



Australian Government
Department of Social Services

Mid-term Review of the Disability Employment Services (DES) program

Draft report

26 June 2020

Table of contents

Table of contents.....	i
Executive summary	1
Recommendations summary	1
List of abbreviations.....	1
1. Context and introduction	1
1.1. Program goals, approach, and composition	1
1.2. Fee design and program flows	4
1.3. Major reforms in July 2018	7
2. Drivers of historical and projected growth in DES caseload and spend	12
2.1. Higher voluntary participation	13
2.2. Growth in JobSeeker recipients	14
2.3. Other causes of growth	19
2.4. Future cost expectations	19
3. Overall assessment of DES efficacy and efficiency	21
3.1. Trends in cost-per-outcome.....	21
3.2. Understanding program performance	25
3.3. Other performance metrics.....	28
3.4. Employer and participant perspectives	31
3.5. International performance comparisons	38
4. Assessing the impact and outcomes of the 2018 reforms	40
4.1. Expanded access to education outcomes	40
4.2. Greater competition and contestability	45
4.3. Benefits of participant choice	48
4.4. Other elements of the 2018 reforms	52
5. Other challenges in program design	53
5.1. Provider management of compliance, assurance, and regulations	56
5.2. Impact of Employment Service Area system on competitive dynamics	59
5.3. Effectiveness of ESAs	60
6. Interactions with other flagship programs	61
6.1. Landscape of Commonwealth disability and employment supports	61
6.2. Challenges across jobactive and DES	63
6.3. Challenges across the NDIS and DES	66
7. Review recommendations	67
7.1. Re-aligning incentives to desired outcomes.....	68

7.2. Ensuring appropriate focus via eligibility changes 73

7.3. Informing customers to make effective decisions 80

7.4. Smoothing provider entry and exit 80

7.5. Managing performance to increase service quality 82

7.6. Encouraging service flexibility and innovation 83

7.7. Enhancing provider productivity 83

7.8. Ensuring effective, informed oversight 84

8. Broader change opportunities 86

8.1. Funding model and participant autonomy 87

8.2. Size and segmentation changes 87

8.3. Role separation options 87

8.4. Alternative policy models 88

8.5. Integration between DES and jobactive 88

9. Proposed implementation roadmap 93

Appendix A. Comparison of jobactive and DES 94

Appendix B. Parallel international programs 98

Appendix C. Savings estimates 99

Disclaimer 100

Executive summary

Placeholder. Executive Summary to be completed when report finalised.

Recommendations summary

Placeholder. Summary list of recommendations to be included in final report.

List of abbreviations

Placeholder. List of abbreviations used to be included in final report.

1. Context and introduction

1.1. Program goals, approach, and composition

The Disability Employment Services (DES) program is Australia’s flagship policy for assisting people with a disability to find open employment. The principal enabling legislation for DES is the Disability Services Act (1986), which specifies the goal (among others) of

...assist[ing] persons with disabilities to receive services necessary to enable them to work towards full participation as members of the community

Similarly, the DES Grant Agreements state:

The objective of the Program Services is to help individuals with disability, injury or health condition to secure and maintain sustainable employment in the open labour market.

The Program Services will increase the focus on the needs of the most disadvantaged job seekers and will achieve greater social inclusion.

The Program Services will boost employment participation and the productive capacity of the workforce, address Skills Shortage areas and better meet the needs of employers

In service of this goal, DES is overseen by the Department of Social Services (“the Department”). DES takes a market-based approach: as of March 2020, around 120 DES service providers (“providers” or “DES providers”) offered coverage in all but the most remote regions of the country,¹ to around 280,000 individual program participants. Participants may be:

- Recipients of the JobSeeker payment (~80 per cent of DES participants, as of May 2020²), referred to DES via jobactive upon establishment that disability is the individual’s primary barrier to employment (requiring completion of both the Job Seeker Classification Instrument (JSCI) and the Employment Services Assessment (ESAt))

¹ Employment services for people with a disability in remote regions are provided by the Department of Prime Minister & Cabinet under the Community Development Program (see Exhibit 62).

² DES Monthly Report – May 2020

- Recipients of the Disability Support Pension (~10 per cent of DES participants), including participants with compulsory participation requirements³ and voluntary participants
- Recipients of other forms of income support (~2 per cent of DES participants), including parenting payments
- Non-allowees (~8 per cent of DES recipients), who do not receive any form of income support.

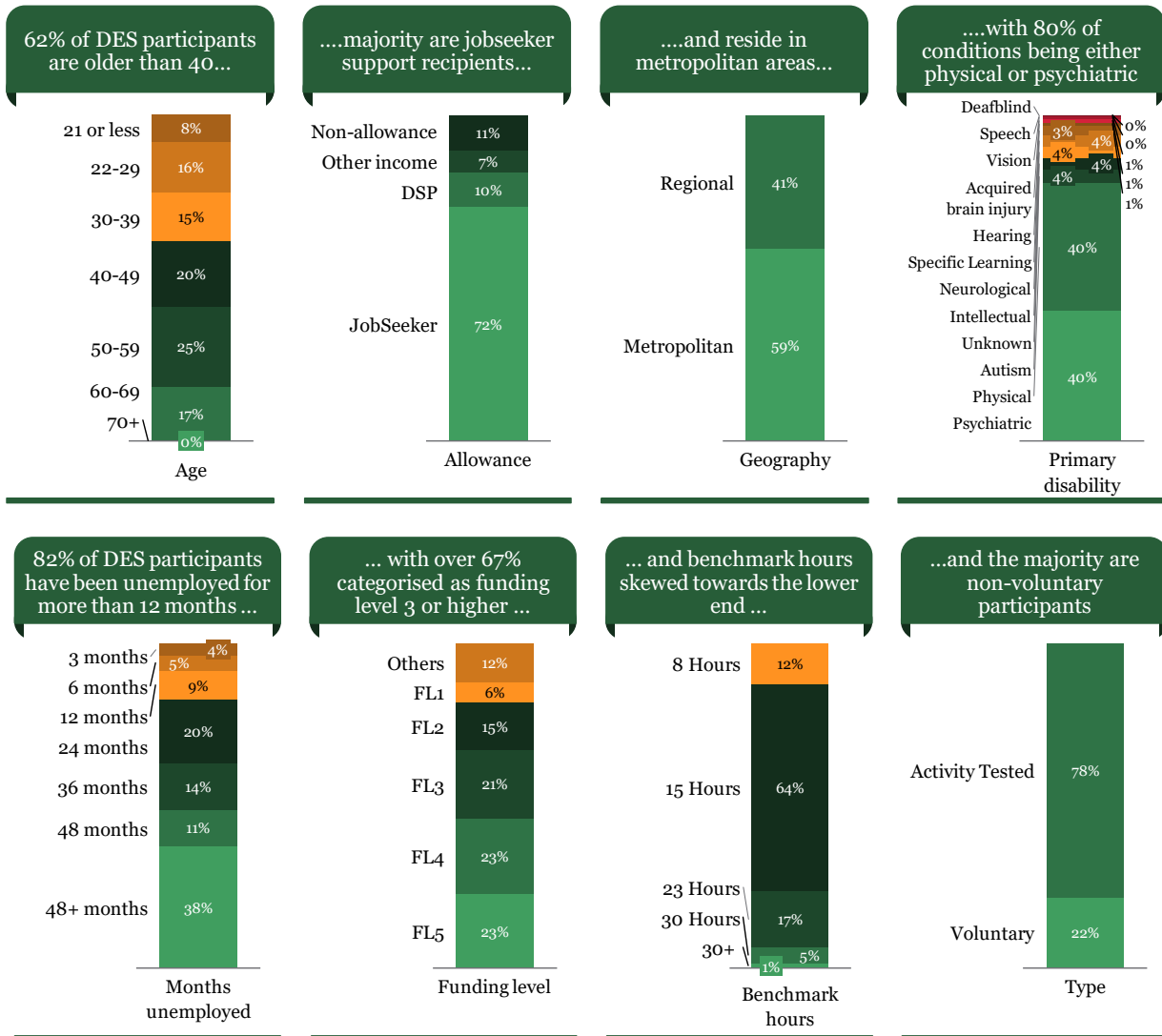
As at May 2020, 81 per cent of DES Participants are 'Activity Tested', meaning that they are participating in DES as a condition of their income support payment. The remaining 19 per cent of participants are volunteers who choose to participate in DES.

As shown in Exhibit 1, DES participants tend to be somewhat older than the general population, with over 80 per cent having been unemployed for over 12 months. The population is dominated by those with a physical (40 per cent) or psychiatric (40 per cent) disability.

Note also that the DES population is split roughly evenly (45 -55 per cent) between the Disability Management Service (DMS) stream, for non-permanent injuries, health conditions or disabilities, and the Employment Support Service (ESS) stream, for permanent or long-term disabilities or health conditions.

³ Includes DSP recipients who are under 35 years of age, have an assessed work capacity of at least 8 hours per week, and, if applicable, their youngest dependent child is 6 years of age or older. As per [3.6.1.1110](#) of the Social Security Guide Law

Exhibit 1. Summary characteristics of DES participants

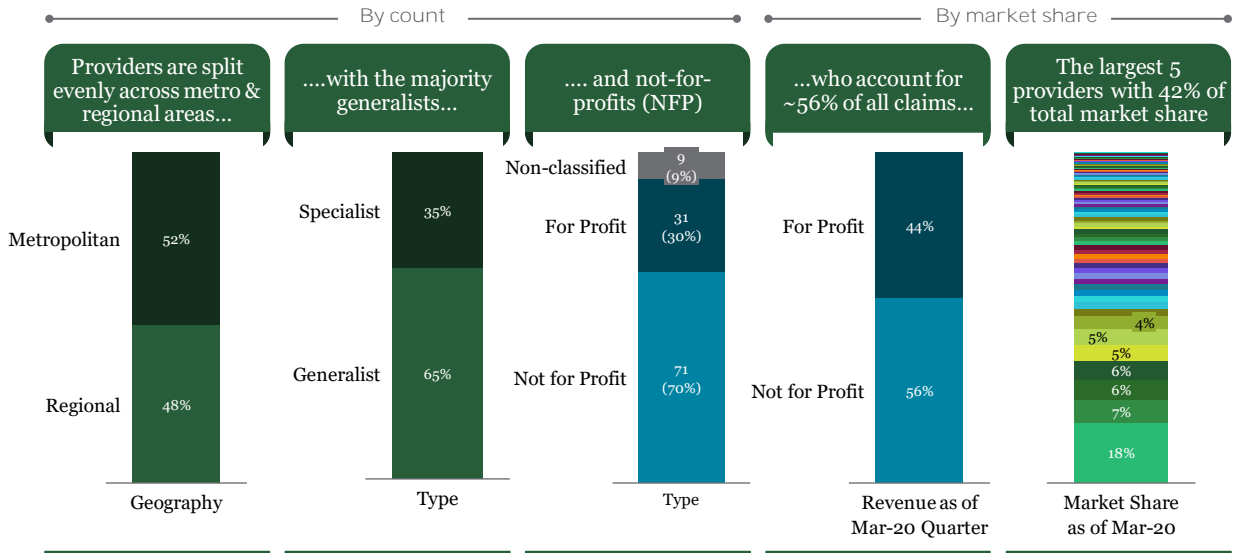


Note: Caseload at Mar 2020
Source: DSS DES data, BCG analysis

DES providers, meanwhile, are predominantly not-for-profits, typically offer generalist services (rather than specialising in a disability type) (see Exhibit 2), and often involved in provision of multiple other government services (such as jobactive, the NDIS, ParentsNext, the National Disability Coordination Officer, PaTH and Transition to Work programs). Frequently, they also offer services as a Registered Training Organisation. The DES providers collectively form the DES Provider Panel.

Provider performance is assessed via a 'star rating' system, which assesses providers on a bell curve based on relative performance across both employment and education outcomes. Star ratings are calculated algorithmically, using regression analysis to account for variations in provider circumstances, and released on a quarterly basis.

Exhibit 2. Summary characteristics of DES providers



Source: DSS DES data, BCG analysis

1.2. Fee design and program flows

DES providers offer a range of services, including advice and preparation for job search; liaison with employers; support in the workplace (e.g. discussions with employers and/or workmates, arranging and obtaining funding through other programs for physical workplace changes); and advice and support on obtaining educational qualifications. Providers are compensated via a mixture of fees-for-service and fees-for-outcomes, including:

- Quarterly service fees, intended to cover costs of ongoing advice, support, and liaison, and the costs of overseeing participants' Mutual Obligations, set in job plans agreed upon on program commencement.
- Education outcome fees, occurring after 13 and 26 weeks of study, for eligible participants who study a single qualification course at Certificate III level or above,
- Employment outcome fees, occurring at 4, 13, 26 and 52 weeks of employment, for when individuals remain in employment at or above (for full fees) or partially at (for pathway fees) their assessed hours-per-week work capacity
- Ongoing support fees, which are intended to cover the costs of providing support to participants in the workplace. A participant will complete an Ongoing Support Assessment to determine their need for ongoing support, which will then be provided at three levels of intensity (flexible, moderate, or high) with varying fee schedules
- A variety of other fees and supplements are also available, including bonus payments for participants who gain outcomes via apprenticeships, and for outcomes achieved by individuals with intellectual disability, as well as for Work Assist, which provides more intensive interventions for individuals struggling in the workplace

