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*Background paper*

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# Institutional moral hazard in the multi-tiered regulation of unemployment in Australia – Background paper.

Chris Luigjes & Frank Vandenbroucke

December 2015

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## Abstract

This paper has been written in preparation of a research project funded by the European Commission (on the Feasibility and Added Value of a European Unemployment Benefit Scheme, contract VC/2015/0006). This paper adds information and detailed analysis to the following deliverable of that research project: *Institutional Moral Hazard in the Multi-tiered Regulation of Unemployment and Social Assistance Benefits and Activation - A summary of eight country case studies*; but it was not a deliverable. We use the concept ‘institutional moral hazard’ to analyse intergovernmental relations within multi-tiered welfare states, specifically in the domain of unemployment-related benefits and related activation policies (the ‘regulation of unemployment’). This paper is one of eight separate case studies, it focuses on Australia. The Australian regulation of unemployment involves two federal departments, the federal Public Employment Services (PES) and private agencies. Australia gradually privatised the activation of the only major unemployment-related benefit. Reforms moved the Australian system away from a ‘black box’ approach towards more detailed minimum requirements, monitoring and control of those private agencies. The Australian experience suggests a trade-off between the need for control on one hand, and the need for flexibility in activation processes on the other hand.

*Keywords: Institutional moral hazard; multi-tiered welfare states; intergovernmental relations; unemployment insurance; social assistance; Active Labour Market Policies; activation; social policy; Australia.*

# Australia

## List of Abbreviations

AAS - Annual Assurance Statements  
APM - Active Participation Model  
BMA - Bilateral Management Agreement  
CES - Commonwealth Employment Service  
DE - Department of Employment  
DEEWR - Department of Employment Education and Workplace Relations  
DHS - Department of Human Services  
EPP - Employment Pathway Plan  
FaHCSIA - Department of Families, Housing, Community Services and Indigenous Affairs  
JSA - Job Services Australia  
JSKA - Job Seeker Account  
KPIs – Key Performance Indicators  
KPM – Key Performance Measures  
NSA – Newstart Allowance  
JS – Job search Allowance  
SA – Social Assistance  
SSA – Social Security Act  
SSAA - Social Security Administration Act  
UI – Unemployment Insurance  
WfD - Work for the Dole programme  
YA - Youth Allowance

## Introduction

Australia is a bit of an outlier in our selection of multi-tiered systems, both concerning the type of benefits and the way in which activation is delivered. The Australian case is completely characterised by *managerial* decentralisation, as opposed to *political* decentralisation, which is present – in some measure or another – in the other cases we examine. When it comes to the unemployment-related benefit schemes, Australia is different from most OECD countries in the sense that (1) it does not have any substantial social assistance benefit scheme and (2) its single most important unemployment-related benefit is flat-rate, means-tested and near universal in terms of eligibility (Davidson & Whiteford, 2012, pp. 8, 13-14). Unemployment assistance is Australia’s foremost benefit scheme related to the labour market, and the country has a marginal social assistance scheme. All of Australia’s benefit schemes fall under two categories: pensions or allowances (OECD, 2012, pp. 149-150), both of which are financed from general (federal) government revenue. Pensions often consist of higher benefits, and generally require little to no activation because they are targeted at groups which are unable to work. On the other hand, allowances include flat-rate and means-tested benefits, and are intended for those who are able to work.

The Australian federal level holds more responsibilities and has greater (financial) powers than most of our other cases. The federal level (or ‘Commonwealth’) has historically collected the bulk of tax revenues, through which it can exert considerable influence. This “vertical fiscal imbalance” is perhaps the cause of the strong fiscal horizontal balance found in Australia; the country’s system of fiscal equalisation of states is perhaps one of the strongest in all federations (Castles & Uhr, 2005, p. 60).

In practice, the delegation in the Australian case takes the form of extensive privatisation of activation delivery. During the 1990s the Australian government first started experimenting with privatisation, which resulted in perhaps the most privatised system of ALMP delivery of all OECD

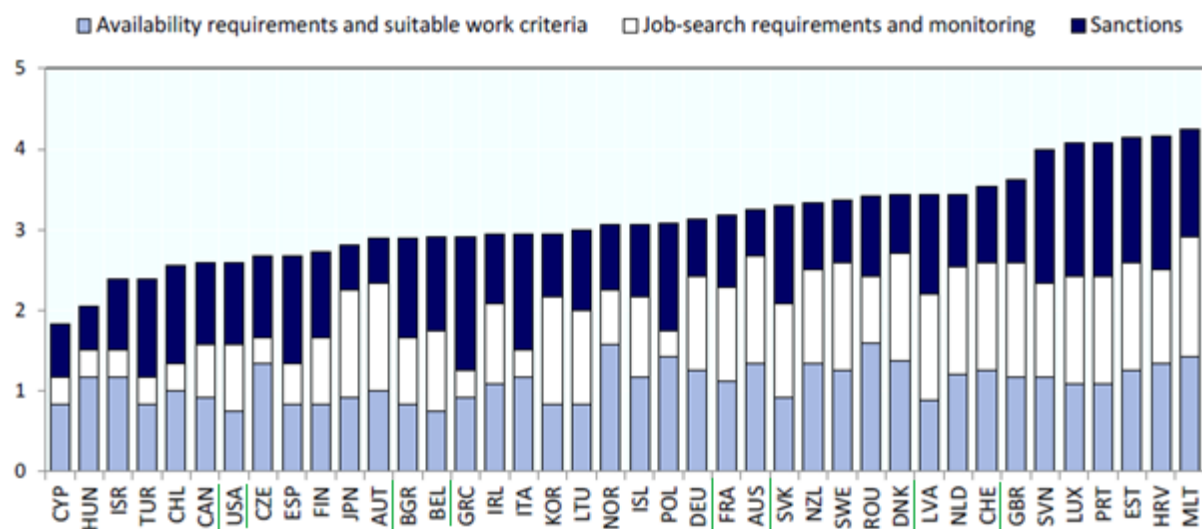
countries – certainly of all the cases we examined. There is no political decentralisation such as in the other cases we examine, which in turn entails that there is also no institutional moral hazard present since no insurer-insured relationship is conceivable. Instead, perverse incentives mostly arise out of principal-agent relationships between the federal level and private agencies.

# 1. Unemployment Assistance Benefits

Historically, the Australian unemployment benefits have been flat-rate as well as means- and asset-tested. In 1991, Job search Allowance (JA) and the Newstart Allowance (NSA) replaced the former Unemployment Benefits. JA applied to both young and mature unemployed individuals that had been unemployed for less than 12 months, while NSA was introduced for mature long-term unemployed.<sup>1</sup> Finally, in 1996, JA and NSA were combined into a single scheme, still called NSA. This short period of a single unemployment benefit ended with the 1998 introduction of Youth Allowance (YA) for unemployed persons under the age of 22.<sup>2</sup> The most important recent pieces of legislation are the [Social Security Act of 1991 \(SSA\)](#) and [the Social Security Administration Act of 1999 \(SSAA\)](#).

The NSA scheme is near universal in scope. The only requirements are: being unemployed, having the right age (22 or above), and remaining active in seeking employment.<sup>3</sup> For that reason, the NSA can be characterised as a benefit scheme of last-resort social assistance (OECD, 2012, p. 157). Figure 1 reflects the strictness of eligibility, which is quite strict overall in the Australian context (Langenbucher, 2015). This strictness is due to (1) the availability requirements for work during participation in ALMPs, (2) occupational mobility requirements and (3) the monitoring frequency (Figure 2). These items result in high scores for availability and job-search requirements. However, the Australian sanctioning regime is, in comparison, not so strict. This is due to the universal scope of the NSA. In the context of a benefit of last resort, withholding benefits and other severe sanctions for repeat offenders is seen as punitive and counterproductive (OECD, 2012, pp. 29-30, 102, 159).

