvement (Chapter 9).

Many submissions commented on the value of applying an investment approach in the social services, but without a consensus view being evident (Box B.4).

Information on future welfare liability needs to be combined with information on the cost, effectiveness and efficient targeting of available interventions. MSD systematically improves information on effective interventions by carrying out RCTs (section B.3). Currently MSD assesses interventions in terms of their effectiveness in helping clients leave the income support system.

Box B.4 **Submissions about using an investment approach in the social services**

Manawanui believes that an investment approach to social services spending will lead to a better allocation of resources and better social outcomes. (Manawanui, sub. 8, p. 13)

[An investment approach] definitely would not lead to a better allocation of resources and better social outcomes]. It is dependent on measuring outcomes where you can be certain what and which intervention caused these outcomes. It is very rare to be able to ascertain this in an open diverse community; and it sends perverse signals to service providers. (Auckland District Council of Social Services, sub. 55, p. 8)

An investment approach is critical to improved social outcomes as it offers the provider with a level of certainty over the medium to long-term … Providers with uncertain future funding may be reluctant to provide long-term employment, let alone have the flexibility to consider the future workforce dynamics that they require and the associated investment in training that is needed to meet their future workforce needs. (Careerforce, sub. 50, p. 14)

We could be concerned if the analysis failed to measure the value of family care, and strengthened the incentive for the system to free-ride on unpaid family carers. If family care is regarded as a free service under an investment approach, it would be easy to imagine the level of paid care for people with illnesses or disabilities being reduced when the long-term cost is crystallised. That could be a very negative outcome. (Carers New Zealand, sub. 71, p. 8)

An investment approach to social services would certainly lead to a better allocation of resources and better social outcomes. The concept of maximising long term social return would provide the focus required to support the delivery of tangible and definable outcomes which make a real and lasting difference to society. Any investment mechanism will need to align both the social and financial return to risk in order to attract the investment and deliver social return in the areas providing the greatest benefit to society. (Wise Group, sub. 41, p. 32)

The investment approach has significant ethical and practical limitations … using clinical cut-offs for establishing who receives assistance, better data on how the client is doing, tracking their alliance with the practitioner, and actually listening and working with the client's ambitions will achieve far more than the investment approach. (Methodist Mission, sub. 4, pp. 21–22)

Is future welfare liability a good proxy for wider costs and benefits?

There are good reasons for believing that future welfare liability is strongly correlated with what citizens care about, at least for the social services to which it is currently applied – primarily employment services. The service is aimed at getting people into work, and people who get and stay in work will likely have lower future welfare costs. Moreover, being in employment is strongly correlated with better social outcomes. Conversely, welfare recipients have less control over their lives and lower life satisfaction (WWG, 2011).

Costs saved, calculated at the level of an individual, are valuable as they in effect set a minimum budget – how much would it be worth spending to reduce the future liability associated with this person to zero? This "budget" will likely be significantly larger than the amount that government has been willing to spend on many clients in the past.

Social Service Providers Aotearoa argue for an investment approach to be supplemented by a cost–benefit analysis (CBA):

> We acknowledge the need for an investment approach to social services but submit that the [future] liability model that emerged from the Welfare Working Group's benefit review and reforms is flawed in that it assumes that a reduction in fiscal costs of welfare will maximise employment and social outcomes. …We submit that this approach emphasises risk rather than benefit … it needs to be balanced by a cost-benefit analysis. In the context of social services, the agencies concerned must be tasked to improve social outcomes, not merely reduce the [future] liability. This will look more positively at "risk" as an area for management but also essential to innovation. (Social Service Providers Aotearoa, sub. 129, p. 6)

The Auditor-General makes a related point:

> The future liability calculation considers only the Ministry's costs, including welfare payments. For example, some clients with complex needs and a high overall cost to taxpayers might receive only a small amount of benefit from the Ministry. We accept that, currently, the Ministry would face significant obstacles in moving to a model that reflected total costs throughout government. (OAG, 2014, p. 23)

Chapple (2013) also suggests that a CBA is a more appropriate tool to prioritise interventions, as it explicitly incorporates the costs and benefits incurred by wider society.