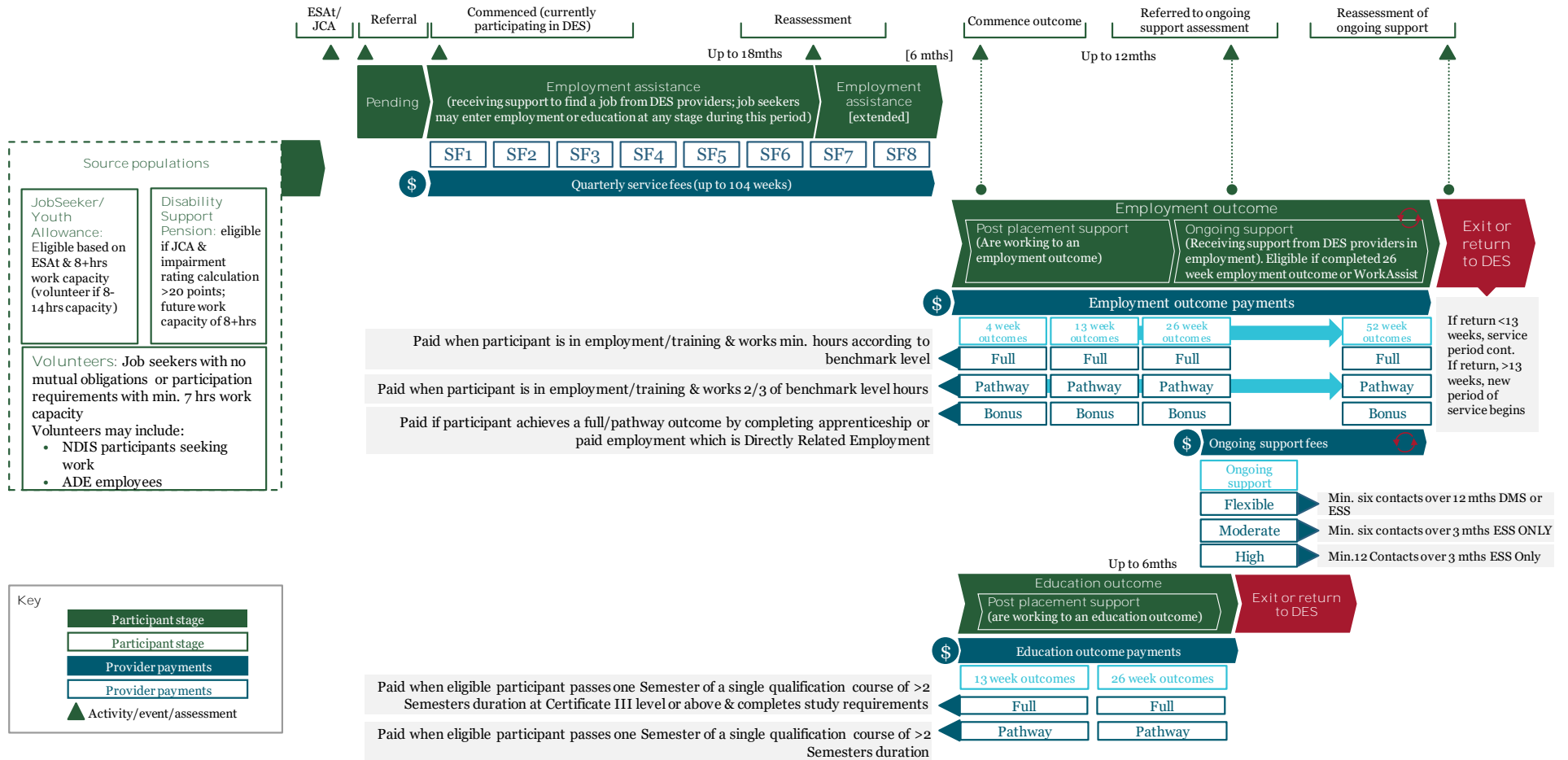
Fees for DMS and ESS participants are largely aligned, with some exceptions: quarterly service fees for DMS participants are halved following the second quarter, and moderate and high ongoing support is only available for ESS participants.

As shown in Exhibit 22, as of March 2020 slightly over one-third of fees paid are associated with employment outcomes, while 12 per cent were associated with education outcomes, with the remainder predominantly driven by quarterly service fees. Total payments to providers in 2018-19 totalled some \$900m.

With the intent of ensuring equitable coverage across the country, provision is managed through over 100 Employment Service Areas (ESAs). Each ESA covers a particular geography, with large variance in size and population between metropolitan and regional areas.

Exhibit 3 summarises some of the description above, showing participant flows through stages of DES, and the associated fees that can be claimed by providers. Note that participation in employment assistance is limited to a maximum of 2 years, after which the individual must undergo a new ESA before recommencing.

Exhibit 3. DES participants can flow through multiple stages, associated with a range of possible fees for providers



1.3. Major reforms in July 2018

Prior to July 2018, the DES market operated under some significant restrictions:

- Provider market shares were capped, with participants allocated to providers by Services Australia. Participants had limited choice over their provider, and were able to transfer between providers only under a limited set of circumstances (including, for example, moving to a new ESA)
- Funding Levels for participants were limited to two levels in ESS (with total outcome fees capped at \$14,740) and one level for DMS (with total outcome fees capped at \$8,030).
- Access to Full Outcome payments for education was limited to participants who:
 - had not completed Year 12 or equivalent and were either 15 to 21 years, or an Aboriginal or Torres Strait Islander Person
 - were Principal Carers with part-time participant requirements receiving a Parenting Payment, Newstart Allowance, Youth Allowance (other) or Special Benefit

Pain points identified in the system included a perception of insufficient investment in harder-to-place individuals (known as ‘creaming’), an excess of repeated short-term placements of the same individual (‘churning’), and insufficient emphasis on the achievement of long-term outcomes.

Multiple issues were also identified with education outcomes:

- There was no minimum qualification level. This meant many providers were placing participants in Certificate II courses or below, despite the fact only 9 per cent of participants who achieved an education outcome by participating in these courses subsequently achieved a DES employment outcome (16 per cent of participants who undertook a certificate III subsequently achieved a DES employment outcome)
- Participants did not need to pass their course to result in an education outcome payment. Rather, the provider only had to provide evidence that the participants participated in the program to the satisfaction of the training organisation.
- A broader cohort of participants may benefit from DES support in increasing their education level. In particular, compulsory participation requirements were introduced in the 2014-15 budget for select DSP participants under 35. The view was that these DES participants, as well as any others without year 12 or equivalent, required specific DES support to increase their education attainment.

A multi-year consultation process informed reform design, including canvassing of a broader scope of possibilities along the way (including changes to the ESA assessment process, and the replacement of payments to providers with a ‘participant account’ model, where participants would hold decision rights over the purchasing of employment supports).

Ultimately, the reforms enacted in July 2018 focused on expanding access to education, improving participant choice and control, and increasing the incentives for providers to invest in harder to place participants. Changes included:

Expanded access to education outcomes

- Access to and funding for education outcomes was expanded via:
 - Removing age limits, with eligibility extended to any participant without a year 12 equivalent qualification, as well as to DSP recipients with mutual obligation requirements
 - Maintaining the alignment between education outcome fees and employment outcome fees, but with a cap at ESS4 and DMS4 levels (see Exhibit 4). This alignment resulted in higher funding for education outcomes for some Funding Levels, given the increase in employment outcome fees rates.
- However, some additional constraints were introduced:

- Increasing the minimum requirement for an education outcome was increased from Certificate II to Certificate III. In addition, the definition of Year 12 equivalency was increased from Certificate II to Certificate III
- Requiring participants to be passing the course requirements to attract education funding. However, it must be noted that to date this has simply required to be passing each individual semester of the course at the time of claim. This means participants undertaking a Certificate III are not currently required to complete the work placement requirements need to achieve the qualification, but the provider is still able to attain an outcome

Increased participant choice across providers

- Participants were to be explicitly required choose their provider when entering the program
- Participants then allowed to change providers up to five times during their time in the program, without conditions (if this cap is reached, participants may still request a transfer, to be subject to assessment)
- More flexible servicing arrangements were introduced, so appointments between participants and providers were not restricted to an in-person meeting following the initial meeting as long as both parties agree
- Participants allowed to choose a provider outside of their local ESA

Greater competition and contestability between providers

- Caps on provider market share were removed
- Providers were allowed to acquire (eligible and consenting) customers through direct registration, rather than via referral from Services Australia. This includes both volunteers and activity tested participants with a valid ESA t. One of the stated objectives of the reform was to broaden the reach of the program to reach participants who may benefit from DES, particularly DSP recipients without a compulsory participation requirement
- Note that providers were also permitted to nominate a limit on their caseload (including as low as “1”) beyond which they would have discretion whether to take on any additional individual

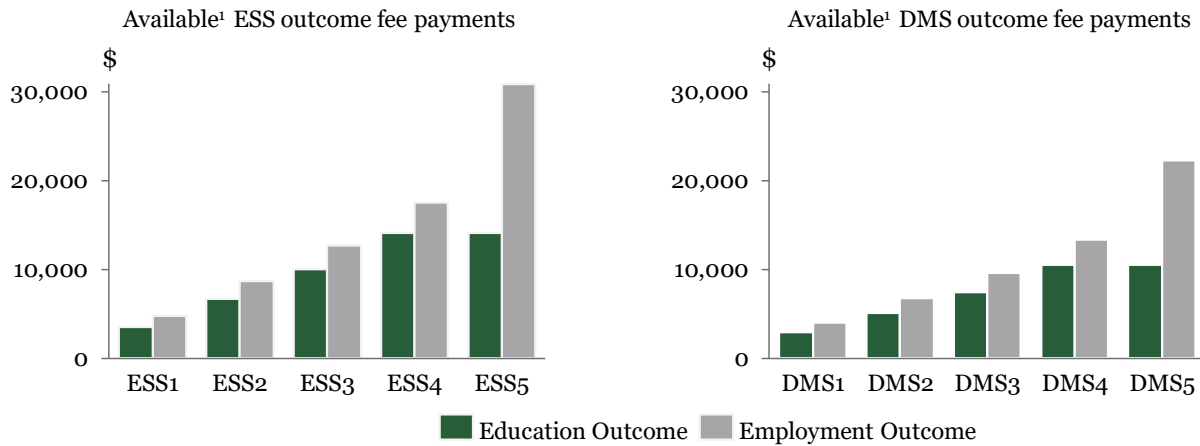
Introduction of a risk-adjusted funding model.

- The previous two Funding Levels were replaced with five each for the ESS and DMS programs, within Funding Level 1 (e.g. ESS1) being the easiest to place and Funding Level 5 (e.g. ESS5) being the hardest to place
- Participants are allocated a Funding Level based on the likelihood of achieving an outcome using an actuarial model. The predominant characteristics which influence categorisations are JSCI scores, allowance type, disability type, age, other barriers to employment, and benchmark hours
- The actuarial model was expected to be recalibrated from time-to-time, to reflect changes in observed outcome rates and local labour market dynamics

Various other changes:

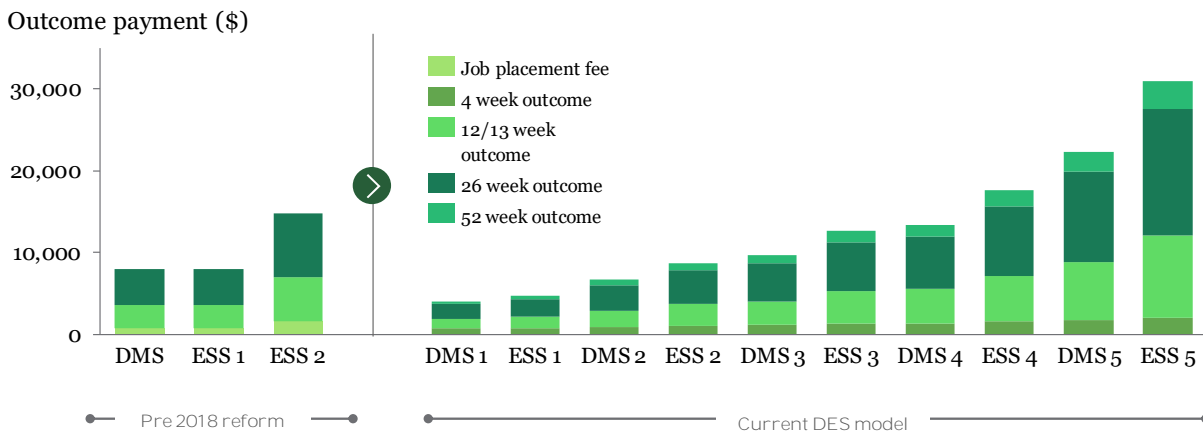
- 52-week outcome payments were introduced to encourage longer-term employment outcomes. These payments are nonetheless substantially lower than payments at other levels, as indicated in Exhibit 5
- Fees paid for job placement were removed, replaced with a 4-week outcome fee
- The payment model was adjusted to change fee expenditure from the previous split of 60 percent Services Fees and 40 percent Outcome Fees to a 50:50 split (including Education Outcome Fees), based on outcome rates at the time of the reforms
- In addition, a commitment was made to exploring opportunities to improve ESAs ts

Exhibit 4. Post-reform, the value of payments available to providers for education outcomes is close to that for employment outcomes across most Funding Levels (values shown include all payments received for a 52-week placement)



1. Total fee revenue including all available outcome payments across 4, 13, 26 and 52 weeks. Source: DES Grant Deed

Exhibit 5. The risk-adjusted funding model introduced new payment structures and fee levels, reflected here in employment outcome payments.



Note: Funding levels underwent significant redesign as part of reforms
 Source: DSS DES Grant Agreement 2018, DSS DES Deed 2015; DSS expert interviews

Exhibit 6 shows the impact of the reforms on the payment fees for an illustrative participant journey, encompassing a period on employment assistance, an education outcome, and a lasting employment outcome. This journey is not intended to be representative, but to demonstrate the contributions of fee types in a stylised manner.

As part of the reforms, the Department established a new Panel of DES providers, to commence on 1 July 2018 for an initial 5-year period, with options to extend to a maximum of 10 additional years. The panel was established through a multi-stage grant process open to any interested participants, with a parallel Invitation to Treat (ITT) for existing DES providers. Under the ITT process, existing DES providers were invited to continue delivering the service in ESAs where the provider had been meeting a minimum performance criterion.

Exhibit 6. Composition of fees pre-and post-reform for an illustrative participant journey.

Using an illustrative journey of participant flow ...