Figure 1 Overall strictness of eligibility criteria. Source: Langenbucher 2015, p. 27

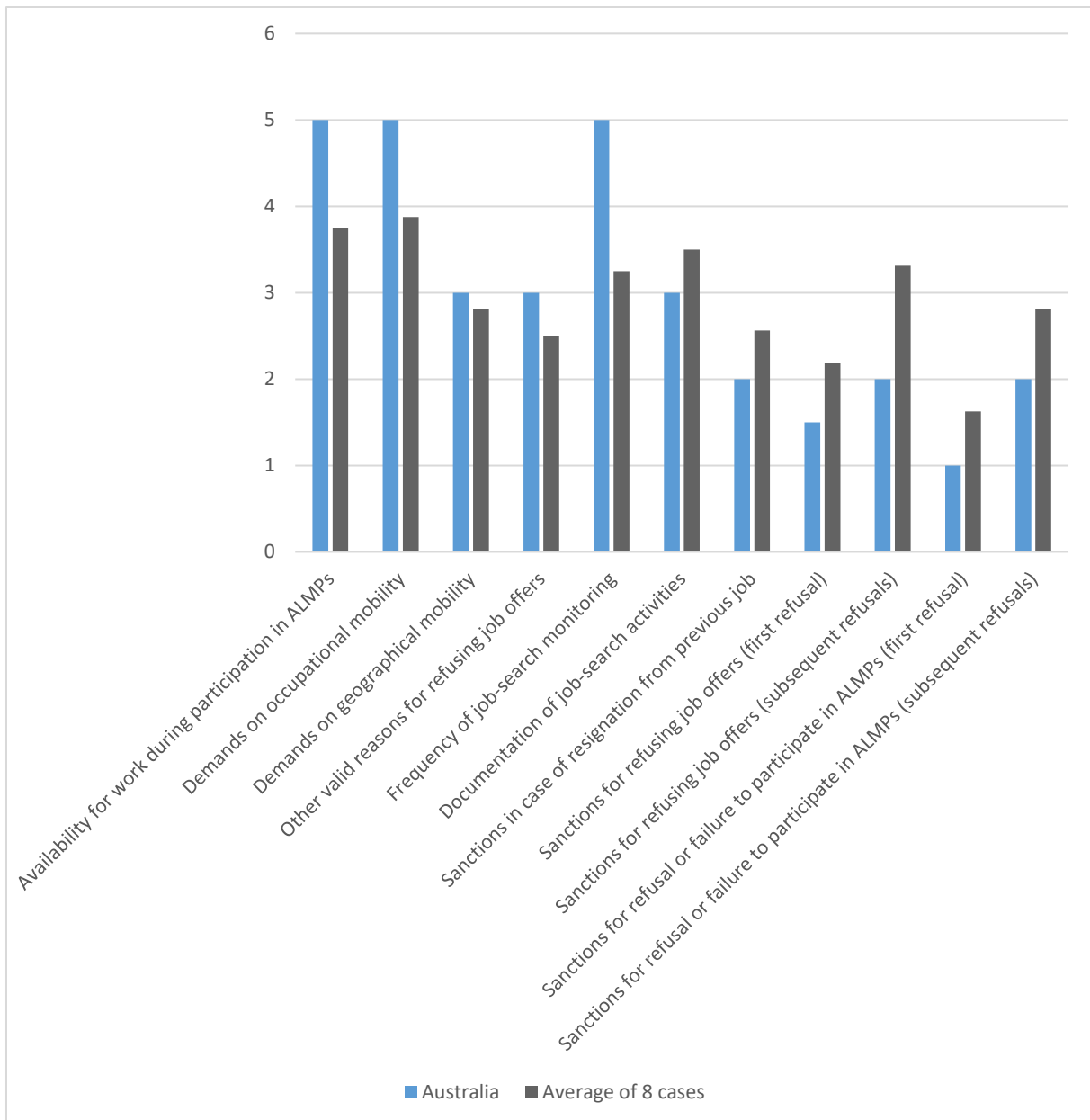


<sup>1</sup> Newstart Allowance was already introduced in 1988 as a special long-term unemployment programme for 40.000 clients.

<sup>2</sup> See [SSA part 2.11](#)

<sup>3</sup> See [SSA part 2.12 subdivision A](#)

Figure 2 Strictness of eligibility in NSA. Source: Langenbucher 2015.



The scheme is financed from general (federal) government revenue, and administration was initially the responsibility of the Department of Employment (DE, formerly the Department of Employment Education and Workplace Relations or DEEWR). In practice however, administration – involving contact with jobseekers and the disbursement of benefits – is done by Centrelink, a government agency, currently part of the Department of Human Services (DHS).

The federal inter-agency cooperation does require some further elaboration. The three key actors are the DE, the DHS and Centrelink. The latter is an agency that now falls under the authority of the DHS, but this has not always been the case. Centrelink was enacted with the introduction of the Human Services Act of 1997 as an agency at arm's length for the delivery of government payments and services. It serves as the initial point of contact for the unemployed. Initially, Centrelink was reimbursed by the (then called) DEEWR as well as the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) for its operations. In 2009 and 2010, Centrelink was directly financed from the budgets for the two aforementioned departments; this 'partnership'

model replaced the former purchaser-provider arrangement (Auditor General, 2013, pp. 25-26).<sup>4</sup> In 2011, Centrelink was formally subsumed under the authority of the DHS, which means that most of the funding for services and payments now flows through the DHS, but operations are still performed by Centrelink. The partnership agreement between Centrelink and the DE ended and the DE now enters into agreements with the DHS as the responsible Ministry for Centrelink. These agreements are called Bilateral Management Agreements (BMAs). In general the DE is responsible for policy outcomes, policy design and setting policy delivery approaches. The DHS/Centrelink is responsible for implementation (cf. Table 8 in the appendix and Figure 2 for the precise division of responsibilities).

Benefit rates are between 561,80 AUD for a single person with dependent children and 468,80 AUD for partnered persons, per fortnight.<sup>5</sup> These rates result in very low effective replacement rates, even among countries with similarly structured benefits. Australia ranks among the lowest scoring countries (OECD, 2012, p. 151).<sup>6</sup> Pensions are more generous, which increases incentives to apply for those benefits rather than activation-tested allowances (Davidson & Whiteford, 2012, p. 18; OECD, 2012, p. 151).<sup>7</sup> The reforms in the 1990s were partially aimed at moving caseloads from pensions to the main unemployment-related benefits (NSA and YA) (Davidson & Whiteford, 2012, p. 39).<sup>8</sup>

The individual states each have differently sized caseloads. Figure 1 shows the average unemployment rate for the most highly populated states and for Australia as a whole for the period of 2000-2015; they range from just over 4% in the capital territory to 7,5% in Tasmania.<sup>9</sup> Because both the NSA and the activation process are federally financed, however, there are no horizontal transfers. Nonetheless, structural differences in caseloads do point towards a structural redistribution of NSA and activation funds across geographical units.

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<sup>4</sup> “Under the purchaser-provider arrangement, funding for employment program payments and services was appropriated to DEEWR. The funding arrangement was reflected in the then Business Partnership Agreement, with DEEWR adopting a compliance oriented approach to managing Centrelink’s service delivery” (Auditor General, 2013, p. 26).

<sup>5</sup> Officially, there is also a special rate for a single principal carer who cares for a very large family (or foster children) or home or for a distance educator of any children in their care. See [here](#) for more details.

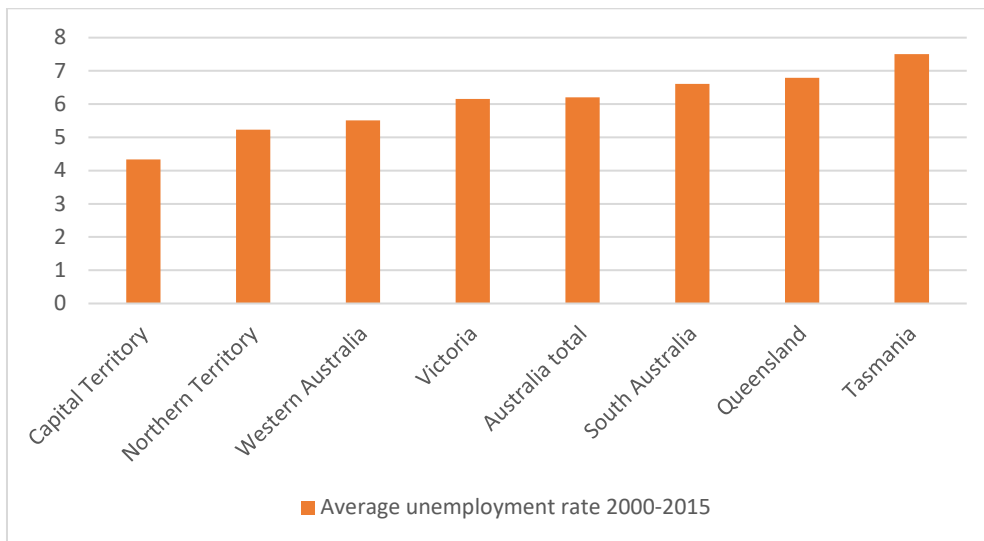
<sup>6</sup> There are some supplements available for NSA beneficiaries, such as the Health Care Card, Rent Assistance, the Family Tax Benefit and other miscellaneous supplements (Davidson & Whiteford, 2012, pp. 11-13). Some of these supplements have built-in ‘welfare locks’, such as Rent Assistance (Bodsworth, 2010). Other disincentives to work stem from the fact that pensions are indexed both to prices and to wages, while NSA is indexed only to prices (OECD, 2012, p. 29). See [part 3.16 of the SSA](#) for indexation.

<sup>7</sup> These pensions include Parent Payment and Disability Support Pension benefit schemes.

<sup>8</sup> Such measures included the gradual closing off of Partner Allowance, the abolition of Wife Pensions and the restriction on regular and Mature Age Allowance.

<sup>9</sup> The Australian LFS does not include a separate category for NSA caseloads, which is probably due to the universal scope of the benefit. It does include a separate category for unemployed who are actively seeking work, but as almost half of the NSA clients have job search-exemptions this would overlook a significant part of the caseload. In other words, the unemployment rate is probably the closest proxy for NSA caseloads. Furthermore, we opted not to include the smaller territories; the 7 geographical units in Figure 1 represent over 98% of the Australian population.