Can future welfare liability be usefully refined and improved?

The New Zealand Council of Trade Unions points out that the sustainability and quality of employment, from the client's perspective, was ignored by the investment approach:

> The initial findings from the investment approach shows that there has been a decrease in the number of beneficiaries and the Government has welcomed this as this is one of the Better Public Service targets. But the glaring omission from the initial evaluation is an evaluation of outcomes (such as decent jobs) for the beneficiaries themselves. The evaluation found a significant churn between employment and people going onto other benefits rather than off benefits. Missing from evaluation was any focus on the type and quality of employment that people are going into and how sustainable it is and the impacts from the beneficiaries 'point of view – in the end, the crucial point. (sub. 103, p. 18)

While an estimate of future welfare liability on an individual basis should be sensitive to the sustainability of employment, it does not explicitly incorporate the client's perspective of employment quality. In theory that could be done by extending the model to incorporate private costs and benefits to the client. A simple improvement would be to add the expected value of future income tax receipts to the reduction in future welfare liability.[9] This would tilt the system towards finding better paid jobs, all else equal.

The Auditor-General also points out that, particularly for clients with complex needs, a wider range of interventions than those available to MSD would likely be needed to improve long-term outcomes.

> The Ministry's success in reducing lifetime benefit liabilities could be limited if developing effective interventions for complex clients [people who have a combination of problems that lead them to become or to remain unemployable and socially excluded] is not a priority for other government and non-government agencies in the social sector. (OAG, 2014, p. 18)

The Wise Group argues that health services should be added to the Investment Approach mix:

> Mental health conditions are the most prevalent health condition of the working age population. Currently people experiencing these conditions fall out of work unnecessarily and when unemployed don't have access to the evidence-based employment support services which would support a successful return to employment and an improvement in health. (sub. 41, p. 4)
>
> Our experience, combined with research evidence, tells us that integrating health and employment services in a more effective way at a policy, funding and service delivery level is where real opportunities for New Zealand lie. (sub. 41, p. 37)

The Investment Approach, using targeted interventions and a focus on intensive case management, together with improving labour market conditions is speeding the exit of easy-to-place clients from income support, leaving a growing proportion with complex needs. While the proportion with complex needs is growing, targeted interventions are reducing the absolute numbers in many categories. For instance the numbers receiving Jobseeker Support with health conditions and disabilities fell from 71 000 at 30 June 2013 to 66 000 at 30 June 2014. The numbers of sole parents receiving income support fell from 85 000 to 76 000. The number of these sole parents with children aged less than five years fell from 47 000 to 44 000 (Taylor Fry, 2015).

MSD is currently investigating the feasibility of applying the Investment Approach to the social housing system (Edwards & Judd, 2014). The Government has asked the recently appointed Modernising Child, Youth and Family Expert Panel to consider the development of an investment approach for Child, Youth and Family (MSD, 2015).

---

[9] Assuming that tax receipts are a reasonable proxy for income, and that income is a reasonable proxy for employment quality.

The Government is considering how the Investment Approach could be extended further across the social services (Minister of Finance, 2015). Extension requires, among other things, decisions about the outcome measures needed to show the value of alternative investments and the institutional and budgeting framework in which decisions will be made.

There is also a question about whether and how an investment model might be used in more devolved approaches to commissioning social services. Investment models for the design and delivery of social services are discussed further in Chapter 9. An information systems architecture that could provide information on value-added outcomes for services in more devolved systems is discussed in Chapter 8.

There is a potential question of ethics involved in the targeting of services under the Investment Approach, as there is with any targeting of services. The Investment Approach targets clients with the highest future welfare liability. These clients are generally younger than average. An investment approach needs to be balanced by welfare considerations that provides an appropriate minimum level of service across the different types of clients.

Make or buy

This case study has looked at two very different service models for delivering high-volume, low-intensity employment services to working-age, income-support recipients. Since 1998 the Australian Department of Employment and its predecessors have contracted providers in a managed market. Clients are streamed according to their disadvantage. A 2008 survey found that jobseeker caseloads averaged 110 (Considine, Lewis & O'Sullivan, 2008). Case managers working with the most disadvantaged providers are likely to have substantially lower caseloads than the average.