... shows the different composition of incentives pre and post 2018 reform, with the latter offering more incentives for harder to place cohorts

Illustrative participant journey including education, employment outcomes and ongoing support with associated provider payments



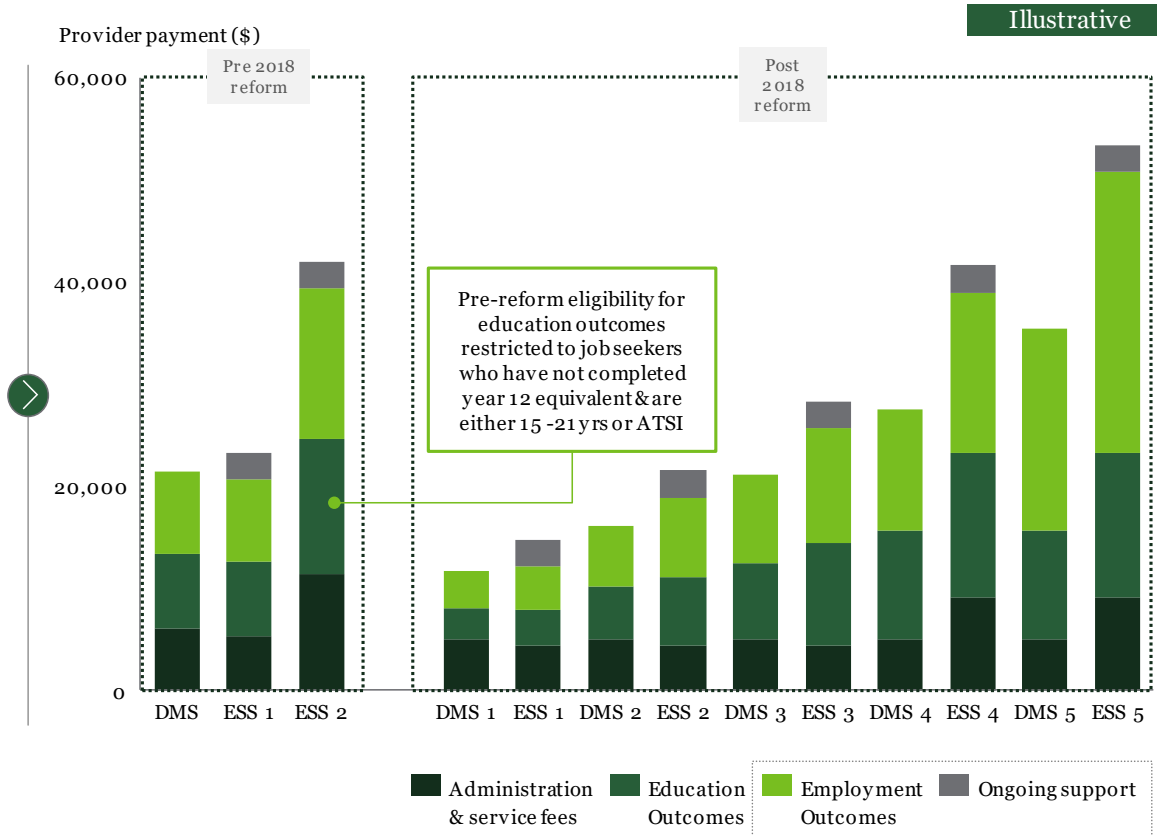
Exit, ESAT, re-entry

Pre 2018 reform

1 & 2 13 week service fees	13 week outcome	Job placement fee	Moderate
3 - 6 13 week service fees	26 week outcome	13 week outcome	
		26 week outcome	

Post 2018 reform

Quarterly service fees	13 week outcome	4 week outcome	Moderate
	26 week outcome	13 week outcome	
		26 week outcome	



1. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 mths, ESS only), participants may also receive flexible or moderate support Note: Illustrative pathway for a 26-week outcome not including bonus payments, participant flows vary. Funding levels underwent significant redesign as part of reforms Source: DSS DES Grant Agreement 2018, DSS DES Deed 2015; DSS expert interviews

1.4. Mid-term Review tasked with assessing DES and identifying change options

As discussed in Section 2, both DES caseload and expenditure accelerated significantly since the 2018 reforms. Caseload rose by 46 per cent from June 2018 to March 2020, and program spend is expected to rise 53 per cent from financial year 2017-18 to 2019-20. This latter represents an increase from around \$800m to \$1.2b in just two years (see further discussion in Section 2).

A mid-term review was originally planned to take place in December 2020, halfway through the current 5-year grant agreement. However, concerns regarding the perception of uncontrolled program volume and cost growth, as well as ongoing concerns regarding overall program efficacy and efficiency, resulted in the Review being brought forward.

The spread of the COVID-19 pandemic (which rose to global prominence between procurement and commencement phases of the review) has incidentally lent additional importance to the timing of the Review. As Australia enters recession for the first time in ~30 years, providers are reporting a decline in rates of achievement of employment outcomes (see Exhibit 21. Outcomes rates have also fallen post-reform by ~12 to 14 per cent, with consequences for the composition of provider revenue and the relative incentives providers face. A rise in caseload as additional unemployed individuals enter DES is also anticipated, further increasing program costs.

The Boston Consulting Group was commissioned to conduct the Review over nine weeks, spanning April to July 2020. The Review was given a broad scope, tasked with:

- Assessing the overall efficacy and efficiency of the DES program
- Assessing the impact and outcomes of the 2018 reforms
- Identifying, assessing, and recommending opportunities for further change and reform, over both the short- and long-term

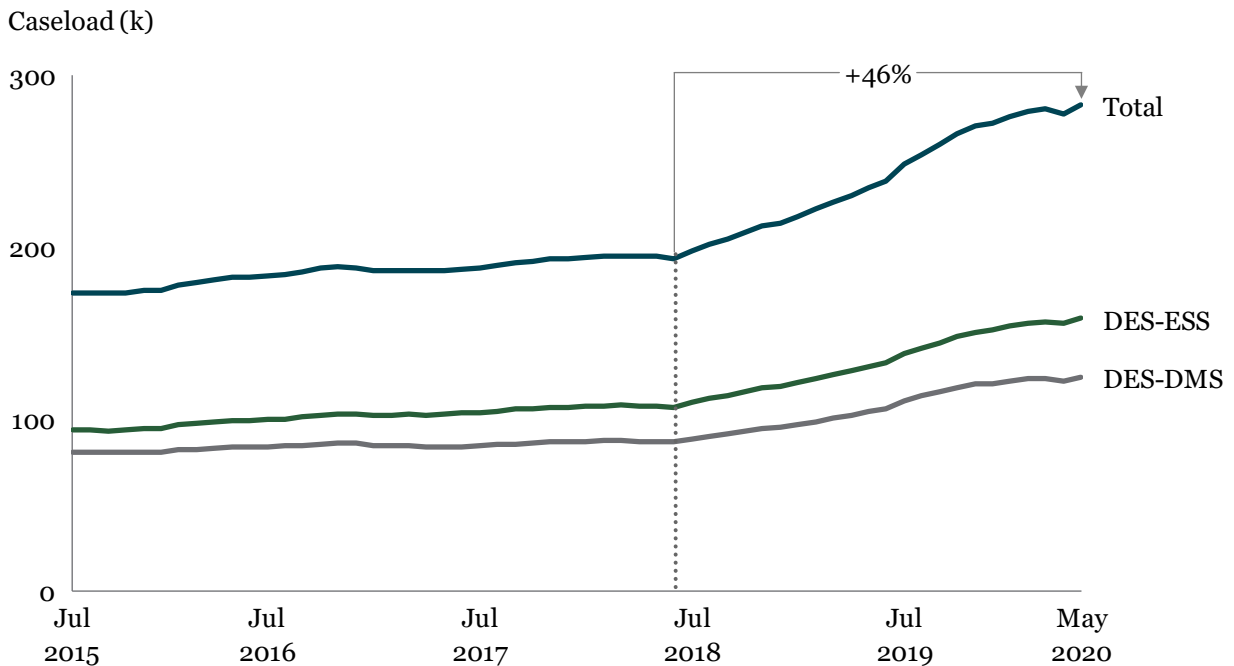
1.5. Review methodology

Placeholder. Overview of methodology to be included in final report.

2. Drivers of historical and projected growth in DES caseload and spend

Following the introduction of the reforms on 1 July 2018, the DES caseload increased 46 per cent by 31 May 2020. This is due to referrals into the program increasing post reform, while exits decreased (see Exhibit 7). This increase was not anticipated at the time of the reforms.

Exhibit 7. Caseload has grown by 46 per cent following the reforms



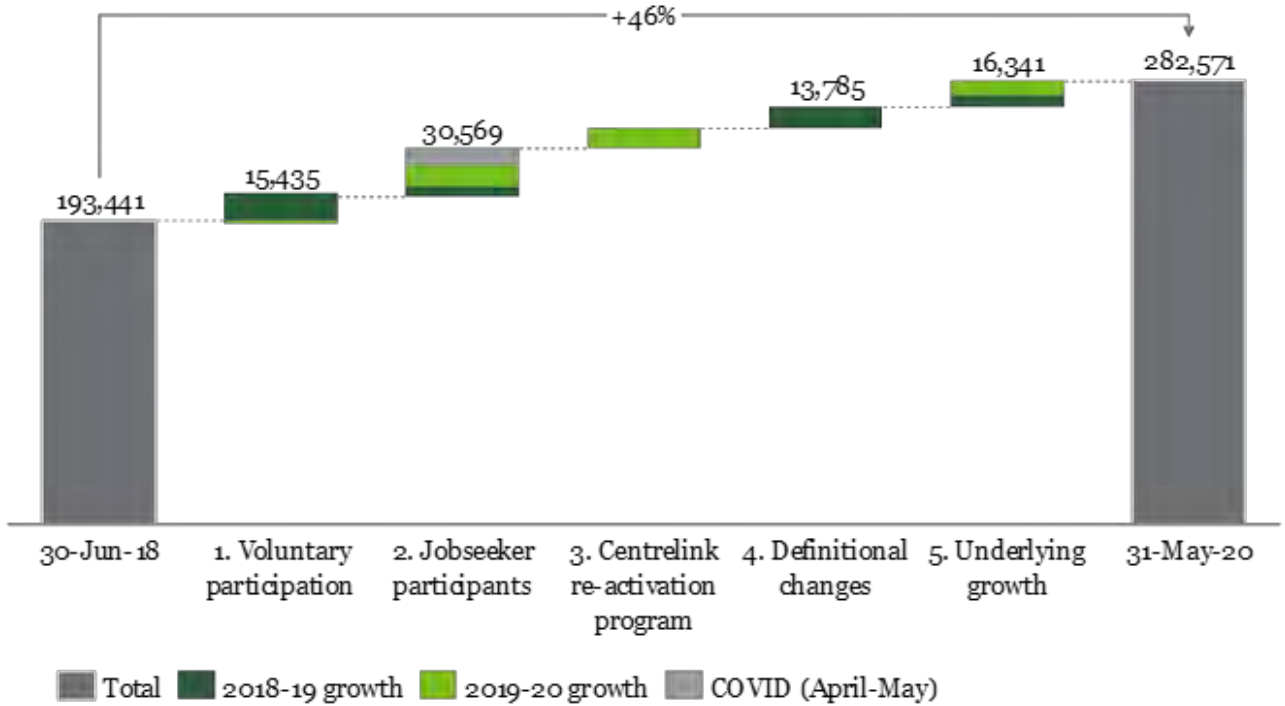
Source: DSS DES data, BCG analysis

This growth was driven by five underlying causes (see Exhibit 8):

1. High growth in voluntary participation (17 per cent of total growth)
2. High growth in jobseeker participants (34 per cent of total growth)
3. One-off Centrelink re-activation program (15 per cent of total growth)
4. Definitional changes due to the introduction of 52-week outcomes (15 per cent of total growth)
5. Underlying growth of DES (18 per cent of total growth)

These items are examined in further detail in the following sections. The first two causes are given particular attention, as they together comprise more than half of the total growth, and can be attributed to the combination of incentives and optionality that was created by the 2018 reforms.

Exhibit 8. Rapid caseload since 2018 predominantly driven by volunteers and growth of jobactive participants into DES



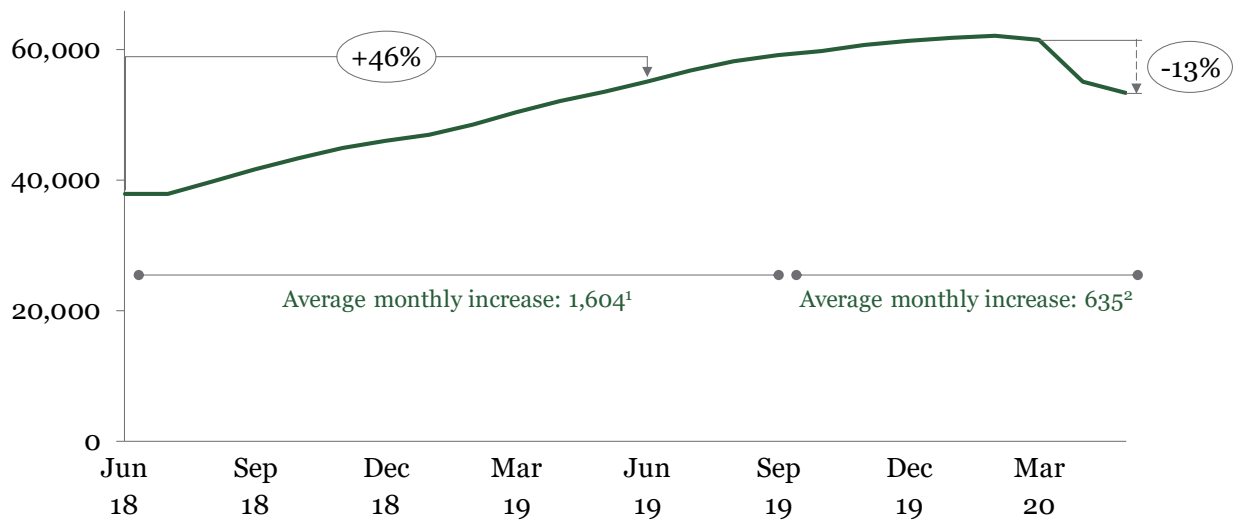
Source: DSS DES data, BCG analysis, EYDES Caseload and Cost Analysis

2.1. Higher voluntary participation

In the first 12 months after the reforms, the number of volunteers in DES increased by 15,435, as shown in Exhibit 9.

Exhibit 9. Voluntary participation increased 46 percent in 2018-19 but has since declined

Number of voluntary participants in DES



1. Average increase from 30 June 2018 to 31 August 2019 2. Average increase from 30 August 2019 to 29 February 2020
Source: DSS DES Monthly Data

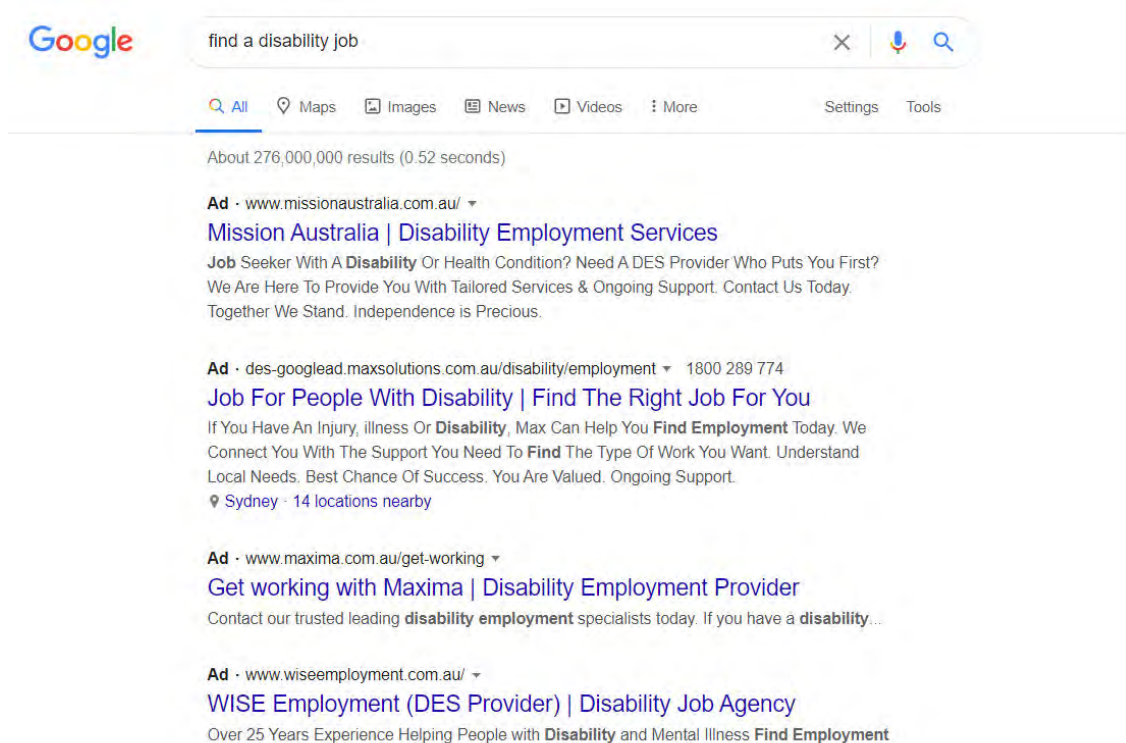
This growth has been a direct result of the 2018 reforms. As outlined in Section 1.3, the reforms removed the market share caps for DES providers in an effort to increase voluntary participation in the DES program.