Figure 1 Unemployment rate per most populated state/territory. Source: Australian Bureau of Statistics, Labour Force Australia 2015



There is a benefit other than NSA that could be categorised as social assistance: special benefits. However, the caseload of special benefits is only just above 2% of the NSA caseload (Davidson & Whiteford, 2012, p. 9).<sup>10</sup> We will therefore forgo a section on social assistance as NSA in effect functions as the benefit of last resort for most persons (OECD, 2012, p. 157).

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<sup>10</sup> It is covered by [SSA part 2.15](#).



## 2. Activation<sup>11</sup>

Unemployment-related reforms were given much impetus in the mid-1980s and mid-1990s when Australian employment performance started to falter. As early as the 1970s, Australia separated benefit administration and PES functions. PES functions were to be implemented by the Commonwealth Employment Service (CES).

During the mid-1990s experimentation started with activation programmes aimed at the long-term unemployed. These experimentations are relevant for the subject at hand because they already included the seeds of what was later to become an almost fully-privatised labour market service delivery system. Private and community agencies, which were to compete with the CES, were used to implement work and training programmes for the long-term unemployed. Activation services shifted away from training as the most intensive programmes for the long-term unemployed were abolished (Considine, Lewis, & O'Sullivan, 2011, p. 815). Furthermore, CES was replaced with Centrelink, which was previously at arm's length of the government, and more prominence was given to private and community services. Originally, Centrelink was only responsible for basic services and administrative functions, while a network of private and community agencies provided the more intensive services. In essence this was a further step towards full privatisation of PES functions where private actors operated as agents for the federal government.

As participation and employment rates were on the rise, most of the reforms after this period focused on adjusting the governance model of this managerially decentralised system. Australia was a relatively early adapter of New Public Management principles and quasi-market mechanisms in the delivery of labour market policies, and in that sense the privatisation of the Australian labour market services was in uncharted waters. Reforms included a new tendering process, the introduction of a rating system for private providers, and an adjustment of the responsibilities of those private providers. Further reforms focussed more and more on standardisation of work process, hampering the flexibility of private agencies.

Australia now has probably the most extensive privatised 'quasi-market' for labour market services. Public providers, which existed side-by-side with private agencies for some time, have all but disappeared since 2000 (Davidson & Whiteford, 2012, p. 54). However, the relationship between the government and the private contractors has been contentious. Initially, the flexibility and leeway

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<sup>11</sup> This section covers the general system of activation in Australia, but it will focus on the relationship between the NSA and activation. Like in the United States, there is not a special activation system for the different types of benefits. In Australia, this might well be due to the fact that there is just one major unemployment-related benefit scheme. In the other cases we examine, SA sometimes rivals UI in the size of the caseload. Such divisions between SA and UI are often the basis for different activation systems in those cases. Although there is no separate functional equivalent to the social assistance schemes in Australia, there are some other benefits that are subjected to activation. Parenting Payments, Youth Allowance, Disability Support Pensions and some residual allowance schemes (including special benefits) are, in principle, subject to the same JSA system. However, not all recipients of unemployment-related benefits are classified as jobseekers. In fact, in 2010 only half of the recipients were seen as jobseekers. Being classified as such entails that one is in the JSA system. There can be multiple reasons for receiving unemployment-related benefits but not being registered as a jobseeker: it is possible that beneficiaries are exempt or already meeting their requirements in some other way (being in training for YA beneficiaries, or a combination of part-time work and care for single parents); persons may also be sanctioned or suspended from benefits (OECD, 2012, p. 122). Additionally, people can volunteer as a jobseeker without receiving a benefit. Every benefit has different eligibility criteria for receiving services and exemptions (Department of Employment, 2014, pp. appendix B 175-179), but all are being serviced by the same system.

granted to the agencies was substantial, but as the federal government tried to negate perverse incentives created by this system, it restricted the operational freedom of those agencies. This trade-off between federal control and freedom at the local level, or in other words between reducing perverse incentives and flexibility, characterises the relationship between the federal government and the private agencies.

Not all NSA beneficiaries are subject to activation. According to an OECD study, almost half of the NSA clients were not registered as 'jobseekers' because they either met their participation requirements through approved activities, were temporarily incapacitated, were suspended from benefits or had other exemptions for participation requirements (OECD, 2012, pp. 154-156). This high number of non-jobseeker NSA clients can be explained by the fact that (and also strengthens the view that) the NSA functions as a benefit of last-resort.<sup>12</sup> Because there is no devolved social assistance scheme and both the NSA and all of the pensions are federally administered, NSA reforms had little perverse interaction with other benefits.

The Australian government implemented activation programmes in the 1990s due to rising unemployment rates as well as reforms that shifted caseloads from pensions to benefits that are subject to activation. One of the most impactful reforms has been the introduction of the Working Nation programme. It included two important elements: on one hand, the introduction of more responsibility but also flexibility and 'consumer choice' for the beneficiaries, and on the other hand the guarantee of openings in work programmes (the Job Compact).<sup>13</sup> The other element of the Working Nation programme entailed that the long-term unemployed were referred to private and community sector contracted partners, which competed with the CES. This quasi-market competition would raise the level of flexibility and efficiency for service providers. However, "this had an undesired effect that case managers tended to make referrals to these [guaranteed work experience programmes], rather than the open labour market" (OECD, 2012, p. 163). In other words, the first reforms directly resulted in some perverse incentives. Although the Working Nation programme only ran from 1994 to 1997, these two elements have had a lasting legacy in the Australian activation system: privatisation has become the hallmark of service delivery and there is still a residual workfare programme which, in practice, acts as a default option for activation requirements. But more poignantly, the tension between flexibility in activation policies and government control, which characterises Australian activation to this day, began with these reforms in the 1990s.

In 1996 a newly elected government enacted the current PES, Centrelink, which replaced the CES. This new institution was designed to be quasi-independent; Centrelink would be responsible for the administration of benefits and activation and would also provide 'basic services', while more elaborate services would be provided by non-government agencies (Considine, Lewis, & O'Sullivan, 2011, p. 815; Davidson & Whiteford, 2012, p. 18). Furthermore, the federal government introduced the Work for the Dole programme (WfD) for NSA clients. "Under the program, the activity test and Newstart Activity Agreement provisions were amended to enable a person to participate voluntarily in an approved program of work, or for participation to be required as a condition of retaining

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<sup>12</sup> It must be noted that although some beneficiaries are not officially classified as 'jobseekers' they can participate in voluntary work or training (which satisfies the participation requirement). Being classified as 'jobseeker' entails that one is subject to the Centrelink and private providers.

<sup>13</sup> The Job Compact ensured six months of paid work experience for everyone who reached 18 months of unemployment. Other work and training programmes were also introduced or expanded, such as vocational training schemes (JOBTRAIN and SkillShare), wage subsidy programmes and other (paid) work experience programmes (JOBSTART and New Work Experiences).

entitlement to Newstart Allowance” (Davidson & Whiteford, 2012, p. 18). The WfD can be seen as another form of the guaranteed work experience programmes because it was open to every NSA and activity-tested beneficiary and it consisted of a maximum work experience of 6 months. It could be used to satisfy a new activity principle: Mutual Obligation. “This was a more general obligation on jobseekers to ‘participate in an activity’ in return for the payment of unemployment benefits” (OECD, 2012, p. 163). After 5 months of unemployment the client had to be referred to a Mutual Obligation activity, which commenced at the 6<sup>th</sup> month of unemployment.<sup>14</sup>

Privatisation was taken up a notch in 1998 when the federal government introduced a “fully competitive employment services market with over 300 providers – the Job Network – driven by job-outcome-related payments while having broad flexibility to determine service provision” (OECD, 2012, p. 62). In this system the DE would function as a purchaser of services, initially through bi-annual public tendering. The first round of tendering (1998-2000) asked for bids on three separate types of services: Job Matching, Job Search Training and Intensive Assistance – in reverse order of intensity. The agencies were free to choose which of these three types of services they would focus on. Because Centrelink would do most of the referrals, it could divide jobseekers between agencies in order to enforce an agreed-upon market share per agency.<sup>15</sup> By dividing the jobseekers over the agencies, the Australian government had some control over which clients would be referred to which agencies. The second round of tendering (2001-2002) took into account price as well as past performance and also included some mandatory minimum levels of assistance. This change was a reaction to the evaluation of the first round of tendering, which signalled that there were little incentives for providers to actually engage in Intensive Assistance.<sup>16</sup> Additional and more substantial changes were introduced with the third and final round of tendering (2003-2009).<sup>17</sup> The Active Participation Model (APM) was introduced as part of the contracts which the DE would enter into with the providers. The APM was the first step towards the more detailed current system of minimum requirements (cf. Table 4 in the appendix for the APM and Table 1 below for the current minimum requirements). The three types of services that were introduced in the first round of tendering were integrated into one, and one provider was set up to become responsible for the entire unemployment period of clients; a service continuum was also introduced where certain steps (mostly interviews) were tied to the payment of service fees; further changes were made to the financing process by introducing the Job Seeker Account (JСКА) in which funds earmarked for specific services could be deposited;<sup>18</sup> finally, there was more focus on private agency compliance (OECD, 2012, p. 71). All these changes were reactions to perverse incentives on the side of the private agencies. Mainly, the private agencies had a tendency to try and cherry pick favourable clients, and not do as much as possible for hard-to-place clients. In all, it could be said that with this third round of tendering, the Job Network had moved away from a “black-box approach with little supervision of provider behaviour or feedback of information from providers about the services delivered to clients

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<sup>14</sup> WfD was the default option to satisfy the Mutual Obligation requirement, but it could also be satisfied through part-time work, training or voluntary work for at least 6 hours per week for 12 weeks, through relocation and an intensive job search for 14 weeks, or through participating in Intensive Assistance.