MSD in New Zealand has continued to deliver most employment services in-house, but has introduced the Investment Approach as a way of improving the mix and targeting of services. Maximum caseloads for WFCM are set at 121, while GCM caseloads do not have a limit but average 350. Caseloads for WFCM IS (working with clients under the age of 25 at entry) are set at 80. MSD has also begun contracting out more intensive services for specific target groups such as young people who are NEET, sole parents and clients with health conditions and disabilities. YS caseloads are funded on the basis of average caseloads of 40.

Cost is an important, perhaps over-riding, consideration in deciding whether to provide services in-house or to contract them out (Williamson, 1999). There are significant economies of scope and scale in delivering high-volume, low intensity employment services in conjunction with income support services. Income support services are almost invariably provided in-house, partly because they involve the exercise of statutory powers. Economies of scope may therefore favour providing low-intensity employment services in-house. This balance may change with more intensive services targeted at relatively disadvantaged clients, or clients whom it might be difficult to reach with in-house services. Under the Investment Approach, MSD is making decisions based on the cost and ROI of contracting these services out compared to providing them in-house.

OECD (2005, p. 221) argues that a managed market can operate successfully "using a mixture of several incentives and safeguards: combining pay-for-results and the principle of selective contract renewal with arrangements for more rapid elimination of providers whose performance is exceptionally poor and regulations that enforce minimum standards of service provision". A managed market allows identification and removal of poor performers from the market, and an increase in market share of good performers without a detailed understanding of the strategies that produce good performance.

Employment services in Australia illustrate the advantages and pitfalls of a managed market. Finn (2011) noted that:

> More favourable assessments highlight the enhanced capacity of frontline case managers [to innovate] when they tailor support to individuals and broker job placements with employers. More critical evaluations suggest, however, that providers may 'crowd around' less costly job search assistance or 'park' harder to place job seekers. (p. 28)

Finn (2011) highlights that an initiative:

> to establish a market and payment structure that promotes competition, increases job outcomes, reduces parking, improves service quality, and reduces perverse incentives …[has] introduced greater specification of service requirements and regulation of processes that then reduced scope for flexibility and innovation. (p. 28)

Australian officials have struggled to find a balance between prescription to guide providers to achieve detailed service objectives while leaving them free enough to find new and better ways of delivering services. Most recently they are attempting to reduce the need for prescription by relying more on payment for outcomes and independent certification of provider quality. It remains to be seen how successful these changes will be in encouraging innovation.

OECD (2005, p. 223) summarises the advantages of in-house provision as follows:

> Conditional on an ongoing commitment to evaluation and the replacement of programmes that have little impact by more effective ones, traditional PES [Public Employment Services] arrangements have some advantages as compared to quasi-market arrangements. They can partly avoid the institutional constraints and transaction costs that arise from strict separation between the provider and purchaser roles that is needed to operate a quasi-market. They can potentially implement an approach where multiple types of inputs are evaluated …in principle the national PES can act rapidly to exploit evaluation findings … even if it is not clear that the average PES acts rapidly in practice. In a quasi-market the impact of each provider (or each local office of each provider) is evaluated as the basis for managing the market but detailed provider strategies remain mainly inside a "black box", with a risk that best practices might only spread slowly for that reason.

MSD's Investment Approach follows the strategy identified in OECD (2005). The strengths of the in-house Investment Approach lies in the speed with which information on relative programmes and targeting effectiveness can be acted upon. This appears to have delivered early and large benefits in the efficient and effective use of resources.

Yet the in-house approach provides relatively weak incentives for frontline staff (case managers and site managers) to find innovative new ways of working with clients and with employers. Case managers are also highly constrained by an electronically mediated, prescriptive procedural approach to their work. While service performance across sites can be compared and used to motivate better performance, service managers do not have an easy means either to learn from or spread better performance. Nor do they have a means to award better performers a larger share of the business – the main mechanism by which innovations spread in the economy (Albury, 2014).