Prior to the reforms, providers faced market share caps, limiting the number of participants they could serve. In combination with the tripling in the number of provider sites and a 21 per cent increase in providers following the reforms (although the market has since consolidated), this has led to high levels of competition amongst providers to acquire participants. The current competitive nature of the market is demonstrated by the investment by providers into competitive advertising and recruitment (see Exhibit 10).

Note, however, that growth in volunteers did not continue in 2019-20, with the number of volunteers participating in DES reducing by 1,846. The cause for this levelling out is not known with certainty, though is likely due to:

- 1) Increased volunteer exits some 12 to 18 months after program entry
- 2) A 'saturation' effect, with a diminishing pool of potential volunteers who had not come onto the DES caseload
- 3) There may also be a COVID-19 effect, where non-allowee voluntary participants are becoming activity tested. This can occur as participants who were voluntary as a result of their partner's income being above the jobseeker income threshold become activity tested following the loss of their partners job

Exhibit 10. DES providers have started to advertise for their services following the reforms



The screenshot shows a Google search for "find a disability job". The search bar is at the top with the Google logo on the left and search, voice, and image icons on the right. Below the search bar are navigation links for All, Maps, Images, News, Videos, and More, along with Settings and Tools. The search results indicate "About 276,000,000 results (0.52 seconds)".

The first advertisement is from www.missionaustralia.com.au/ with the headline "Mission Australia | Disability Employment Services". The text below reads: "Job Seeker With A Disability Or Health Condition? Need A DES Provider Who Puts You First? We Are Here To Provide You With Tailored Services & Ongoing Support. Contact Us Today. Together We Stand. Independence is Precious."

The second advertisement is from des-googlelead.maxsolutions.com.au/disability/employment with the phone number 1800 289 774 and the headline "Job For People With Disability | Find The Right Job For You". The text below reads: "If You Have An Injury, Illness Or Disability, Max Can Help You Find Employment Today. We Connect You With The Support You Need To Find The Type Of Work You Want. Understand Local Needs. Best Chance Of Success. You Are Valued. Ongoing Support." It also shows "14 locations nearby" in Sydney.

The third advertisement is from www.maxima.com.au/get-working with the headline "Get working with Maxima | Disability Employment Provider". The text below reads: "Contact our trusted leading disability employment specialists today. If you have a disability..."

The fourth advertisement is from www.wiseemployment.com.au/ with the headline "WISE Employment (DES Provider) | Disability Job Agency". The text below reads: "Over 25 Years Experience Helping People with Disability and Mental Illness Find Employment"

2.2. Growth in JobSeeker recipients

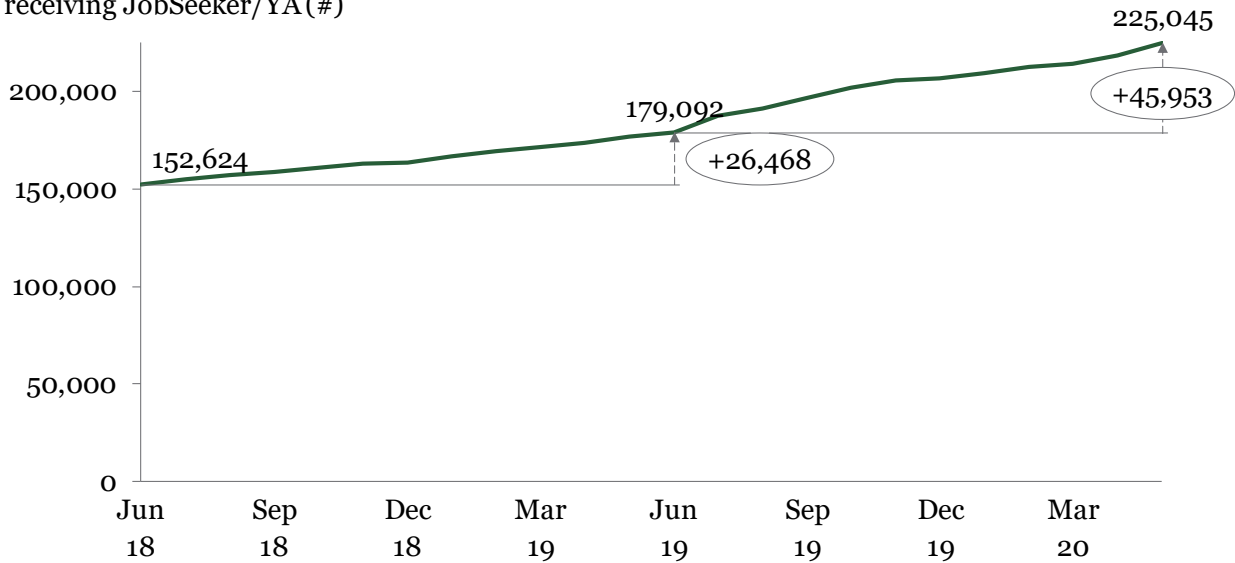
Overall, the number of JobSeeker⁴ and youth allowance recipients in DES has increased from 152,624 on 30 June 2018 to 225,045 on 31 May 2020. As shown Exhibit 11, the majority of this growth occurred in 2019-20.

After accounting for the other factors in Section 2.1 to 2.5, the number of DES participants receiving JobSeeker or youth allowance has increased by 30,569 above baseline expectations between 30 June 2018 and 31 May 2020.

⁴ Newstart Allowance prior to 20 March 2020

Exhibit 11. Number of JobSeeker and Youth Allowance participants in DES has increased by 72,421 since the reforms, with the highest growth in 2019-20

Participants in DES caseload receiving JobSeeker/YA (#)

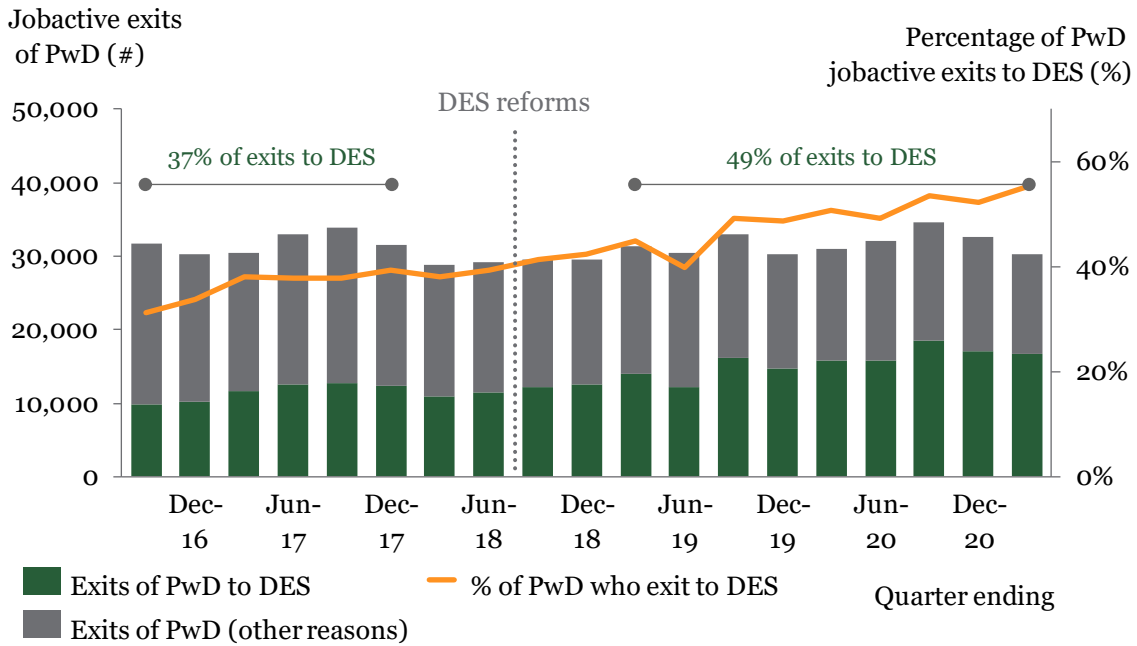


Source: DSS DES Monthly Data, BCG analysis

This has coincided with a relative increase in the number of jobactive participants with a disability exiting into DES, despite the total number of exits of PwD from jobactive remaining roughly constant (see Exhibit 12). Post reform, 49 per cent of people with a disability who exit jobactive transferred to DES, up from 37 per cent pre-reform (Exhibit 12). If the exits to DES had continued at the pre-reform proportions, DES this would have resulted in 35,000 fewer referrals to DES.

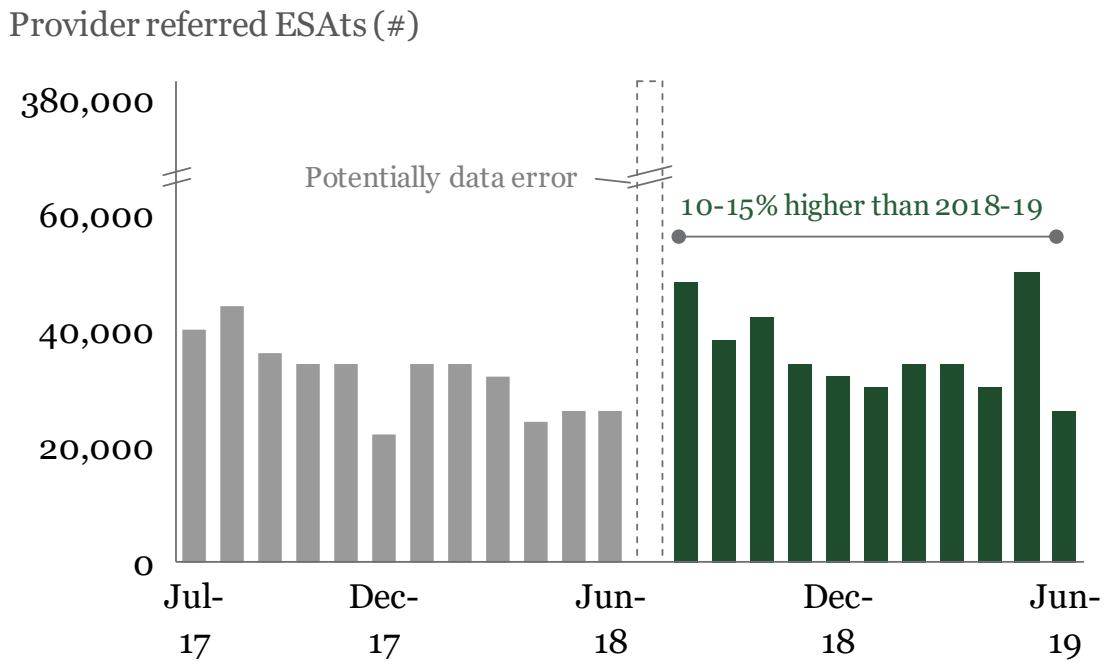
While some of these referral volumes are captured under 2.1 and 2.5, this is a strong indication a large part of the increase in jobseeker participants on DES is due to exits from jobactive. This aligns with the 10 to 15 per cent increase in provider-referred ESA ts conducted in 2018-19 compared to 2017-18 (see Exhibit 13), and is supported by interviews with DES providers, as well as with Departmental staff in DSS, DESE and Services Australia involved in provider management and the ESA t process.

Exhibit 12. Exiting to DES now constitutes 49 per cent of exits of PwD from jobactive, up from 37 per cent pre-reform



Source: DESE Exit Data, BCG analysis

Exhibit 13. Provider-referred ESAs are consistently 10 to 15 per cent higher post reform



1. Taylor Fry observed that the spike in July 18 may have been a result of a data artefact caused by system changes in the RED database, as the DES standard reporting did not observe a comparable increase in ESAs
 Source: DSS Reporting and Analysis team; Taylor Fry Budget Update Report, BCG analysis

These changes can be attributed to a change in provider and participant behaviour due to the reforms, although part of the change may also be due to changing referral behaviour from Services Australia or the continued tightening of DSP criteria.

jobactive providers, DES providers, and participants are all incentivised for participants to be transferred from jobactive to DES. In short:

1. jobactive providers face market caps on participant numbers. Consequently, removing hard-to-place individuals from their caseload (by finding a way to transfer them to DES) most likely will represent a net improvement
2. Providers of both jobactive and DES will earn more revenue if the participant chooses to stay with same provider in DES, as the fee rates are higher (see Exhibit 14) and they can 'park' hard-to-place participants in lucrative but low effort education outcomes
3. DES providers have an incentive to grow caseload by stimulating transfers from jobactive
4. For participants:
 - a) DES may be seen as an 'easier' program due to less stringent Mutual Obligations
 - b) Greater eligibility for education outcomes makes it more likely for DES participants to be able to study, subsidised by their provider
 - c) The overall attraction of greater Funding Levels may be perceived by participants as translating to a better quality of service
 - d) Anecdotally, some participants may consider (not necessarily accurately) that by participating in DES they are more likely to be approved to receive DSP

These incentives are discussed further in the following sections.

2.2.1. Incentives for providers

Of the 39 jobactive providers, 30 (77 per cent)⁵ also deliver DES. While exit rates of PwD from jobactive to DES are higher for providers who deliver both services in an overlapping region (50.3 per cent in 2018-19) these rates are also high for providers who do not deliver DES (47.4 per cent in 2018-19).

This is unsurprising as jobactive providers have strong incentives to stimulate transfers from jobactive to DES regardless of whether the participant transfers to a different DES provider or transfers to their DES caseload.

In the event the participant change providers, their jobactive caseload volumes are maintained as a result of the jobactive market share arrangements and they have removed a difficult to place participant from their caseload.