<sup>15</sup> Although the new system was justified by the idea of ‘consumer-choice’, there were almost no clients who chose their own service provider (OECD, 2012, p. 70).

<sup>16</sup> Surveys reported that “nearly a quarter of Intensive Assistance clients had visited their provider only once or twice” (OECD, 2012, p. 224)

<sup>17</sup> This final round of tendering was no longer meant as a bi-annual comprehensive tender, but rather a system of continual review with individual providers.

<sup>18</sup> Providers would only be able to use the JСКА funds for more intensive services, but the usage was not restricted to individual clients even though the JСКА was funded per client receiving services at an agency.

in general, or to individual clients”, while moving towards a “prescribed continuum of service, during which providers were paid to undertake regular interviews with each jobseeker” (OECD, 2012, pp. 18, 72). These were the earliest comprehensive steps in trying to modify the perverse incentives of the private agencies, which arose from too much unchecked behaviour.

In 2007 the Job Network, along with the WfD and five other labour market programmes, was combined into Job Services Australia (JSA). According to the government who implemented this reform, it had become a “one size fits all” system, being too inflexible and not orientated towards the most disadvantaged groups; the whole of the employment system was considered overly fragmented (OECD, 2012, p. 72). The political rhetoric of this reform focussed on the perception of too much government control. However, in streamlining the system, the government introduced new tools for controlling private agencies. JSA is built around ‘streams’ of services,<sup>19</sup> and until 2015 there were four streams. The first stream was administrated and delivered by Centrelink, while the private JSA providers were responsible for streams 2, 3 and 4. The fourth stream was markedly different from the rest: it replaced the most intensive programme (Personal Support Programme) and attracted higher fees for the private agencies. Providers draw up an individual Employment Pathway Plan (EPP) and must interview their clients within a predetermined continuum.<sup>20</sup> In other words, the streams of services have been surrounded by a more detailed system of minimum requirements. The (increasingly detailed) predetermined continuum, classification tools for assessing clients (cf. footnote 19) and the introduction of a new IT-system (EA3000) all meant that the flexibility of the private providers was severely limited (Considine, Lewis, & O'Sullivan, 2011, p. e.g. 820). In 2015 streams 1 and 2 have been (partially) replaced by Stream A, streams 2 and 3 have been (partially) replaced by Stream B, and Stream 4 has been replaced by Stream C.<sup>21</sup> Through the tendering process, the DE formulates a continuum of interventions based on these Streams. Furthermore, the DE formulates an Employment Services Charter of Contract Management, which, together with Communication Protocols for each private provider, accompanies the formal and legal contracts between providers and the DE. Finally, providers are bound by a Code of Practice and a performance management system (cf. *infra*). In essence, all these new regulations have amounted to a very detailed system of minimum requirements that is presented in Table 1 below.<sup>22</sup> This experience is somewhat similar to the case of Denmark, which we also examined in the scope of this study. In Denmark, the municipalities are responsible for activation. As in the Australian case, the Danish central government struggled with balancing flexibility and central control; financing structures have been under constant adjustment and there is also a fairly extensive system of minimum requirements in place. However, in Denmark, one of the issues concerned the dumping of municipal caseloads. Such issues are not present in the Australian case as there is only one level of government involved in regulating unemployment and there is only one major unemployment-related benefit scheme.

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<sup>19</sup> The Job Seeker Classification Instrument (JSCI) score, which was already in use beginning with the Job Network, determines which stream is applicable to individual clients. See OECD 2012, pp. 110-111 for a more detailed discussion of the JSCI

<sup>20</sup> It is the agencies that can determine whether a client can and should be moved to a different stream. But as that would create perverse incentives to classify all clients as being in the highest stream possible, due to the higher fees, the federal government then had to sign off on each reclassification (OECD, 2012, p. 80). However, despite the control of the federal government, it eventually abolished the practice of reclassification altogether (OECD, 2012, p. 92).

<sup>21</sup> Besides changing the Stream-structure, the reforms also move the Mutual Obligation forward, increase the emphasis on the WfD programme and place more responsibilities in the hands of the providers (Department of Employment, 2014).

<sup>22</sup> This table does not include the Communication Protocols or the Code of Practice.

Table 1 Service requirements by the DE for the service providers per 2015. Source Department of Employment 2014: 31

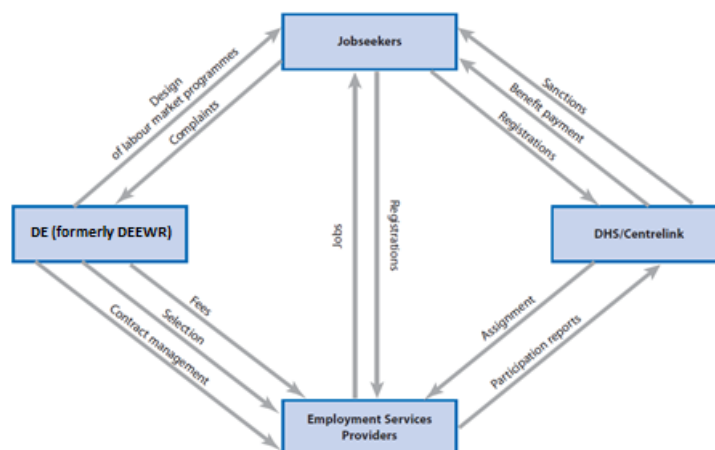
|                 | STREAM A JOB COMPETITIVE – Job Seeker Classification Instrument in a specified range  |   | STREAM B VOCATIONAL ISSUES  |  | STREAM C SERIOUS NON-VOCATIONAL ISSUES via ESA referral   |
|-----------------|---|---|---|--|---|
|                 | Job Seekers under 30 subject to Stronger Participation measure Full work capacity*  | All other Job Seekers   | Job Seekers under 30 subject to Stronger Participation measure Full work capacity*  | All other Job Seekers Full work capacity   |   |
| Initial Contact | <b>Comprehensive Interview</b><br>- Referrals to jobs<br>- Identify strengths and issues<br>- Job Plan  | <b>Comprehensive Interview</b><br>- Referrals to jobs<br>- Identify strengths and issues<br>- Job Plan  | <b>Comprehensive Interview</b><br>- Referrals to jobs<br>- Identify strengths and issues<br>- Job Plan  | <b>Comprehensive Interview</b><br>- Identify strengths and issues<br>- Job Plan  | <b>Comprehensive Interview</b><br>- Identify strengths and issues<br>- Job Plan   |
| 0-6 months      | <b>Case Management</b><br>- Referrals to jobs<br>- Monthly contacts<br>- Self help<br>- Monitor Job Search activities<br>- Report non compliance                  | <b>Self Service and Job Activity</b><br>- Referrals to jobs<br>- Self help<br>- Monitor Job Search activities<br>- Report non compliance                                    | <b>Case Management</b><br>- Referrals to jobs<br>- Monthly contacts<br>- Self help<br>- Monitor Job Search activities<br>- Report non compliance                  | <b>Case Management</b><br>- Referrals to jobs<br>- Activity to increase job competitiveness<br>- Self help<br>- Monitor Job Search activities<br>- Report non compliance   | <b>Case Management</b><br>- Referrals to jobs<br>- Activity to address non-vocational issues<br>- Activity to increase job competitiveness<br>- Self help<br>- Monitor Job Search activities<br>- Report non compliance   |
| 6-12 months     | <b>Work for the Dole Phase</b><br>- Referrals to jobs<br>- WfD 25hrs per week<br>- Monitor Job Search activities<br>- Report non compliance<br>- Monthly contacts | <b>Work for the Dole Phase</b><br>- Referrals to jobs<br>- WfD 15hrs per week<br>- Other support cf. Job plan<br>- Monitor Job Search activities<br>- Report non compliance | <b>Work for the Dole Phase</b><br>- Referrals to jobs<br>- WfD 25hrs per week<br>- Monitor Job Search activities<br>- Report non compliance<br>- Monthly contacts |  |   |
| 12-18 months    | <b>Case Management</b><br>- Cf. 0-6 months<br>- Eligible for Youth Wage Subsidy and relocation assistance   | <b>Case Management</b><br>- Cf. 0-6 months<br>- Eligible for Wage Subsidy and relocation assistance   | <b>Case Management</b><br>- Cf. 0-6 months<br>- Eligible for Youth Wage Subsidy and relocation assistance   | <b>Work for the Dole Phase</b><br>- Referrals to jobs<br>- WfD 15 hours per week (25 hours for under 30s)<br>- Monitor Job Search activities<br>- Report non compliance<br>- Eligible for wage subsidies<br>- Eligible for relocation assistance | <b>Work for the Dole Phase</b><br>- Referrals to jobs<br>- WfD - often group activity (25 hours for under 30s and 15 hours for 30 and above)<br>- Monitor Job Search activities<br>- Report non compliance<br>- Eligible for wage subsidies<br>- Eligible for relocation assistance |
| 18-24 months    | <b>Work for the Dole Phase</b><br>- Cf. 6-12 months<br>- Eligible for Youth Wage Subsidy and relocation assistance  | <b>Work for the Dole Phase</b><br>- Cf. 6-12 months<br>- Eligible for Wage Subsidy and relocation assistance  | <b>Work for the Dole Phase</b><br>- Cf. 6-12 months<br>- Eligible for Youth Wage Subsidy and relocation assistance  | <b>Case Management</b><br>- Cf. 0-12 months<br>- Eligible for Wage Subsidy and relocation assistance   | <b>Case Management</b><br>- Cf. 0-12 months<br>- Eligible for Wage Subsidy and relocation assistance  |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
|   | 24 month Transfer to New Employment Provider where new Job Plan completed and servicing outlined in 12-24 months applies |  |  |  |  |
| 24-30 months  | <b>Case Management</b><br>- Cf. 12-18 months   | <b>Case Management</b><br>- Cf. 12-18 months         | <b>Case Management</b><br>- Cf. 12-18 months   | <b>Work for the Dole Phase</b><br>- Cf. 12-18 months | <b>Work for the Dole Phase</b><br>- Cf. 12-18 months   |
| 30-36 months  | <b>Work for the Dole Phase</b><br>- Cf. 18-24 months   | <b>Work for the Dole Phase</b><br>- Cf. 18-24 months | <b>Work for the Dole Phase</b><br>- Cf. 18-24 months   | <b>Case Management</b><br>- Cf. 18-24 months         | <b>Case Management</b><br>- Cf. 18-24 months   |
| * Job Seekers subject to the Stronger Participation Incentives for Job Seekers under 30, subject to the passage of legislation. Any changes to the above will be made via an Addendum issued by the Department through AusTender. |  |  | 36-month Transfer to new Employment Provider where new Job Plan completed and servicing outlined in 18-24 months applies |  | 36-month Transfer to new Employment Provider where new Job Plan completed and servicing outlined in 18-24 months applies |