While small in scope, YS combines the advantages of the Investment Approach with less prescription about service delivery. To the extent that YS providers are successful in achieving outcomes, MSD can worry less about how they do it. Yet the Australian experience with a managed market shows that there are constant pressures to introduce more prescription as a result of negative publicity or issues identified in audits and evaluations. Chapter 9 discusses how an investment approach could be implemented in a more decentralised system of social services delivery with less prescription of how services are delivered.

While the New Zealand Investment Approach evaluates different service designs for their effects in assisting clients to move off a benefit, providers in the Australian employment services are evaluated for their effectiveness in helping clients find employment

The Australian Reference Group on Welfare Reform recently recommended that the Australian Government adopt and adapt the New Zealand Investment Approach. The report argued that an investment approach would align with the changes in contracted employment services that began operating from July 2015 (section B.5). The Australian employment services system does allow considerable flexibility to shift resources among providers over time as evidence on effectiveness emerges. The system also demonstrated that it was able to adjust to changed labour market conditions as a result of the Global Financial Crisis. Implementing an investment approach will require flexibility to target resources to groups with expected higher future costs.

The advantages and disadvantages of a managed market

The Australian experience with a managed market over almost two decades shows how, with good measures of provider performance, the better providers increase their share of business and the weaker performers are eliminated. Over time the number of providers has fallen and their size increased, suggesting that the managed market process has facilitated achieving economies of scale in provision.[10] Yet the purchasing agency has had to find a balance between having fewer, larger providers in an employment region and maintaining healthy competition and a viable choice of providers in future contract rounds.

The Australian employment services market relies on a number of elements to motivate improved performance, including:

- structuring fees to partly reflect successful outcomes for clients;
- rating the success of providers in placing clients into work and using those ratings to help allocate business at each tender round and periodically during contract periods; and
- clients having a choice of provider.

Getting all these elements right and working together has required ongoing adjustment as providers respond to new arrangements.

The Department of Employment has sought to balance lively competition for market share with stronger incentives for providers to collaborate. Providers can usefully collaborate, for instance, to bring complementary specialisations together, to share the costs of networking with regional and national employers, or to share ideas about effective ways of working with clients. In the 2015 contract round, the department set out an expectation of greater collaboration among providers. The department asked providers to specify in their tenders how and with whom they will collaborate and for what purposes. The department will monitor their performance against these stated intentions (Department of Employment, 2014).

B.7 Conclusion

This case study has looked at two apparently very different ways of organising employment services.

In New Zealand MSD has continued to provide most employment services in-house. Recently it has begun contracting out services for very specific client groups. There is generally only one provider in each location. MSD's Investment Approach is a major innovation that appears to have been initially successful in better designing and targeting services to help clients exit the income support system. The YS is contracted out as part of the Investment Approach and has been very successful in engaging a group of at-risk youth at high risk of long-term dependence on income support.

The current Investment Approach has limitations in terms both of the range of costs and benefits that are accounted for and the types of services that are evaluated for use. Government agencies are working on the means to widen the scope of the Investment Approach on both these dimensions. The approach could also be expanded by applying it to more decentralised service delivery models that give greater scope for provider innovation.

The Australian employment services system has used a managed market of non-government providers for almost two decades. Over time the funding departments have used performance measures, client choice, payments for outcomes and periodic re-allocation of market share to shape provision. Providers have become larger and fewer in number.

Australian funders have struggled to find the right balance between prescription to ensure that providers are meeting programme objectives and using public funds appropriately; and giving providers the flexibility and freedom to find better ways of working with clients to improve their employment outcomes.

---

[10] The Department of Employment accelerated this process for the current contract period by making employment regions bigger and reducing the number of providers to be contracted in each region.

Both in-house and contracted-out employment services systems are viable, and each has advantages and disadvantages that require detailed analysis of country-specific circumstances to evaluate. This includes complementarities between the income support and employment services systems, the need to serve remote and rural areas, the potential availability of providers in different locations, and the role that modern electronic networks can play in reducing monitoring and communication costs. It also includes the relative costs and ROI of in-house and contracted-out services that can only be determined from experience.