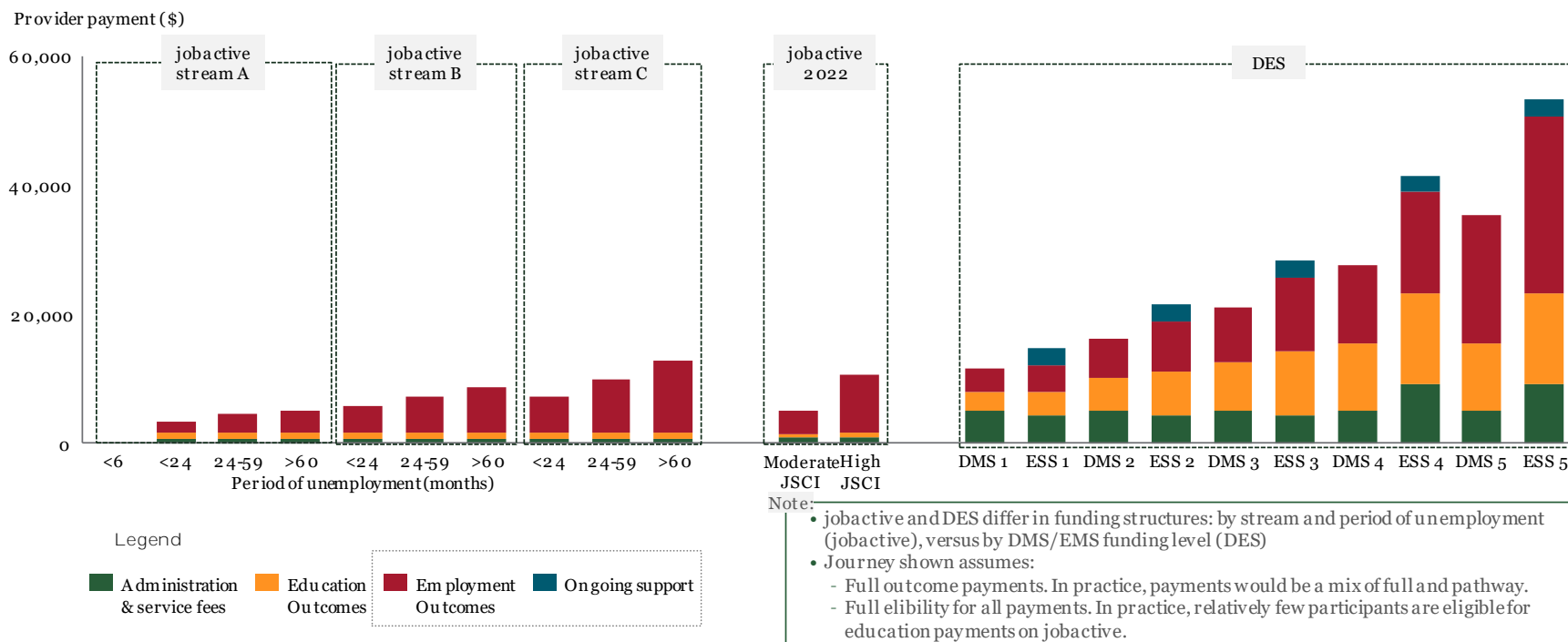
In the event the participant transfers to their DES caseload, this is also a positive outcome for the provider:

- Provider fees are higher in DES than jobactive, with a strong service fee component (see Exhibit 14)
- Education outcomes in DES enables 'parking' of difficult to place participants. This is demonstrated by the strong correlation between higher Funding Levels and likelihood of achieving an education outcome (see Exhibit 42)

Furthermore, all DES providers have an incentive to stimulate transfers from jobactive to DES in order to grow their caseload. Given the high number of providers in many ESAs, competition incentives providers to not only acquire caseload from other DES providers but also from jobactive providers. They may do this directly acquiring specific participants from jobactive providers, but also indirectly through their advertising and marketing.

⁵ BCG analysis of March 2020 DES Star Ratings and March 2020 jobactive site Star Ratings

Exhibit 14. DES is more appealing to providers than jobactive for hard-to-place participants due to higher education and service payments



1. Eligibility for education outcomes more restricted in jobactive vs DES. 2. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 mths, ESS only), participants may also receive flexible or moderate support.
 Note: Illustrative pathway for a 26-week outcome, does not include bonus payments, participant flows vary. jobactive figures for non-regional locations.
 Source: DSS DES Grant Agreement 2 018, DESE jobactive Deed 2 015-2020

2.2.2. Incentives for participants

Participants have both real and perceived incentives to transfer from jobactive to DES. This include:

- Less stringent Mutual Obligations under DES than jobactive (see Table 6 in Appendix A)
- The perception that they are more likely to become eligible for DSP if they complete the DES program than if they stay in jobactive.

Both these items were corroborated by provider survey responses. For example, *“We have a bunch of clients coming in because they want the disability support pension, and they heard from their friend that DES was easier. They’re unmotivated and don’t want to work. They are hard to work with”*.

2.3. Other causes of growth

The three other factors contributing to the remaining 49 per cent of caseload growth are outlined below.

2.3.1. One-off Centrelink activation program

Centrelink began a program around July 2019 to re-activate 66,000 non-active participants on the JobSeeker payment or Youth Allowance with mutual obligations. These participants were not assigned to any employment service as a result of IT issues. 25,000 of these jobseekers were processed around July 2019, resulting in approximately 5,000 entering the DES caseload⁶. Based on these ratios, approximately 8,000 additional participants may have entered DES out of the remaining 41,000 processed.

2.3.2. Underlying growth

The DES caseload grew by an annual average of 3.8 per cent between 30 June 2015 and 30 June 2018⁷. Projecting this trend forward would have led to a caseload increase of 7,231 in 2018-19 and 9,020 in 2019-20. Contributing factors likely include the continued tightening of the Disability Support Pension (DSP) eligibility criteria and increasing recognition of disability, in particularly mental health, as a barrier to employment.

2.3.3. Definition change due to introduction 52-week outcomes

As stated in Section 1.3, the 2018 reforms introduced 52-week outcome payments for employment outcomes. This resulted in participants staying in Post Placement Support phase after achieving a 26-week employment outcome, whereas previously the majority of these participants would have exited the program, with the remainder exiting to the Ongoing Support phase.

This is largely a definitional increase in the caseload numbers, as these participants do not lead to additional cost to the program (noting that the additional cost of 52-week outcomes is captured as part of the change from a 60/40 balance between services fees and outcome fees to a 50/50 balance).

It is estimated that as at 30 June 2019 there were approximately 13,785 participants counted in the DES caseload compared to 30 June 2018 because of this. Between 30 June 2018 there no material change in this number was observed.

2.4. Future cost expectations

In the next two years, costs are expected to continue to increase due to caseload growth from higher levels of unemployment arising from COVID-19 and continue growth in the number of JobSeeker and Youth Allowance recipients in DES. The cost impact of this is counteracted to an extent by an expected reduction in employment outcome rates.

From 2022-23 onwards, cost increases are expected to be primarily driven by higher expenditure on employment outcomes, as outcome rates recover to pre-COVID levels, and inflation rather than volume

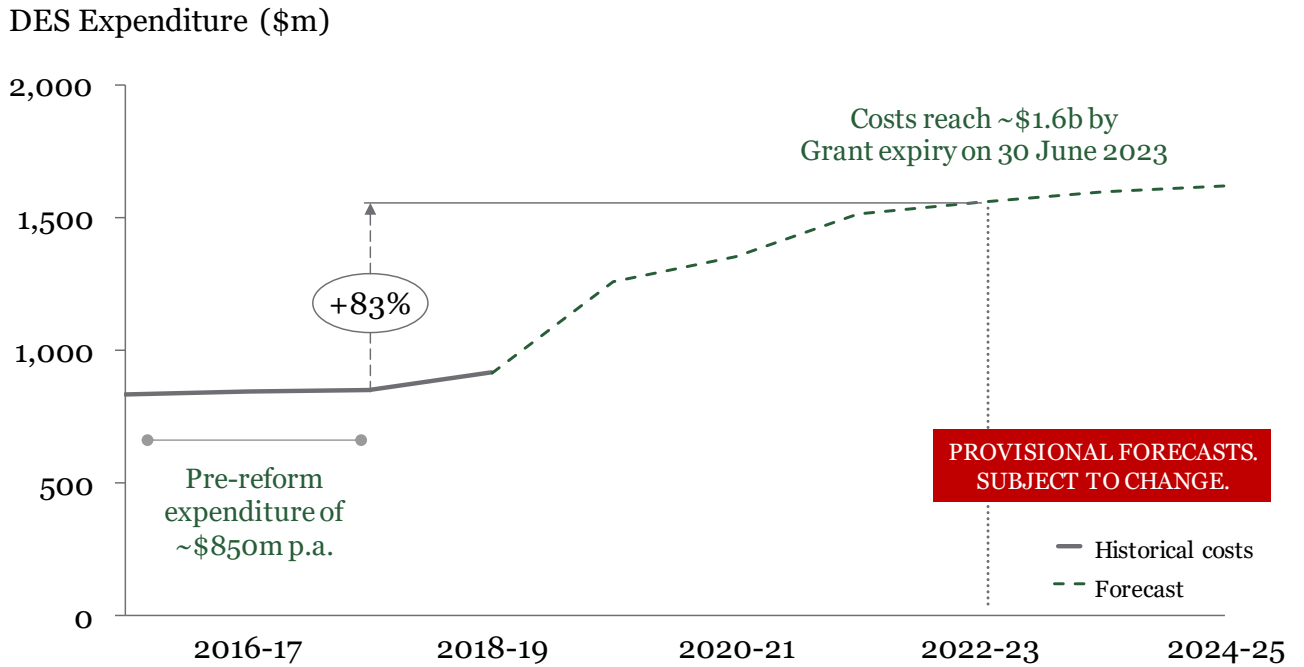
⁶ Ernst & Young report to DSS, ‘Disability Employment Services: Caseload and Cost Analysis Key Insights Appendix’, 31 October 2019

⁷ DES Monthly Data report, 31 May 2020

growth.

The base case expenditure forecast developed by BCG for use in this report is summarised below in Exhibit 15. This aligns with the expenditure forecasts used by the Department for budget purposes, with some differences as these are derived from different financial models. The projections assume the re-calibration of the riskadjusted funding model is performed by 1 July 2020 and continues annually.

Exhibit 15. DES expenditure expected to almost double to ~\$1.6b by 2022-23 compared to pre-reform levels



Note: Assumes Risk Adjusted Funding Model recalibration has occurred by 1 July 2020
Source: DSS DES data, BCG analysis, BCG COVID job loss forecast

3. Overall assessment of DES efficacy and efficiency

The DES program faces major challenges. Overall program expense is high (and increasing; refer Exhibit 15), yet performance on key metrics is mixed and, in some cases, worsening. In particular, the headline measure of spend per employment outcome achieved has increased substantially since the 2018 reforms. In interviews conducted for this Review, strongly negative views were expressed by providers, employers, participants, and disability advocates, as summarised in Exhibit 16.

Exhibit 16. Strong negative sentiment was expressed by many interviewees.



Source: DES Review research engagements and survey

The decline in performance, in terms of both costs and outcome rates, is principally attributed to a short-list of factors, including the degree of emphasis placed on education outcomes (which, as discussed in Section 2.2.1, has also likely attracted hard-to-place participants from jobactive), the rising spend associated with rising caseload, and changes in the distribution of participants among Funding Levels. Further impediments to effective operations are discussed in Chapter 53.

Challenges are also observed in the frequency of education outcome achievement amongst participants and across Funding Levels, though on some metrics (such as the conversion of short-term outcomes to long-term outcomes) the picture is more positive. From a more qualitative lens, however, significant concerns regarding the quality of program service were reported by both employers and participants.

Naturally, any assessment of outcomes needs to account for the fundamental difficulties of obtaining employment outcomes for individuals who may face quite challenging circumstances. Benchmarking DES performance is difficult due to the challenge of identifying comparable populations, though on comparisons to both domestic and international parallel programs, DES does not appear to perform particularly well.

In short, a case exists for substantial changes to improve program efficacy and efficiency. Such changes are given even more urgency given the forecast increases to costs outlined in Section 2.4.

More detail follows below.

3.1. Trends in cost-per-outcome

As shown in

Exhibit 17, total program spend has risen substantially in recent years, from ~\$850m in 2017-18, to an estimated ~\$1.2b in 2019-20 (assuming the final quarter of the year continues trend spend). In parallel, and to a similar extent, caseload has also risen.

In contrast, the number of 26-week employment outcomes achieved by program participants per quarter

has been broadly flat, rising only from an average of ~7,595 pre-reform to 8,171 post-reform (26-week employment outcomes are used as an indicator, though overall results would be similar regardless of the duration of employment outcomes chosen). During the same time period, however, the number of education outcomes has risen significantly, from 825 per quarter to 2,274. Refer Exhibit 18 for further detail.

Consequently, the average total spend per employment outcome (that is, the summation of provider fees across quarterly service fees, ongoing support, education outcomes, employment outcomes themselves, and all other categories, divided by the count of employment outcomes) has increased by around 38 per cent, from an average ~\$27.5k pre-reform to ~\$38k post-reform (including a high of ~\$41k in the December quarter 2019). Refer Exhibit 18. The number of employment outcomes achieved per quarter has been broadly flat

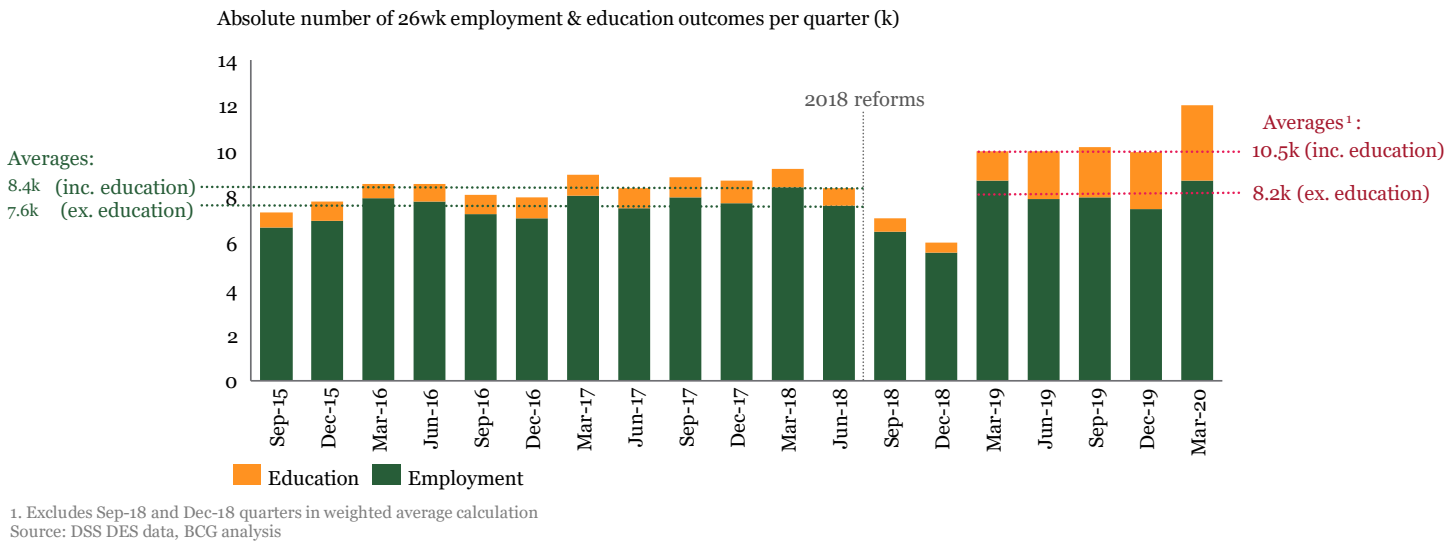


Exhibit 19 for further detail.