Central to the use of private agencies is the ‘Star Rating’ system. The performance of the JSA agencies is judged by regression analyses of outcome and quality factors (Department of Employment, 2014, p. 67) (cf. infra for a more detailed discussion of the Star Rating and the performance review system). The performance is weighed against the average performance of all agencies, which in the end determines the individual rating: on one end of the spectrum there is a 5-star rating for a performance of 40% above average and on the other end there is a 1-star rating for a performance of below 50% of the average (Department of Employment, 2012).

Besides the contract with the providers, DE also enters into an arrangement with DHS/Centrelink. DE is responsible for the overall employment strategy and is held politically accountable, while the DHS is charged with the implementation of services through Centrelink and the administration of benefit disbursement. The relationship between DE and DHS is codified in the BMA (cf. infra for a more detailed discussion). The current constellation of actors in the regulation of unemployment can be visualised as in Figure 2.

Figure 2 Principal actors in labour market policy. Source: OECD 2012: 66



Due to the strict continuum prescribed for the providers, the Star Rating system, the aforementioned streams, the changing nature of Centrelink, the relationship between the DE and the DHS, and the constant changes to the system, the JSA has become very complex (OECD, 2012, p. 133). The next section will deal with the performance management system for providers and the Bilateral

Management Agreement between the DE and the DHS. The latter relationship, between these two Ministries, is relevant for the subject at hand because it has characteristics of a principal-agent relationship and is an integral part of the regulation of unemployment.

### 3. Concern for principal-agent issues

Because there is only one level of government involved in Australian regulation of unemployment, there is no possibility for institutional moral hazard. Rather, the relationships that are central to the Australian regulation of unemployment (between the federal government and the private agencies and between the DE and the DHS) are subject to principal-agent issues. Most of these issues have materialised in the relationship between the federal government and private agencies since their interests diverge the most and due to the fact that their relationship involves the largest asymmetry of information.

Australia has experimented rather radically with a quasi-market system, and for that reason it is hardly surprising that there have been some stumbling blocks. Starting from the Working Nation programme, which first introduced the use of private agencies as service providers, it soon became apparent that the providers had little incentives to try and find job opportunities for the long-term unemployed in the open market. Instead, since work experience and training programmes had guaranteed availability for long-term unemployed, the agencies could easily place clients there (OECD, 2012, p. 163). These first instances of principal-agent issues led to the creation of the Mutual Obligation principle, which placed more emphasis on the responsibilities of the jobseeker. The intensive (and often relatively well-paid) programmes were abolished and replaced with a more workfare-orientated initiative: the WfD. This reduced the possibilities for parking long-term unemployed in expensive programmes.

Secondly, the reforms in the 1990s extended the system of activation by private agencies to almost all jobseekers (the Job Network). This constellation was, at first, a black box. Prospective providers offered a bid based on three types of service intensities: Job Matching, Job Search Training and Intensive Assistance. For Job Matching, providers were paid based on outcomes, while Job Search Training attracted a commencement fee and possibly an outcome fee. Furthermore, Intensive Assistance was paid for by an up-front service fee, an interim fee and a final outcome fee (Productivity Commission, 2002, pp. 4.13-4.14). Even though funding for Intensive Assistance was partially based on outcome fees, providers often chose to “park” hard-to-place clients in this service category, claim the up-front service fee, and have little or no contact with the clients after that (Productivity Commission, 2002, pp. xx, 9.13-9.21). Agencies were eager to attract easy-to-place clients in order to claim the outcome payments in the other service categories (Productivity Commission, 2002, p. 8.13). In other words, the financial incentives spawning from the first introduction of the Job Network produced perverse incentives, which led to cherry picking and parking.

During the second round of tendering, these issues were partially addressed, but the third and final round of tendering really institutionalised the concern for these types of issues – most prominent amongst them was parking. In addition to pricing, past performance became a factor for the Australian government when accepting bids from private agencies. All these factors came together to form a system for assessing the performance (and thereby also the bids) of the private agencies; this system is called the Star Rating system (Davidson & Whiteford, 2012, p. 56), and it is still used today. To counteract perverse incentives, predominantly parking, the DE also introduced the APM (cf. supra). Providers could no longer bid separately on the three categories of services; instead these were integrated into a single continuum. Furthermore, the providers remained responsible for a client until he/she transferred to another provider out of free will or when he/she found employment. “Untied ‘commencement fees’ were replaced by service fees tied to a schedule of



interviews with jobseekers throughout the service continuum, and a ‘jobseeker account’ which was quarantined for expenditure on assistance to overcome individual barriers to work” (Davidson & Whiteford, 2012, p. 58). These reforms effectively limited the flexibility of the private agencies to pick and choose clients and it limited the freedom in their working practices.

Outcome payments became linked to the classification score of clients (cf. footnote 19), meaning that fees were higher for those that were harder-to-place (cf. Table 5 in the appendix for the most current fee structure). Furthermore, the third tendering round included contracts with Key Performance Indicators (KPIs), two of which were outcome indicators published as Star Ratings and a quality indicator. The two KPI are: (1) the average time taken by providers to assist relevant participants into employment in comparison with other providers and (2) the proportions of relevant participants for whom placements and outcomes are achieved. These are operationalised and weighted according to Table 2. Thus, Star Rating is used as an outcome-based performance management system. Currently, the outcome fees are connected to the KPI. In other words, a new financing structure was implemented, past performance was used as a criterion for new contracts and as a KPI for monitoring purposes, and a structured system of minimum requirements was created.