References

ACC (Accident Compensation Corporation). (2014a). *Annual report 2014.* Retrieved 3 December 2014 from www.acc.co.nz/PRD_EXT_CSMP/groups/external_communications/documents/reports_results/annual_report_2014.pdf

ACC. (2014b). *Statement of Intent 2014-2018.* Retrieved 3 December 2014 from www.acc.co.nz/PRD_EXT_CSMP/groups/external_communications/documents/papers_plans/wpc134184.pdf

Advisory Panel on Employment Services Administration and Accountability. (2011). *Discussion paper*. Australian Government Department of Employment. Retrieved 14 September 2014 from http://docs.employment.gov.au/documents/advisory-panel-employment-services-administration-and-accountability-discussion-paper

Albury, D. (2014, November 19). *Transforming children's early years: radical public service innovation* [Slides from Treasury Guest Lecture]. Retrieved 20 March 2015 from www.treasury.govt.nz/publications/media-speeches/guestlectures/davidalbury-nov14

APC (Australian Productivity Commission). (2002). *Report of the Independent Review of the Job Network.* Inquiry Report 21. Retrieved 17 December 2014 from www.pc.gov.au/inquiries/completed/job-network/report/jobnetwork.pdf

Besser, L. (2012). Job agencies facing fraud inquiry after audit of fees. *The Sydney Morning Herald*, 12 April. Retrieved 2 April 2015 from www.smh.com.au/federal-politics/political-news/job-agencies-facing-fraud-inquiry-after-audit-of-fees-20120420-1xcfz.html

Boone, J., & Van Ours, J. C. (2004). *Effective active labor market policies*. IZA DP No. 1335. Retrieved 15 January 2015 from http://anon-ftp.iza.org/dp1335.pdf

Carcillo, S., & Grubb, D. (2006). *From inactivity to work: The role of active labour market policies.* OECD Social Employment and Migration Working Papers No. 36. Paris: OECD. Retrieved 12 December 2014 from www.oecd.org/els/emp/36945194.pdf

Card, D., Kluve, J., & Weber, A. (2010). Active Labour Market Policy Evaluations: A Meta-Analysis. *The Economic Journal*, *120*(548), F452–F477.

Chapple, S. (2013). Forward liability and welfare reform in New Zealand. *Policy Quarterly, 9*(2), 56–62.

Considine, M., Lewis, J. & O'Sullivan, S. (2008). *Activating states: transforming the delivery of 'welfare to work' services in Australia, the UK and the Netherlands*. Australian report back to industry partners, December. Retrieved 21 April 2015 from http://ssps.unimelb.edu.au/sites/ssps.unimelb.edu.au/files/australia-industry-report-dec-2008.pdf

Davidson, P. (2011). Did 'Work First' work? The role of employment assistance programs in reducing long-term unemployment in Australia (1990-2008). *Australian Bulletin of Labour*, *37*(1), 51–96.

Department of Education, Employment and Workplace Relations (DEEWR). (2007). *Active participation model evaluation: July 2003 – June 2006.* Canberra, Australia. Retrieved 14 September 2014 from http://docs.employment.gov.au/system/files/doc/other/active_participation_model_evaluation_final_report.pdf

DEEWR. (2009a). *Welfare to Work evaluation report.* Canberra, Australia. Retrieved 14 September 2014 from http://a4.org.au/a4/sites/au.a4/files/welfaretoworkevaluationreport.pdf

DEEWR. (2009b). *Evaluation strategy for Job Services Australia 2009 to 2012*. Canberra, Australia. Retrieved 1 October 2014 from http://docs.employment.gov.au/documents/evaluation-strategy-job-services-australia-2009-2012

DEEWR. (2012). *Initial government response to the advisory panel on employment services administration and accountability: Final report.* Canberra, Australia. Retrieved 14 September 2014 from http://docs.employment.gov.au/documents/initial-government-response-advisory-panel-employment-services-administration-and

Department of Employment. (2014). *Exposure draft for employment services 2015-2020 purchasing arrangements*. Canberra, Australia. Retrieved 1 October 2014 from http://employment.gov.au/employment-services-procurement-information