Exhibit 17. Following the 2018 reforms, DES costs have grown substantially

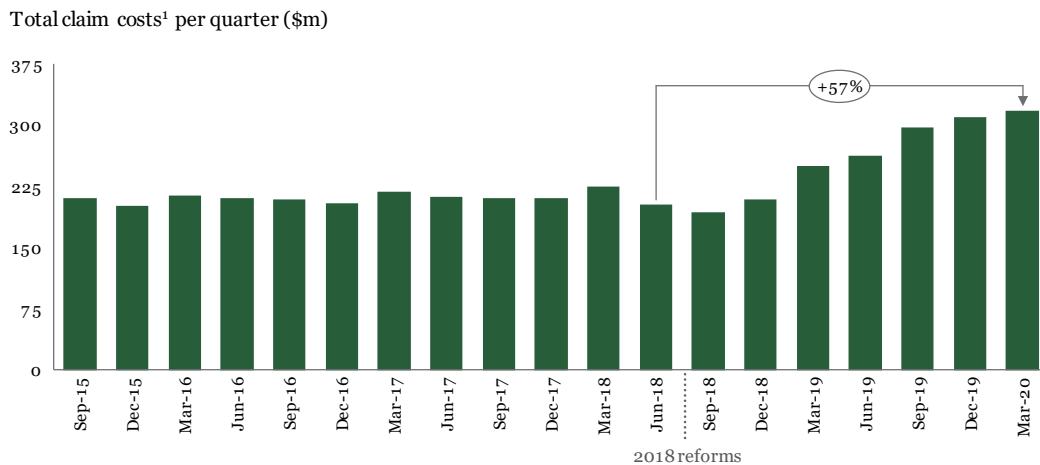
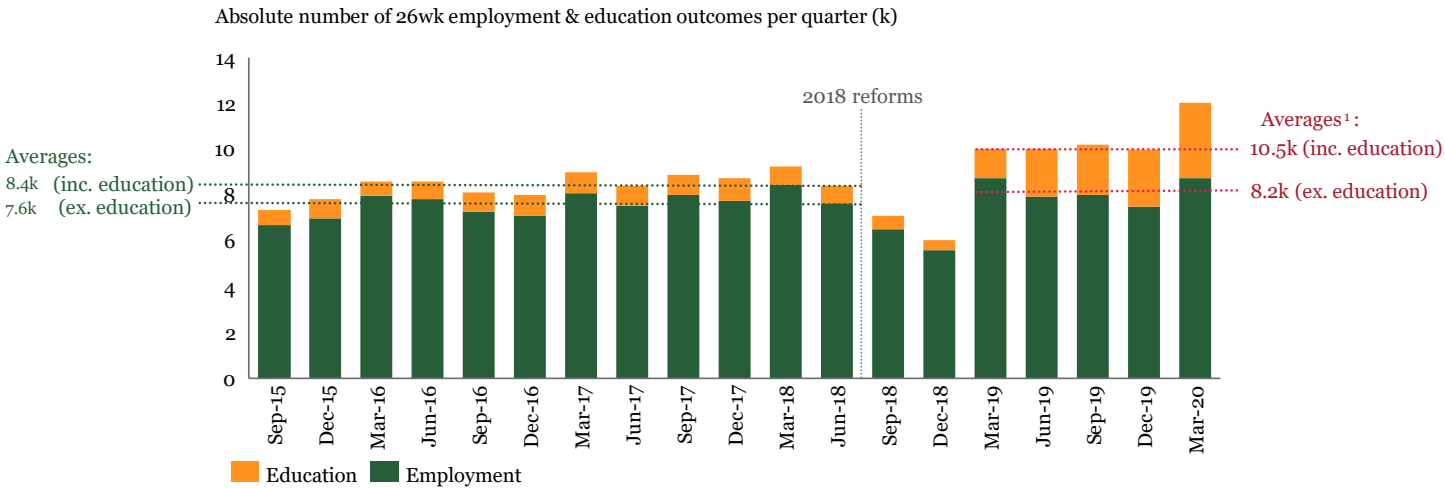
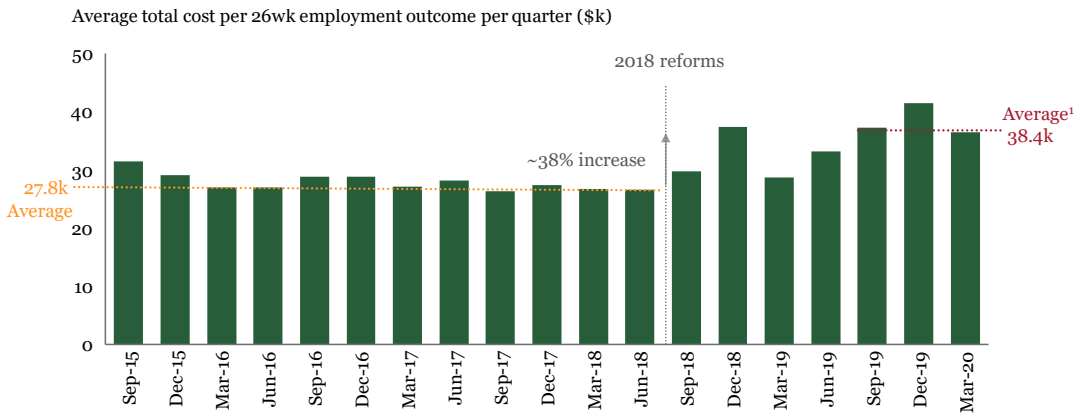


Exhibit 18. The number of employment outcomes achieved per quarter has been broadly flat



1. Excludes Sep-18 and Dec-18 quarters in weighted average calculation
 Source: DSS DES data, BCG analysis

Exhibit 19. Cost per outcome has risen by ~38 per cent post-reforms



1. Excludes Sep-18 to Jun-19 quarters in average calculation due to understatement of total costs as a result of funding levels issues, resulting in ~20M later refunded to providers
 Source: DSS DES data, BCG analysis

An important proviso when interpreting these numbers is that the metric given is a straightforward ratio between program spend, and employment outcomes registered by participants. But not all employment outcomes can be attributed to the activities of DES providers: it is inevitable that at least some proportion of participants would have obtained outcomes regardless. The ‘true cost’ per additional employment outcome achieved over the counterfactual must be higher.

However, quantifying how much higher is quite difficult. Three possible lenses are proposed, which collectively may at least give an indicative sense:

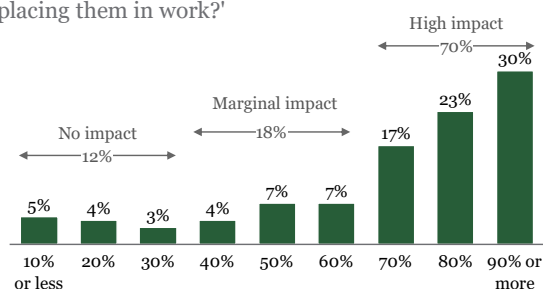
- Overall, around 63 per cent of DES participants report themselves ‘satisfied’ with their experience in the program overall (see Exhibit 20)
- 70 per cent of DES providers suggest that 70 per cent or more of outcomes are critically dependent on DES provider activity. Minorities of 18 per cent suggest between 30 to 70 per cent, and 13 per cent for 30 per cent or fewer

- Among DES participants who obtain 13-week outcomes, around 27 per cent do so within 6 months of starting on the program. This suggests the employment must have commenced within 3 months, a timeframe short enough that it can be suggested that the likelihood of eventually obtaining an employment placement without DES support was probably relatively high

Exhibit 20. As not all outcomes can be attributed to DES, true cost per additional employment outcome may be substantially higher

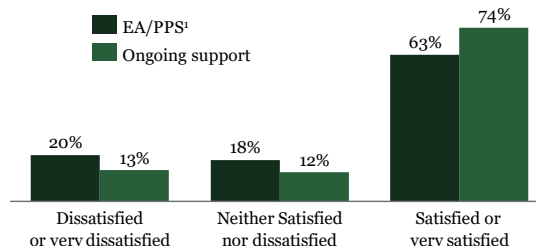
Providers vary in their perception of DES in helping participants find employment

Survey question: 'For DES participants you have supported who found employment, for what proportion did the DES program make the critical difference for placing them in work?'



Variation in satisfaction with DES, suggests that DES not been equally valuable to all participants

DES job seeker satisfaction with the help suited to circumstances, 31 December 2018



1. Employment Assistance (EA) and Post Placement Support (PPS)
Source: 2018 DES survey, BCG survey 2020

As illustration, if one-third of employment outcomes would have, roughly speaking, occurred in any case, the true cost per 26-week employment outcome may be closer to \$60k (a similar proviso applies for outcomes pre-reform). Even this, however, is a simplification, as participation in DES does not simply make the difference between binary achievement or failure to achieve of employment, but may affect the duration until employment is achieved, the extent to which it matches participant skill levels and expectations, whether it represents a long-term career prospect, etc.

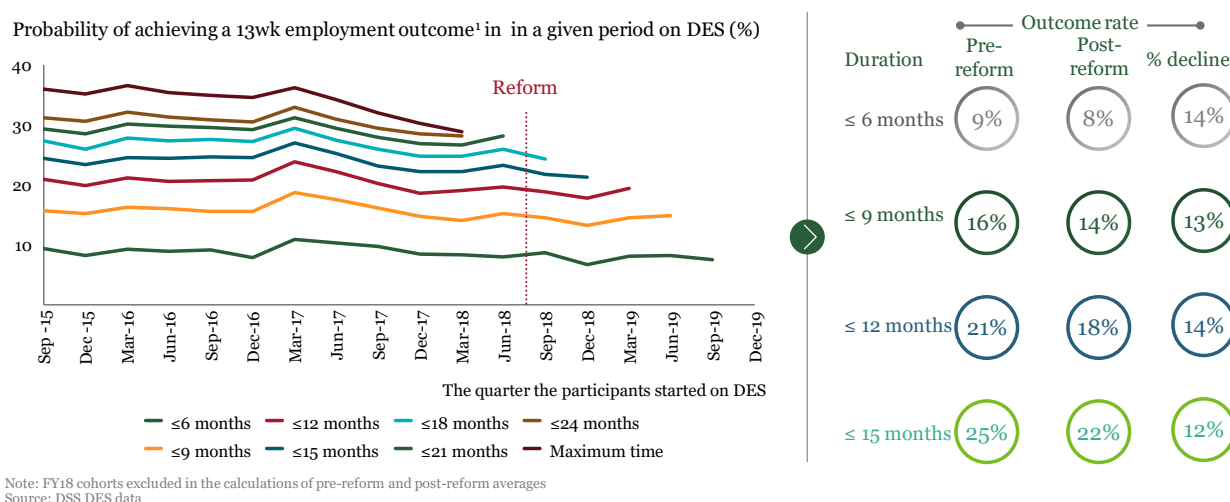
In the absence of a controlled experiment, information reported by participants could be an alternative gauge of the impact of DES above baseline outcomes. Such information is not currently collected by the Department; however, given its criticality to assessing program performance, an ongoing collection effort is recommended in the future. It is also noted that efficiency metrics, such as cost-per-outcome measures, are currently not regularly reported by the Department in its public data reporting.

A natural question when considering such cost estimates is the quantification of the benefits arising when an individual with a disability achieves an employment outcome. Of course, this is a highly subjective question, with benefits spanning both financial savings (reduced spend on income supports for individuals receiving allowances) to improvements in individual wellbeing, as well as potentially long-term improved life outcomes.

No attempt to quantify the full suite of benefits was made as part of this Review. It is noted that the Department also holds no source-of-truth estimate for the overall value of obtaining employment outcomes, a situation which complicates the assessment of overall program efficacy and efficiency, and for which rectification is suggested in Recommendation 34.

It should also be noted that, given the rapid ramp-up in program caseload, some deterioration in outcome rates, i.e. the ratio of employment outcomes achieved to total participant numbers, could be expected: new participants are expected to require a period of support before outcomes achieved. Indeed, this can be seen in Exhibit 21, which shows a deterioration in the probability of finding employment after any particular duration on DES to have declined by 12 per cent (in relative terms) post-reforms.

Exhibit 21. Outcomes rates have also fallen post-reform by ~12 to 14 per cent



However, the lack of any substantive improvement in the absolute level of employment outcome achievement post-reform (per Exhibit 18) suggests that there is indeed grounds for concern.

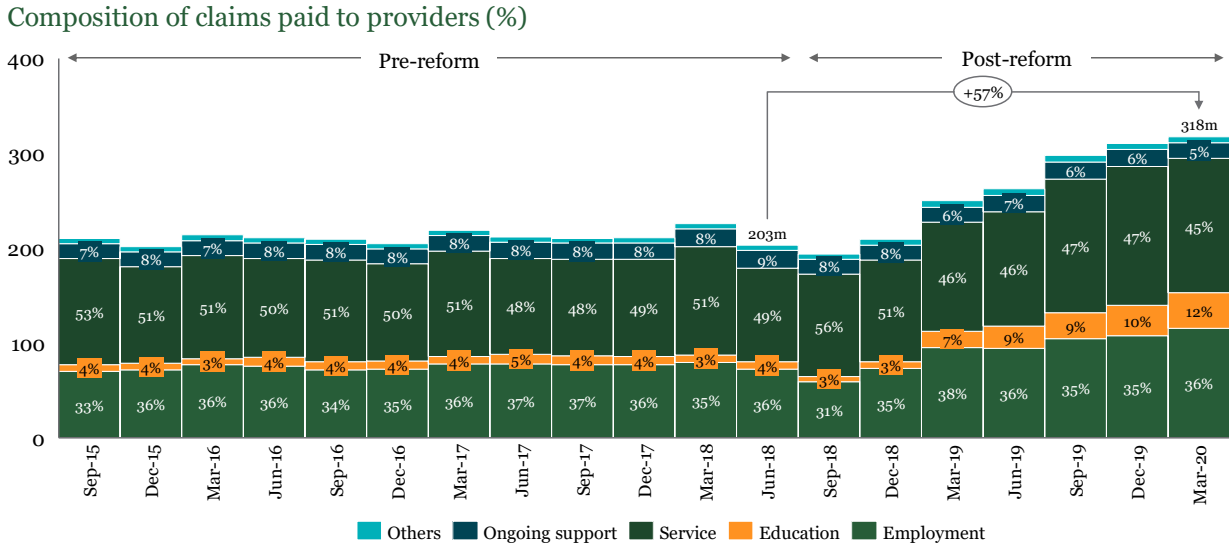
3.2. Understanding program performance

To understand this seeming poor performance, it is necessary to examine trends in both costs and outcomes in more detail. On the cost side, Exhibit 22 shows a high-level decomposition of provider claim types by category. The total increase in spend between June 2018 and March 2020 is driven roughly principally by increases in spend on:

- Education outcomes (35 per cent of the total increase)
- Quarterly service fees (32 per cent)
- Increased expenditure on employment outcomes (31 per cent)

These contributors are discussed further below.