Table 2 Star Rating performance measures and weightings under the JSA regime 2015-2020. Source: Australian Department of Employment: 2014.<sup>23</sup>

| Performance measure                    | Stream A (25%)   | Stream B (35%) | Stream C (40%) |
|--|------------------|----------------|----------------|
| <b>KPI #1: Efficiency</b>              | <b>Weighting</b> |                |                |
| Time to 26 Week Full Outcomes          | 10%              | 10%            | 10%            |
| Time to commence in Work for the Dole  | 10%              | 10%            | 10%            |
| <b>KPI #2: Effectiveness</b>           | <b>Weighting</b> |                |                |
| 26 Week Full Outcomes                  | 50%              | 50%            | 50%            |
| 12 Week Full and Partial Outcomes      | 10%              | 10%            | 10%            |
| 26 Week Indigenous Job Seeker Outcomes | 10%              | 10%            | 10%            |
| Work for the Dole Participation        | 10%              | 10%            | 10%            |

The many changes in the financial incentive structure and the increasingly detailed system of minimum requirements did not remove all concerns for parking and other forms of shirking. Because the Australian jobseeker account was not bound to a single individual, agencies were allowed to spend jobseeker account resources to overcome barriers for different individuals if they so desired. The outcome-based fee structure provided incentives to use these resources on those clients with more job potential. Job Services Australia replaced the Job Network in an effort to further reduce perverse incentives and to create a more coherent and streamlined governance system. It included a stricter set of minimum requirements (cf. Table 4 in the appendix), more emphasis on quality through specific reinforced KPIs and a quality framework, and, finally, a bonus system for referrals to training. Under the JSA regime, providers were also not able to spend the resources obtained through the former jobseekers account as freely. In 2015 the fee structure for providers was, yet again, modified. Providers will now receive WfD referral fees and outcome payments as well as administration fees for each client every six months. These outcome payments are linked to the operationalisation of the two KPIs (cf. Table 5 in the appendix), which take into account the location of the client (whether or not she/he lives in a ‘regional’ and distant location), the stream in which a client is categorised and the expediency with which he/she is activated. The outcomes do not

<sup>23</sup> Overall JSA ratings are calculated by aggregating the individual Stream ratings, with Stream A contributing 25%, Stream B 35% and Stream C 40%.

necessarily have to be inflow into paid work, but can also be the achievement of certain educational attainments (Department of Employment, 2014, pp. 62-63).<sup>24</sup>

The constant changes to the tendering process, the system of minimum requirements and the fee structure all testify to the difficult principal-agent relationship between the federal government and the private agencies. Political rhetoric has often focussed on flexibility for providers and more market mechanisms; however, most reforms have resulted in a tightening of minimum requirements and the adjustment of fees in order to align private agency behaviour with governmental goals. The relationship between the agencies and the Australian government parallels the Danish experience, in which the Danish central government also implemented increasingly detailed minimum requirements and continued tweaking the financial structure to circumvent perverse incentives.

The second relationship that can be characterised as a principal-agent relationship is the one between the DE and the DHS/Centrelink. The DE has no direct control over Centrelink, but rather engages in a Bilateral Management Agreement with the responsible Ministry: the DHS. The BMA formulates five desired outcomes and the division of responsibilities (cf. Table 6 and Table 8 in the appendix). Based on these outcomes and the division of labour, it further identifies several types of risks and stipulated strategies to deal with those risks (cf. Table 7 and Table 9 in appendix). In connection to some of these risks, the BMA stipulates a number of Key Performance Measures (KPMs). A joint committee (the Bilateral Management Committee) is responsible for monitoring outcomes and the KPM and resolving any issues.<sup>25</sup> BMAs are long-term agreements, which are translated into Annual Assurance Statements (AAS). Reporting on progress towards the agreed upon KPM is done in the quarterly Confidence Framework Report. The KPMs mostly relate to “operational-level or service-delivery matters, rather than program effectiveness”. This is somewhat counter-intuitive as the DE (and formerly the DEEWR) publishes its own Key Performance Indicators, which are very much focussed on programme effectiveness (cf. Table 10 in the appendix). In several separate reviews, the office of the Auditor General of Australia has noted this discrepancy and has advised to align the internal DE KPI with the KPM in the BMA (2013, p. 79).

Overall, the Australian system has counteracted perverse incentives of private agencies in three ways. First there are the increasingly detailed and strict minimum requirements. Even though there is not a prescribed list of policies that can be used, Table 1 shows clearly how strictly regulated the ‘service continuum’ has become. Secondly, there have been many changes to the financing structure. Originally existing as competitive pricing and input financing, the fees have become more oriented towards outcomes, and they increase when clients remain unemployed for a longer period of time and are harder to place. Thirdly, the Star Rating system increases the incentives for private agencies to maintain quality services and a high level of positive outcomes, because those two factors can determine their chances of gaining new contracts. The trade-off between flexibility for local service providers and central/federal governmental control has been especially difficult to balance in the Australian case.

The relationship between the DE and Centrelink (now part of the DHS) has also been subject to change. However, even though the BMA does include some agreements and the AAS reporting does involve performance management, this relationship has been less characterised by perverse

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<sup>24</sup> For the fee structure under APM see (Davidson & Whiteford, 2012, p. 62).

<sup>25</sup> To be precise, both departments have programme managers who are responsible for programme delivery and reviewing programme implementation. They can hand off issues to relationship managers who are responsible for guiding BMA implementation. The BMC is a deputy secretary-level committee that has the final responsibility over cross-departmental cooperation and monitoring of BMA goals and targets.

incentives – which is no surprise given the fact that both the DE and the DHS are part of the federal government and therefore have more congruent objectives. Nonetheless, the DE-DHS relationship has evolved over time to gradually include more precise monitoring.

## 4. Analytical grid

Table 3 Analytical grid Australia. Source: own compilation.

|   |  | Unemployment benefits (NSA)   | Activation of individuals with unemployment benefits (NSA)   |
|---|--|---|--|
| 1 | Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. design of the policy:<br>- Formal regulation<br>- Policy goals | No decentralisation<br><br>The federal level (DE) regulates and sets goals.   | No decentralisation<br><br>The federal level (DE) regulates and sets goals.  |
| 2 | Degree of decentralisation (i.e. extent of flexibility on lower level) w.r.t. implementation of the policy                                   | Very limited delegation to Centrelink; no decentralisation<br><br>Implementation is done by Centrelink, which is part of the federal DHS. The DE and the DHS enter into bilateral agreements, which includes the job description of Centrelink. | Very limited delegation to Centrelink; low degree of decentralisation through privatisation<br><br>Activation services are delivered by private agencies. These private agencies sign contracts with the DE and receive their assignments from Centrelink.<br><br>The contracts with the DE include a Code of Practice and Communication Protocols. The federal government has legislated detailed standardised work processes (a 'service continuum'), a classification tool and a performance management system. |
| 3 | Budgetary responsibility   | Federal<br><br>Benefits are financed out of general government revenue.   | Federal<br><br>Activation is financed out of general government revenue. Payments to the private service providers are based on outcomes they achieved.  |
| 4 | Budgetary transfers between levels of government?  | n.a.<br><br>The system is completely financed at the federal level.   | n.a.<br><br>The system is completely financed at the federal level.  |
| 5 | Structural redistribution? (measured on a per capita basis)  | Yes<br><br>Caseload size varies structurally across states.   | Yes<br><br>Caseload size varies structurally across states.  |
| 6 | Political or managerial decentralisation/delegation?   | Delegation to Centrelink  | Delegation to Centrelink, managerial decentralisation through private agencies   |
| 7 | Indicators used in the monitoring of lower-level performance by higher level (on the basis of: input, output and outcome)?                   | The BMA between the DE and the DHS/Centrelink includes input and output indicators.   | Private agencies are subject to the 'Star Rating' performance review. This system includes mostly outcome-based indicators.<br><br>For the DE-DHS relationship, there are input- and output-based KPM and five desired outcome indicators.<br>The DE itself monitors ten outcome-based KPI.  |
| 8 | Is a system of 'minimum requirements' applied?   | No,<br><br>The BMA governs the interaction between the DE and the DHS/Centrelink, but this is a bilateral agreement between two federal actors.   | Yes,<br><br>An elaborate service continuum details the actions that must be taken at initial contact as well as at six other intervals for three so-called streams. Clients are to be classified by the  |

|    |  |  |  |
|----|--|--|--|
|    |  |  | agencies according to federal classification tools. This classification determines in which stream a client belongs. Within those streams, there are different services to be provided for clients under 30. Furthermore, a federal Code of Conduct and a Communication Protocol constitute additional minimum requirements. |
| 9  | Are performance-based sanctions/rewards applied by the higher level at the lower level?                    | No   | For private agencies: yes, reduction of the height of fees when clients require more time to be activated. Furthermore, poor performance affects 'Star Rating' and therefore affects the possibility to attract clients and gain new contracts.<br><br>For the DE-DHS relationship: no                                       |
| 10 | Conclusion from 5-6-7: perception of, concern for, and approach to problems of institutional moral hazard? | n.a.   |  |
| 11 | Conclusion from 5-6-7: approach to principal-agent issues?   | Yes, principal-agent issues exist w.r.t. activation and are recognised as such.<br><br>There has been extensive experimentation with policies to control principal-agent issues ever since activation was privatised. Principal-agent issues with private agencies are addressed through a detailed 'service continuum', through payments which are contingent on outcome-based indicators, through the introduction of a single IT-system, through mandatory individual action plans for clients and through the 'Star Rating' performance management system. Principal-agent issues between the DE and the DHS/Centrelink are addressed through the BMAs and the included performance measurement. |  |
| 12 | Contribution to macroeconomic stabilisation by the benefit system  | The Australian case is not available in Dolls <i>et al.</i>  |  |

## 5. Conclusion

The Australian welfare state has been characterised as the “wage-earner’s welfare state” due to the strong focus on labour-related social security (Gray & Agllias, 2009, p. 273; Castles, 1985, p. 102). This characterisation is reflected in (the development of) the Australian unemployment assistance scheme, the NSA. The Australian regulation of unemployment is somewhat of an outlier compared to the other cases. The governance system is not politically decentralised, but is instead made up of an elaborate quasi-market involving private agencies, which provide most of the activation and labour market services.