Disney, J., Buduls, A., & Grant, P. (2010). *Impacts of the new jobseeker compliance framework: Report of the independent review.* Canberra, Australia: Department of Education, Employment and Workplace Relations. Retrieved 14 September 2014 from http://docs.employment.gov.au/system/files/doc/other/impacts_of_the_new_job_seeker_compliance_framework_report_of_the_independent_review.pdf

Edwards, D., & Judd, E. (2014). *Measuring tomorrow's outcomes today: Adopting an investment approach within the Ministry of Social Development.* Paper presented to the New Zealand Society of Actuaries Biennial Conference, Brave new world: Big data, longevity and ERM, 19–22 November 2014, Dunedin. Retrieved 4 March 2015 from www.nzsa2014.co.nz/files/docs/nzsa14/sat%20-%20measuring%20tomorrow's%20outcomes%20today_final.pdf

Finn, D. (2011). *Job Services Australia: design and implementation lessons for the British context.* Department of Work and Pensions Research report no. 752. Sheffield, United Kingdom: Department for Work and Pensions. Retrieved 24 September 2009 from www.gov.uk/government/uploads/system/uploads/attachment_data/file/214527/rrep752.pdf

Garlick, T. (2012). *Social developments: An organisational history of the Ministry of Social Development and its predecessors, 1860–2011*. Wellington: Steele Roberts Aotearoa. Retrieved 18 August 2014 from www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-developments-organisational-history.html

Government of New Zealand. (2014). *Vote Social Development: The estimates of appropriations 2014/15 – social development and housing sector B.5 Vol.10.* Retrieved 20 January 2015 from www.treasury.govt.nz/budget/2014/estimates/v10/est14-v10-socdev.pdf

Grubb, D. (2006). *Australia's quasi-market delivery of case management.* Paper delivered to the International Experts Workshop of the International Social Security Association, Brussels, 10–11 April. Retrieved 1 April 2015 from www.issa.int/html/pdf/workshop/bruxelles06/2grubb.pdf

Immervoll, H., & Scarpetta, S. (2012). Activation and employment support policies in OECD countries. An overview of current approaches. *IZA Journal of Labor Policy*, *1*(1), 1–20.

Jobs Australia. (2011). *Jobs Australia submission on ways to improve employment services within Job Services Australia (JSA) and Disability Employment Services (DES) from 2012.* Melbourne, Victoria, Australia: Jobs Australia. Retrieved 2 April 2015 from http://ja.com.au/sites/default/files/%5Buser%5D/files/articles/JA%20ES%202012%20Submission%20Reduced%20Size-27%201%202011.pdf

Kluve, J. (2006). *The effectiveness of European active labor market policy.* IZA DP No. 2018. Retrieved 14 January 2015 from http://ftp.iza.org/dp2018.pdf

Minister for Social Development (Hon. Paula Bennett). (2012). Welfare reform paper A: Overview. Report to the Cabinet Social Policy Committee. Retrieved 3 December 2014 from www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2012/r-paper-a-welfare-reform-overview-of-package.pdf

Minister for Social Development (Hon. Paula Bennett). (2013). *Welfare reforms working for young people.* [Press release]. Retrieved 10 December 2014 from www.beehive.govt.nz/release/welfare-reforms-working-young-people

Minister of Finance (Hon. Bill English). (2015, February 19). Speech to the Institute of Public Administration New Zealand [Speech]. Retrieved 16 March 2015 from www.national.org.nz/news/news/media-releases/detail/2015/02/18/speech-to-the-institute-of-public-administration-new-zealand

MSD (Ministry of Social Development). (2011). *Evidence on Training Opportunities and related training programmes.* Retrieved 3 December 2014 from www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/evidence-on-training-opportunities-and-related-training-programmes/report-2011-evidence-on-training-programmes-for-training-opportunities-review.pdf

MSD. (2012a). *Youth Services provider operational guidelines*. Retrieved 10 December 2014 from http://youthservice.govt.nz/documents/for-providers/youth-service-provider-operational-guidelines-aug-2012.pdf