Exhibit 22. Claims paid to providers have risen substantially in recent years

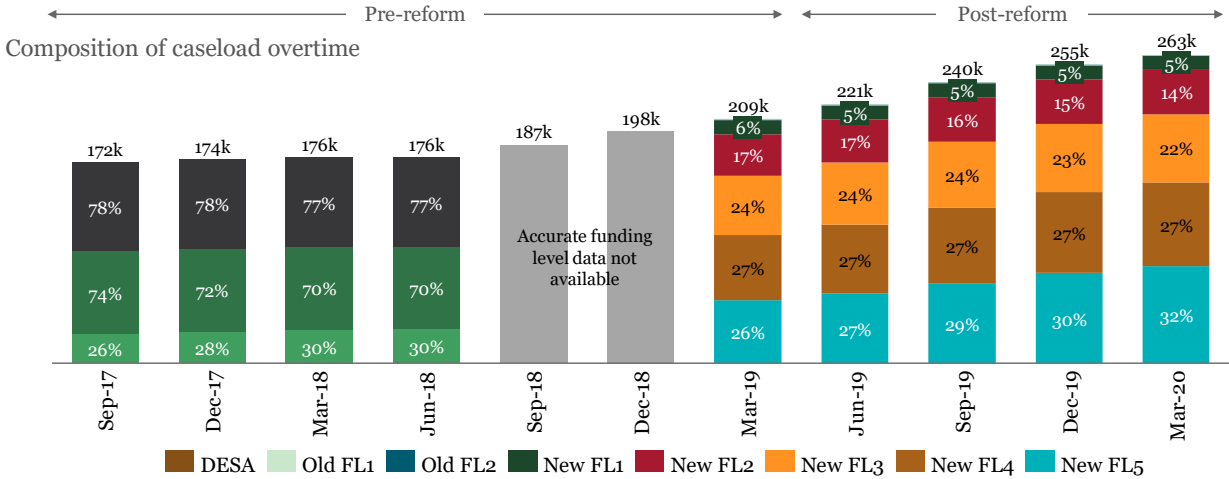


Source: DSS DES data, BCG analysis

The trend rise in the spend on employment outcomes might initially appear more puzzling. It can be decomposed into three factors:

- The increase of around 7.6 per cent in the average number of employment outcomes achieved post-reform (see Exhibit 18)
- The shift to the new risk-adjusted Funding Levels, which on balance were somewhat more expensive than the pre-reform levels
- An alteration in the composition of program participants. As shown in Exhibit 23, the DES participant population composition has shifted sharply towards higher Funding Levels over time, with the share of FL5s, for example, increasing from 26 per cent in the March quarter 2019, to 32 per cent in the most recent quarter

Exhibit 23. The Funding Level profile of participants has increasingly skewed towards higher levels post-reform



Understanding the cause of this composition shift (which also affects other payment types, including education and quarterly service fees) is important to understanding the overall cost rise. Changes in composition can be driven by either:

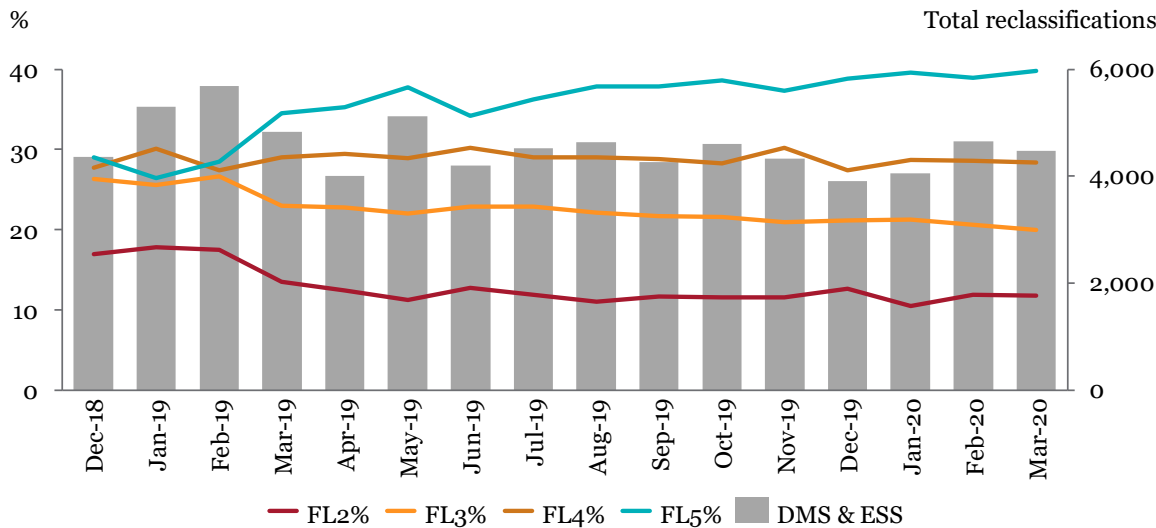
- Changes in composition of new entrants to the program

- Changes in the classification status of participants already on the program, i.e. reclassifications

To some extent, both factors are in play. Exhibit 24 shows that around ~4,000 participants are typically reclassified per month, with all of them (due to rule restrictions on funding downgrades) moving to higher Funding Levels. Meanwhile, the composition of new program entrants (which range around ~5,000 to 6,000 per month) has become increasingly skewed towards higher Funding Levels over time Exhibit 25.

Exhibit 24. Reclassification of program participants occurs at a continual rate over time, with Funding Level 5 reclassifications making up the largest category

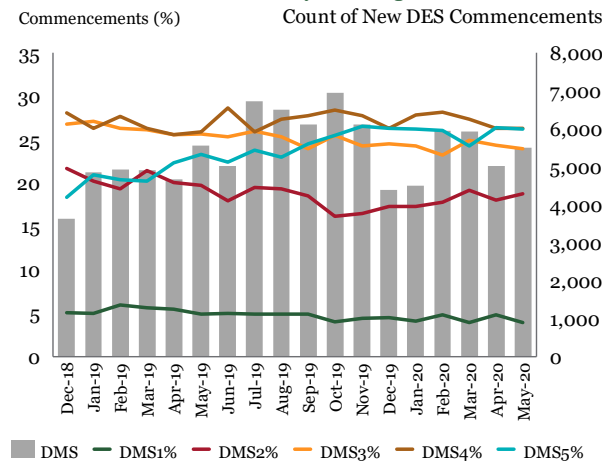
Total count of reclassifications per month by funding level



Note: Plot starts at Dec-18 due to inaccurate funding level data available before Dec-18
 Source: DSS DES data, BCG analysis

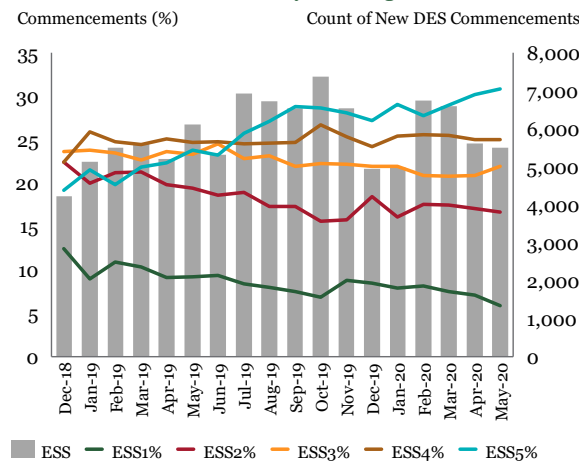
Exhibit 25. The Funding Level profile of new entrants has shifted towards higher levels over time

DMS New Commencements by Funding Level



Note: Plot starts at Dec-18 due to inaccurate funding level data available before Dec-18
 Source: DSS DES data, BCG analysis

ESS New Commencements by Funding Level



The changing composition of new entrants could potentially be attributed to a selection effect for transferees from jobactive. As discussed in Section 17.2.2.1, such transferees are likely to be relatively harder-to-place. Note also that the definitions used in assigning participants to streams in jobactive or Funding Levels in DES do not represent a smooth continuum. Once it is assessed that disability is the primary barrier to employment – and that an individual should be in DES rather than jobactive Stream C – other factors, such as homelessness and lack of supports, may lead to them directly being classified in the

higher DES Funding Levels.

In any case, population composition changes, however, are far from the only factor affecting total cost. The increase in spend on education outcomes is principally being driven by the rise in the number of education outcomes achieved and the greater incentives for providers to pursue education outcomes following the 2018 reforms. The rise in quarterly service fees is the combined effect of both the increase in overall caseload and shifts in average time spent in the employment assistance phase.

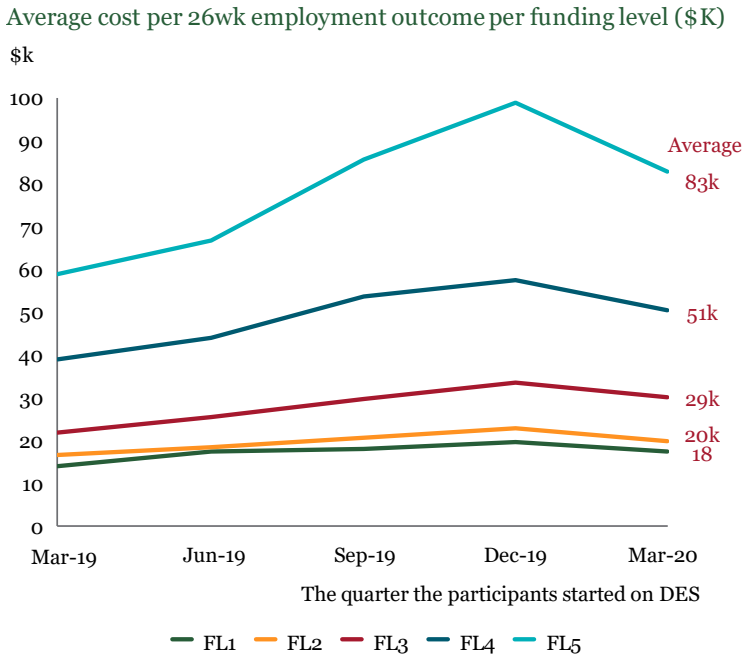
3.3. Other performance metrics

Various other measures of program performance are also worth considering, including the variation in outcome rates across participants, and the length and quality of employment outcomes.

3.3.1. Performance across Funding Levels

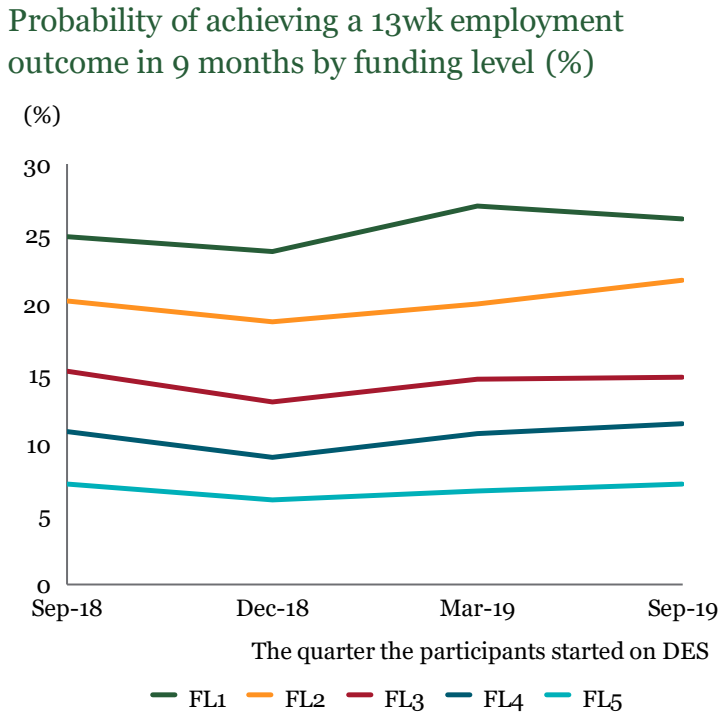
As shown in Exhibit 26, the average total spend per 26-week employment outcome varies considerably across Funding Levels, from \$81k in the March quarter 2020 (down from a high of almost \$100k in December quarter 2019) for FL5, to \$17k for FL1 and FL2. This reflects the relative difficulty in obtaining employment outcomes across these cohorts: for example, as shown in Exhibit 27, ~18 per cent of individuals in Funding Level 1 (FL1) currently typically obtain a 13-week employment outcome within nine months, while only ~6 per cent of FL5 participants do.

Exhibit 26. Average total spend per 26-week employment outcome varies considerably across Funding Levels]



Source: DSS DES data; BCG analysis

Exhibit 27. Chances of finding even temporary employment are sharply divergent across Funding Levels, ranging from ~25 per cent (FL1) to ~7 per cent (FL5)



Source: DSS DES data, BCG analysis

Of interest, a (slight) trend increase is observable in the outcome rates for all Funding Levels in Exhibit 27, in contrast to the decline in outcome rates for the population overall shown in Exhibit 21. This seemingly contradictory result is driven by the changes in population composition shown in Exhibit 23: while FL5 outcome rates improve, they are still lower than all other cohorts, while FL5 is a growing share of the total.

The causes of this improvement in outcomes by Funding Level is unknown. It may reflect genuine improvements in program performance, or alternatively could be due to some composition effect not reflected in classification algorithms.