The privatisation of those activation services have led to a whole array of reforms, which have mostly centred on the tension between the flexibility of private agencies and the potential for government control. The black-box mode of governance, which was used during the earliest years of privatisation, has proven to be difficult to manage and liable to perverse incentives – predominantly in the form of parking. The Australian policy reaction has been one of growing federal standardisation of activation practices. In order to align the practices of private agencies with federal wishes, the federal government designed an elaborate service continuum, imposed federal classification tools, introduced a rating system for providers, and adjusted the fee structure for private agencies multiple times.

The Australian experience shown that principal-agent issues within a system of private agencies, displays similarities with issues in other cases we examined. Just as in a politically decentralised context, private agencies also had perverse incentives to park caseloads – and perhaps even more so. Performance management systems did not prove to be a quick fix; rather, they require constant evaluation and federal concern. In this sense, the Australian case shows most similarities with the Danish case, in which municipalities are responsible for delivering activation services and are also subject to an especially detailed system of minimum requirements.

## Appendix

Table 4 Typical activity requirements and contacts for regular job-seekers. Source: Davidson & Whiteford 2011: 49

| Duration of unemployment spell | APM model: 2006-2009  | JSA model 2009-2012   |
|--------------------------------|---|---|
| 0-3 months                     | 1st Centrelink interview: Preparation for work agreement negotiated<br>1st Job Network interview: resume prepared, assistance with vacancy data base<br>Seek 10 jobs p.f. and attend Centrelink fortnightly   | 1st Centrelink interview: Employment Pathway Plan negotiated<br>1st Job Network interview: resume prepared, assistance with vacancy data base<br>Seek 10 jobs p.f. and attend Centrelink fortnightly  |
| 3-6 months                     | 2nd Job Network interview: Job search plan negotiated<br>21 days of fulltime Job Search Training<br>Seek 4-10 jobs p.f. and attend Centrelink fortnightly   | 2nd Job Network interview: Skills assessment, Employment Pathway Plan re-negotiated, 60 hours of 'intensive activity' (e.g. job search or vocational training) in a fortnight<br>Monthly contact with JSA<br>Seek 4-10 jobs p.f. and attend Centrelink every 6 weeks  |
| 6-12 months                    | Mutual obligation: (e.g. 26 weeks of Work for the Dole for 15 hours per week or part-time training or voluntary work for at least 12 weeks)<br>At least 2 Job Network interviews<br>Seek 4-10 jobs p.f. and attend Centrelink fortnightly   | Monthly contacts with JSA:<br>Provider may make a referral to training or other work preparation programs<br>Seek 4-10 jobs p.f. and attend Centrelink every 6 weeks  |
| 12-18 months                   | Customised Assistance (first 3 months): fortnightly interviews with Job Network provider; at least 25 hours per week of intensive job search or work preparation activity<br>Customised Assistance (2nd 3 months): monthly interviews with Job network provider; job search or activity funded from job seeker account (e.g. training, work experience)<br>Seek 4-10 jobs p.f. and attend Centrelink fortnightly* | Reassessment of labour market disadvantage: - if they remain in the same 'stream' they enter the Work Experience phase 2: 6 months of work-related activity every 12 months (e.g. at least 100 hours of part-time study or 390 hours of Work for the Dole or 130 hours of part-time work)<br>Bi-monthly contact with JSA provider<br>Seek 4-10 jobs p.f. and attend Centrelink 6 weekly |
| 18-24 months                   | Mutual obligation: e.g. 26 weeks of Work for the Dole for 15 hours per week or part-time training or voluntary work for at least 12 weeks<br>At least 2 Job Network interviews<br>Seek 4-10 jobs p.f. and attend Centrelink fortnightly*  | As above  |
| 24-36 months                   | As above (for those unemployed 12-18 and 18-24 months)  | As above  |
| More than 36 months            | Bi-monthly interviews with Job Network provider<br>Seek 4-10 jobs p.f. and attend Centrelink fortnightly  | As above  |

Table 5 Fee structure for private agencies under JSA regime 2015-2020. Source: Australian Department of Employment 2014: 60-63

| Administration Fees  |                      |       |                           |        |                  |        |
|--|----------------------|-------|---------------------------|--------|------------------|--------|
|  | Fee                  |       | Fee with regional loading |        |                  |        |
| Job Seekers subject to the Stronger Participation Incentives for Job Seekers aged under 30 measure - Streams A and B | \$350                |       | \$438                     |        |                  |        |
| All other Job Seekers - Streams A, B and C   | \$250                |       | \$313                     |        |                  |        |
| Work for the Dole Fees (no Regional Loading or mid-term adjustment applies)  |                      |       |                           |        |                  |        |
| Hosted Place   | \$1000               |       |                           |        |                  |        |
| Place in Group Activity  | Up to \$3500         |       |                           |        |                  |        |
| Outcome Payments for Job Seekers in non-Regional Locations   |                      |       |                           |        |                  |        |
|  | (i.e. <24 months UE) |       | (24-59 Months UE)         |        | (60 months + UE) |        |
| Stream A (paid after 3 months)   | Partial              | Full  | Partial                   | Full   | Partial          | Full   |
| 4 Week   | \$160                | \$400 | \$200                     | \$500  | \$240            | \$600  |
| 12 Week  | \$200                | \$500 | \$400                     | \$1000 | \$500            | \$1250 |

|   |                        |               |                   |                 |                  |                 |
|---|------------------------|---------------|-------------------|-----------------|------------------|-----------------|
| 26 Week   | \$0                    | \$650         | \$0               | \$1250          | \$0              | \$1550          |
| <b>Total</b>  | <b>\$360</b>           | <b>\$1550</b> | <b>\$600</b>      | <b>\$2750</b>   | <b>\$740</b>     | <b>\$3400</b>   |
| <b>Stream B</b>   | <b>Partial</b>         | <b>Full</b>   | <b>Partial</b>    | <b>Full</b>     | <b>Partial</b>   | <b>Full</b>     |
| 4 Week  | \$300                  | \$750         | \$400             | \$1000          | \$500            | \$1250          |
| 12 Week   | \$600                  | \$1500        | \$800             | \$2000          | \$1000           | \$2500          |
| 26 Week   | \$0                    | \$1900        | \$0               | \$2500          | \$0              | \$3150          |
| <b>Total</b>  | <b>\$900</b>           | <b>\$4150</b> | <b>\$1200</b>     | <b>\$5500</b>   | <b>\$1500</b>    | <b>\$6900</b>   |
| <b>Stream C</b>   | <b>Partial</b>         | <b>Full</b>   | <b>Partial</b>    | <b>Full</b>     | <b>Partial</b>   | <b>Full</b>     |
| 4 Week  | \$400                  | \$1000        | \$600             | \$1500          | \$800            | \$2000          |
| 12 Week   | \$800                  | \$2000        | \$1200            | \$3000          | \$1600           | \$4000          |
| 26 Week   | \$0                    | \$2500        | \$0               | \$3750          | \$0              | \$5000          |
| <b>Total</b>  | <b>\$1200</b>          | <b>\$5500</b> | <b>\$1800</b>     | <b>\$8250</b>   | <b>\$2400</b>    | <b>\$11,000</b> |
| <b>Education Outcome For 15-17 Years</b>                      | <b>\$1000</b>          |               |                   |                 |                  |                 |
| <b>Outcome Payments for Job Seekers in Regional Locations</b> |                        |               |                   |                 |                  |                 |
|   | (i.e.<24 months<br>UE) |               | (24-59 Months UE) |                 | (60 months + UE) |                 |
| <b>Stream A (paid after 3 months)</b>                         | <b>Partial</b>         | <b>Full</b>   | <b>Partial</b>    | <b>Full</b>     | <b>Partial</b>   | <b>Full</b>     |
| 4 Week  | \$200                  | \$500         | \$250             | \$625           | \$300            | \$750           |
| 12 Week   | \$250                  | \$625         | \$500             | \$1250          | \$625            | \$1563          |
| 26 Week   | \$0                    | \$813         | \$0               | \$1563          | \$0              | \$1938          |
| <b>Total</b>  | <b>\$450</b>           | <b>\$1938</b> | <b>\$750</b>      | <b>\$3438</b>   | <b>\$925</b>     | <b>\$4251</b>   |
| <b>Stream B</b>   | <b>Partial</b>         | <b>Full</b>   | <b>Partial</b>    | <b>Full</b>     | <b>Partial</b>   | <b>Full</b>     |
| 4 Week  | \$375                  | \$938         | \$500             | \$1250          | \$625            | \$1563          |
| 12 Week   | \$750                  | \$1875        | \$1000            | \$2500          | \$1250           | \$3125          |
| 26 Week   | \$0                    | \$2375        | \$0               | \$3125          | \$0              | \$3938          |
| <b>Total</b>  | <b>\$1125</b>          | <b>\$5188</b> | <b>\$1500</b>     | <b>\$6875</b>   | <b>\$1875</b>    | <b>\$8626</b>   |
| <b>Stream C</b>   | <b>Partial</b>         | <b>Full</b>   | <b>Partial</b>    | <b>Full</b>     | <b>Partial</b>   | <b>Full</b>     |
| 4 Week  | \$500                  | \$1250        | \$750             | \$1875          | \$1000           | \$2500          |
| 12 Week   | \$1000                 | \$2500        | \$1500            | \$3750          | \$2000           | \$5000          |
| 26 Week   | \$0                    | \$3125        | \$0               | \$4688          | \$0              | \$6250          |
| <b>Total</b>  | <b>\$1500</b>          | <b>\$6875</b> | <b>\$2250</b>     | <b>\$10,313</b> | <b>\$3000</b>    | <b>\$13,750</b> |
| <b>Education Outcome For 15-17 Years</b>                      | <b>\$1250</b>          |               |                   |                 |                  |                 |