MSD. (2012b). *Youth payments and services.* Budget 2012 factsheet. Retrieved 10 December 2014 from www.msd.govt.nz/about-msd-and-our-work/newsroom/factsheets/budget/2012/youth-payments-and-services.html

MSD. (2014a). *Ministry of Social Development Annual Report 2013/2014*. Retrieved 3 December 2014 from www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/annual-report/2013-2014/index.html

MSD. (2014b). *Ministry of Social Development Statement of Intent 2014-2018*. Retrieved 3 December 2014 from www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/statement-of-intent/2014/index.html

MSD. (2014c). *Health and disability long-term work programme – supporting disabled people and people with health conditions into work.* Retrieved 3 December 2014 from www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/welfare-reform-health-disability/index.html

MSD. (2014d). *Youth services evaluation report*. Retrieved 3 December 2014 from www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/youth-service/index.html

MSD. (2014e). *Youth Services.* [Website]. Retrieved 10 December 2014 from http://youthservice.govt.nz/

MSD. (2015). *Terms of reference for the modernising Child, Youth and Family Expert Panel.* Retrieved 17 April 2015 from www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2015/cyf-modernisation-tor.pdf

OAG (Office of the Auditor-General). (2014). *Ministry of Social Development: Using a case management approach to service delivery.* Retrieved 10 December 2014 from www.oag.govt.nz/2014/msd-case-management

OECD (Organisation for Economic Co-operation and Development). (2005). *Employment outlook.* Paris: Author.

OECD. (2010). *Off to a good start? Jobs for youth.* Paris: Author.

OECD. (2012). *Activating jobseekers: How Australia does it*. Paris, France: Author.

PwC. (2013). *Return on investment: A proposed framework: Work and Income*. Report for the Ministry of Social Development and the Treasury. Wellington: Author.

Rabaul, H., & Judd, E. (2014). *Work and Income: 2013 benefit system performance report for the year ended 30 June 2013.* Wellington: Ministry of Social Development. Retrieved 3 December 2014 from www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/investment-approach/2013-benefit-system-performance-report.pdf

Reference Group on Welfare Reform. (2014). *A new system for better employment and social outcomes: interim report of the reference group on welfare reform to the Minister for Social Services*. Canberra, ACT, Australia: Department of Social Services, July. Retrieved 3 December 2014 from www.dss.gov.au/sites/default/files/documents/06_2014/dss001_14_full_report_27_june_tagged.pdf

Reference Group on Welfare Reform. (2015). *A new system for better employment and social outcomes: Report of the Reference Group on Welfare Reform to the Minister for Social Services*. Canberra, ACT, Australia: Department of Social Services. Retrieved 1 March 2015 from www.dss.gov.au/our-responsibilities/review-of-australias-welfare-system

Taylor Fry, (2011). *Actuarial valuation of the benefit system for working-age adults as at 30 June 2011.* Report prepared by Taylor Fry for the Ministry of Social Development and the Treasury. Retrieved 3 December 2013 from www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/news/2012/msd-valuation-2011.pdf

Taylor Fry, (2014). *Actuarial valuation of the benefit system for working-age adults as at 30 June 2013.* Report prepared by Taylor Fry for the Ministry of Social Development and the Treasury. Retrieved 3 December 2013 from www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2013/nz-msd-valuation-june-2013.pdf.pdf

Taylor Fry. (2015). *Ministry of Social Development: Valuation of the benefit system for working-age adults as at 30 June 2014.* Sydney, NSW, Australia: Author. Retrieved 12 February 2015 from www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2015/valuation.pdf

Williamson, O. E. (1999). Public and private bureaucracies: a transaction cost economics perspective. *Journal of Law, Economics, and Organization*, *15*(1), 306–42.

WWG (Welfare Working Group). (2011). *Reducing long-term benefit dependency: Recommendations*. Report to the Minister of Social Development. Retrieved 5 September 2014 from http://igps.victoria.ac.nz/WelfareWorkingGroup/Downloads/Final%20Report/WWG-Final-Recommendations-Report-22-February-2011.pdf