Table 6 Five outcomes under the 2012 DE-DHS BMA. Source: Auditor General 2013: 24

|  |
|--|
| Integration of policy design and service delivery;   |
| Shared understanding of and responsibility for program outcomes and improved program management; |
| Collective responsiveness to Government and a collaborative approach to priorities;              |
| Cooperative, effective and transparent financial costings and controls;                          |
| Mutual respect for individual and shared accountabilities.                                       |

Table 7 Strategic risks under the 2012 BMA. Source: Auditor General 2013: 63.

| Strategic or high-level risks  | Related KPM  |
|--|--|
| <b>Risk 1 – Policy Implementation Risks</b><br>Poor integration of policy and service delivery design results in failure to deliver outcomes.  | <b>KPM 1: Policy Integration</b><br>All policy is designed and implemented in collaboration between DEEWR and DHS, recognising shared responsibility for program outcomes.         |
| <b>Risk 2 – Program Outcome Risks</b><br>Customers are not connected and therefore are not appropriately engaged.  | <b>KPM 2: Client Engagement</b><br>All customers are connected appropriately and in accordance with policy requirements and standards.   |
| <b>Risk 3 – Payment Integrity Risks</b><br>DEEWR does not discharge its accountabilities under the Financial Management and Accountability Act 1997 (FMA Act). Failure to meet timeliness standards results in a failure to deliver policy and program outcomes resulting in hardship for customers. | <b>KPM 3: Payment Assurance and Debt Minimisation</b><br>All payments are accurate, claims are processed in a timely manner and growth in the debt base is minimised.              |
| <b>Risk 4 – Participation (Job Seeker Compliance) Risks</b><br>Job seekers are not meeting their participation requirements and not achieving education or employment outcomes.  | <b>KPM 4: Job Seeker Participation (Job Seeker Compliance)</b><br>The application of job seeker compliance policy supports the active engagement and participation of job seekers. |
| <b>Risk 5 – Business Continuity Risks</b><br>Quality of infrastructure does not support business continuity and/or delivery of policy outcomes.  | <b>KPM 5: Business Continuity Management</b><br>All infrastructure is in place, meeting demand and assessable in line with agreed policy and program requirements.                 |



Table 8 Responsibilities under the BMA. Source: Auditor General 2013: 28.

|                       |   |
|-----------------------|---|
| <b>DEEWR</b>          | <ul style="list-style-type: none"> <li>- Policy outcomes;</li> <li>- Policy design and legislative clarification;</li> <li>- Engaging with DHS to ensure that service delivery approaches and program design and development are complementary for the achievement of policy and program outcomes;</li> <li>- Setting out the service delivery approaches for its policy and program responsibilities; and</li> <li>- Service delivery policy;</li> <li>- Describing the requirements of DHS in relation to its interactions with employment, education and child care services providers to give certainty about provider business operations and to ensure policy objectives are met.</li> </ul>  |
| <b>DHS/Centrelink</b> | <ul style="list-style-type: none"> <li>- Providing the service delivery for payments and related services in accordance with legislative and policy requirements including the correct application and use of the administered appropriation;</li> <li>- Monitoring and reporting on its performance against its operating budget and expected service delivery outcomes; and;</li> <li>- Through engagement with policy departments, ensuring that service delivery and policy design and development are complementary for the achievement of program outcomes.</li> </ul>  |
| <b>Joint</b>          | <ul style="list-style-type: none"> <li>- Working closely in the design, development and delivery of new programs to achieve government outcomes;</li> <li>- Maintaining a coordinated approach to the development, administration and delivery of programs and services to improve client experience;</li> <li>- Supporting the achievement of individual outcomes, identified in respective Portfolio Budget Statements, and a shared understanding of and responsibility for program outcomes for government;</li> <li>- Identifying and addressing issues that may impact the achievement of intended program objectives and cross-program priorities;</li> <li>- Identifying priority areas for cooperation across all programs;</li> <li>- Monitoring and managing the implementation of programs and cross-program priorities;</li> <li>- Maintaining a mutual exchange of information; and</li> <li>- Collaborating and engaging with shared stakeholders on the achievement of program outcomes.</li> </ul> |

Table 9 Risks to the success of the partnership, by confidence area. Source: Auditor General 2013: 64.

| <b>Confidence area</b>  | <b>Examples of risks</b>  |
|---|---|
| <b>Confidence Area 1</b><br>Integration of policy design and policy formulation.                                | <p>Ten risks are included in the Confidence Framework for this confidence area. The key risks include:</p> <ul style="list-style-type: none"> <li>- Government policy objectives, program and cross-program outcomes may not be achieved (this risk is repeated against confidence areas 3 and 5);</li> <li>- Ability of service providers to meet policy objectives may be undermined;</li> <li>- Alignment of policy and service delivery may be poor;</li> <li>- Ability of DHS to meet its service delivery accountabilities may be undermined; and</li> <li>- DHS and/or contracted services may not be delivered in an efficient and effective manner.</li> </ul> |
| <b>Confidence Area 2</b><br>Shared understanding of program outcomes and improved program management.           | <p>Four risks are included in the Confidence Framework for this confidence area. The key risks include:</p> <ul style="list-style-type: none"> <li>- Inability to meet FMA Act obligations;</li> <li>- Accountabilities against the Portfolio Budget Statements cannot be discharged; and</li> <li>- Poorly informed policy development, program management and service design and delivery, placing policy objectives and program outcomes at risk.</li> </ul>   |
| <b>Confidence Area 3</b><br>Collective responsiveness to government and a collaborative approach to priorities. | <p>Two risks are included in the Confidence Framework for this confidence area. The key risks include:</p> <ul style="list-style-type: none"> <li>- Poor policy development, program management and service design and delivery.</li> </ul>   |
| <b>Confidence Area 4</b><br>Effective and transparent financial controls.                                       | <p>Two risks are included in the Confidence Framework for this confidence area. The risks are:</p> <ul style="list-style-type: none"> <li>- DEEWR is unable to discharge its accountabilities under the FMA Act in relation to the administered appropriation; and</li> <li>- adverse findings in the event of an ANAO audit (this risk is repeated against Confidence Area 5).</li> </ul>  |
| <b>Confidence Area 5</b><br>Mutual respect for individual and shared accountabilities.                          | <p>Three risks are included in the Confidence Framework for this confidence area. The key risks include:</p> <ul style="list-style-type: none"> <li>- Public relations may be weakened.</li> </ul>  |

Table 10 Department of Employment Key Performance Indicators. Source: DE 2013: 19-36.

| <b>Job Search Australia Key Performance Indicators</b>  |                          |
|---|--------------------------|
| <b>Indicator</b>  | <b>Type of indicator</b> |
| Total job placements achieved   | Output                   |
| Cost per employment outcome for employment services delivered by Job Services Australia (for stream 1-3 and stream 4)       | Input                    |
| Proportion of job seekers in employment three months following participation in employment services (per stream)            | Intermediate Outcome     |
| Proportion of job seekers in education or training three months following participation in employment services (per stream) | Intermediate Outcome     |
| Proportion of job seekers off benefit three months following participation in employment services (per stream)              | Intermediate Outcome     |
| Proportion of job seekers off benefit 12 months following participation in employment services (per stream)                 | Final outcome            |
| <b>Additional broad indicators</b>  |                          |
| Unemployment rates for disadvantaged groups   | Final outcome            |
| the labour force participation rate and the employment-to-population ratio for people of workforce age (15-64 years)        | Final outcome            |
| the average duration of unemployment per labour force member  | Final outcome            |
| <b>Departmental Outcomes DE: client satisfaction</b>  |                          |
| Level of satisfaction of service providers with contracted information and support  | Output quality           |
| High-quality advice as measured by the level of satisfaction of Commonwealth public sector agencies and organisations.      | Quality                  |

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