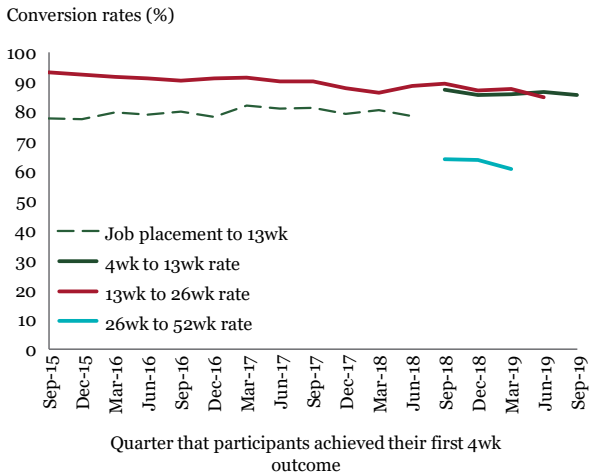
3.3.2. Duration of employment outcomes

The duration of employment outcomes achieved by DES participants is also relevant to any assessment of program performance. It should be noted that both long-term and short-term employment may be beneficial: for example, short-term seasonal placements may lead into more lasting positions. Nonetheless, the duration of employment outcomes post-reform does not appear to have improved:

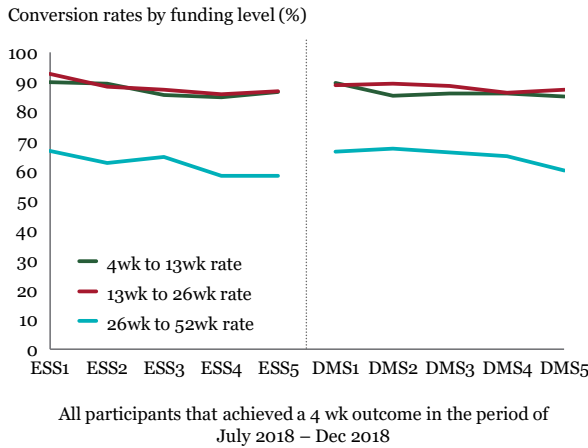
- The conversion rate between 13 to 26-week outcomes has declined slightly, from 89 per cent for individuals starting employment in the June quarter 2018 to 85 per cent for the September quarter 2019 (the most recent quarter for which this assessment can be made)
- Conversion rates for 26 to 52-week outcomes are substantially lower, at ~60 per cent (see Exhibit 28), though this is not surprising given there is an additional 13 weeks between measurement

Exhibit 28. Conversion rates between employment outcome durations have changed little or declined slightly over time

Large drop-off rate between 26 to 52 weeks



Conversions rates are similar across funding levels



Source: DSS DES data; BCG analysis

Placeholder. Commentary on and analysis of 'churning' (repeated short-term placements) to be conducted for final report.

Exhibit 29. Various providers reported that ‘creaming’, ‘churning’, as well as more pronounced gaming behaviours, are common.

Service providers may be resorting to undesired behaviours

“Poaching participants from out the front. Bad competitiveness, like offering ipads to sign up. It’s destroyed the sector.”

“They are cherry picking and not servicing everyone. For example, they will purposely offer bad service to a hard to place participant, and suggest they go down the road. Even participant choice is being gamed.”

“We are just money to them. It’s a pay packet, they don’t listen. I tell them things, but they just do the opposite”

Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

Some providers suggest job carving and churning are common

“Churning. We find 5 employers. We tell them, take this person, 8 hours, 6 months on a supported wage. At the end of the 6 months, tell them what a great contribution they’ve made, and move out that participant, and a new one goes in. and they cycle through 5 employers collecting outcome payment after outcome payment”

“Job carving, driven by low mutual obligations. Take a 38 hour role, carve it into eight five hour roles... and then tell the employer they’re doing a great thing.”

3.4. Employer and participant perspectives

The success of DES is contingent on its ability to productively bring together employers and participants. Research engagements suggested multiple pain points on both sides of the labour market, detailed below and summarised in Exhibit 30 and Exhibit 31. In addition, Exhibit 32 to Exhibit 34 provide summary personas for both participants and large and small employers). As suggested in these exhibits, a considerable amount of frustration was expressed on all sides.

3.4.1. Employers seeking higher service standards, customisation, clear entry points, and simpler processes

The performance of DES is, on average, quite distinct between large (e.g. over ~500 employees) and small-to-medium employers. As shown in Exhibit 30, large employers identified four major pain points regarding interactions with DES providers:

1. Quality and professionalism are seen to be lacking. Employers complain of being flooded with inappropriate applications, and of dealing with poorly-skilled staff who lack understanding of the corporate environment
2. DES providers are seen as offering generalist knowledge, while employers seek recruiters able to understand the needs and role profiles of their industry
3. The large number of DES providers and the geographically-oriented model mean large employers **struggle to find a ‘front door’** into the system. Employers do not want to manage engagements with multiple DES providers across different regions, but nor do they want to limit the size of the talent pool they can access
4. Associated bureaucratic processes are seen as complicating the employment process. Participation in DES may require employers to assist in providing evidence required for compliance and audit checks

Conversely, the experience of SMEs is generally more positive. SMEs typically:

- Have a compressed regional footprint, more likely to align with a small number of Employment Service Areas and, consequently, to be covered by a single DES provider
- Are more likely to rely on local, interpersonal relationships, including with provider employee consultants
- At least on average, place less emphasis on professionalism and formality

- Place greater value on benefits associated with DES employment, such as wage subsidies
- However, bureaucratic processes can sometimes present as an even bigger burden for SMEs.

Exhibit 30. Employer concerns span DES quality and professionalism, ease of engagement, levels of industry expertise, and quality of job matching

Despite high engagement, employers report lack of professionalism and service quality

"I used half a dozen DES providers. They are useless. They are structured by region and I can't cast my talent pool wide. Hiring with DES is a waste of our time. They do NOTHING."

"I've been trying to hire through DES for 3 years and never had a success. I have 30 roles for PwD too fill. I'm eager, but DES can't deliver."

"I had a full day workshop with [provider x], and it became clear to me that they didn't know anything about how to recruit."

Employers are disgruntled by bureaucratic processes, leading to frustration and fatigue

"Employers get a spark in their eye when we say we are not going through DES."

"The employers are so frustrated by the paperwork that they have to do... they just opt out. And once they are burnt, they're gone forever"

"The employers are so frustrated by the paperwork that they have to do... they just opt out. And once they are burnt, they're gone forever"

Large employers feel DES providers don't understand the role requirements, inhibiting their ability to match roles

"The problem is that they have no idea of what the needs of a corporate role are. They [employment consultants] don't understand what it's like to work in an environment like this, what skills are needed for a role, so it's just guess work"

"I appreciate that the market is hard, but to find out that basic skills were missing (when they were stated as being present) and that two weeks of dedicated training needed to be repeated... that was disappointing"

Resulting in high employer turn over, organisational burn out and mistrust in the DES brand

"We bring someone on. Invest in them. Time, training, onboarding, adjustments. Tens of thousands of dollar. And they just aren't right for the job. It's a huge waste of resources for our organisation, but I'm more concerned about the impact on the PwD... everyone set up to fail"

"DES fibbing about genuine skills. I'd rather know what training I have to put in upfront than find out a month later that they're struggling."

Service providers seen as not equipped with domain expertise to serve knowledge based employers

"DES simply doesn't work for the knowledge industry, they don't know how to identify relevant strengths and prepare potential candidates."

"Our cyber people commonly tell us they are being cycled through fast food by DES. They have no idea how to get them into domain specific careers. No networks"

"DES need to be industry focused, recognising to know the domain. You need expertise and strong networks. It's about advocating for that person."

Large employers have high expectations of mutual partnerships, supported by knowledge and expertise ...

"The churn is ridiculous. I need to work with partners who understand our business ...I don't even think they want to be there"

"I want to find providers who get our business. One contact. Build on a relationship. I'd rather pay."

"Honestly, it's clear no one at DES has ever mapped the service they offer against the large organisations recruitment model. They need to solve it. The DES providers don't work like that"

... with access to a large talent pools across geographies with aligned skillsets

"Just some random branch in Brisbane looking for a random job. It's really problematic. We need scale. We get 300k applications a year. We can't manage fragmented relationships. Not feasible, not scalable, not efficient"

"Every DES provider I work with has to go through our painful procurement process. I need one company. One recruiter for the whole country."

"I used half a dozen DES providers. They are useless. They are structured by region and I can't cast my talent pool wide. Hiring with DES is a waste of our time. They do NOTHING."

Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

Consequently, providers interviewees typically reported that they preferentially focus more on obtaining employment placements with small-to-medium enterprises (SMEs).

3.4.2. Participants concerned by support levels, job matches, and sense of control and informed choice

Research engagements with participants identified four major themes:

1. Participants felt a lack of individualised support, with many expressing they do not feel their provider understood the requirements of their disability or preferences
2. Perceptions of job matches as poor quality, in turn leading to high role turnover
3. Participants expressed they felt overwhelmed by the complexity of navigating the DES program in conjunction to adjacent government support programs, causing a lack of control and understanding
4. All participant interviewees considered that they were not equipped to make informed choices, with no awareness of star ratings and an inability to access information required to make decisions based on what matters most to them

These pain points are illustrated with quotes from interviews in Exhibit 31. Per the above, it is noted that while the Department tracks employment outcomes, no clear data exists on employment quality, impeding assessments of program performance. Recommendation 30 suggests more expansive data collection in the future.

Exhibit 31. Participant concerns included the quality of service and the understanding of their needs

Job seekers do not feel many employment consultants possess the disability expertise required to provide individualised care

"Eventually I hope to come across the right one [service provider]. It would be good if they could cater and know me [specific disability needs]. Know everyone's needs. Because we are all different."

"They look at us like we are a ticket. It annoys me. They shouldn't have those staff members who don't understand disability. Or even care to. Just in and out."

Job seekers express a desire to be listened to, and work with providers who care about their whole of life wellbeing

"As soon as finished education they never returned my call. I don't know why. I just wanted them to help me"

"honestly they need to open up. Help people through life. They just think everything else is not their problem"

"I basically just want someone to listen to me, to work towards my goals, not just push me to the side."

Despite expressing strong preferences, many job seekers felt their preferences had not been listened to, with KPIs being prioritised over the individual

"He didn't want to do hospitality, he tried it in a volunteer position and really didn't cope... yet they kept putting him in more hospo jobs, km's from where we live. Unable to get there. They don't care. It's just a tick box"

"yeah they gave me a volunteer job at [restaurant chain], paid me less than \$10 an hour. I felt used up. I had already told them I didn't cope in hospitality. But they don't care. They never listen to me."

"I called them tonnes of times over the year. Told them I was miserable. Told them I was being bullied. Told them this job wasn't for me, and they never did anything. They didn't care, they just wanted to shove me there"

Consequently job seekers' confidence and trust in the DES system is weak

"All the jobs I keep trying and that I don't do well in. It makes me feel like maybe there is no job for me."

"Sacked after 8 weeks, and no idea why. No opportunity to learn or get better."

"The best volunteer jobs I had came from friends or mum asking around, not them [DES]. Things I enjoy doing."


Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

Exhibit 32. Illustrative persona of a large employer recruitment lead

Large employer
HR recruitment lead

John



36 years old
Melbourne, VIC
Single
12 years in HR

About

John is the HR recruitment lead for a large bank. As part of their diversity and inclusion initiative, they are seeking to increase the number of individuals they hire with disability. The bank has hundreds of open roles nationally, spanning from retail branches, regional call centres, to digital. Partnering with DES providers has been challenging. John feels they don't have a level of professionalism and accountability required to operate in a corporate, underpinned by the ability. to provide well matched candidates at pace and scale

🎁 Needs

- Professional, single partner who knows my industry
- Ability to hire at scale with access to large talent pool able to fill roles nationally
- Access to training resources to equip team leaders with skills and knowledge to better lead people with disability
- A trusted recruitment consultant with deep understanding of how the bank operates
- Recruitment consultant to understand how the bank works, and be able to identify good candidate matches

📁 Motivators

- Collaborating with partners who have shared goals, willing to pay recruitment fees for a strong and accountable recruitment partner
- Building and supporting a more diverse and inclusive organisation, Creating sustainable top down change through hiring senior leaders with disability

🩹 Challenges

- Procurement and onboarding of prospective DES partners, and associated administration burden
- Inability for DES providers to fill roles across all sites, due to geographical model
- Poor matching of candidates resulting in low retention rates
- Getting applications for candidates for skilled
- DES provider does not understand how to operate in corporate, or identify the skills and strengths required too thrive in roles

“To be a truly inclusive organisation, we need to transform our culture from within, and equip our leaders with the skills needed to be effective and supportive.”


A day in a life

9am	10am	1pm	2pm
Check and respond to emails.	HR all hands to gain visibility on open roles hiring priorities.	Meets with recruitment partners.	Conducts candidate final stage interviews.

Exhibit 33. Illustrative persona of a small business owner

Small business owner

Kartik



56 years old
Warrnambool, VIC
Married with 2 children
Jewellery business

About

Kartik has been operating his small jewellery business for 12 years, hiring 6 employees and working from the retail and workshop space in town. When he moved to Australia, Kartik was given a shot by a local business. He feels it is his duty to pay it forward. He was introduced to a local DES provider by a friend who had a great experience. After a visit from the employment consultant, Kartik decided to take on a new team member. His first employee through DES was not a good fit, but then he found Bianca, and has been with the team for 4 months.

Needs

- Long term assistance in the workplace to provide continued support to Bianca
- Competitive wage subsidies to enable additional time to invest in Bianca's onboarding and training
- The right candidate who is reliable and willing to work
- Close mentoring for Bianca to learn and grow in the business
- Ongoing support for Bianca to manage episodic needs long term

Motivators

- Doing the right thing by the community and give back
- Providing employment opportunities to those who need it
- Building a team that is diverse and supportive of each other, and collaborates towards a shared goal
- Training exceptional craftsman to be the next generation of local jewellers

Challenges

- The admin and paperwork required by the DES provider is cumbersome and time consuming
- Investing adequate time into Bianca's growth and training, while managing the demands of owning and operating a small business
- Managing risk of wanting to do the good thing, but not at the cost of my business

A day in a life

9am

Arrive at workshop and get to work on creating jewelers

11am

Open retail store front to customers

5pm

Close retail shop for the day, check in with team and tally the till

9pm


After dinner complete bookwork, wages, tax and other administrative requirements

"I'm not concerned about qualifications, what's most important is that they are dedicated, want to learn and stay in the role long term."

Exhibit 34. Illustrative persona of a DES participant

Job seeker

Kevin



26 years old
Brisbane, QLD
Lives with parents
11 months on DES

About

Kevin lives outside of Brisbane CBD with his parents. He has autism and moderate intellectual disability. He is currently completing his certificate three in hospitality, but long term would like to work in animal care. His hobbies include video games and playing soccer with his older brother. He has a love for animals, especially the family dog.

Kevin's goal is to become financially independent so that he can live alone. Despite the completing six volunteer roles, he is yet to find paid work. He is dedicated to his search for a part time job.

Needs

- Provider to better understand his disability
- Consultant to listen and be proactive in finding him a job that will be a good match for his skills
- Better support tools to make an informed choice when changing service providers to
- To feel like the provider actually cares and is committed to helping him
- More hands on support, training and coaching for interviews and when beginning new role
- Be able to turn volunteer work into a paid position

Motivators

- Finding an interesting and enjoyable part time job, ideally with sports or animals
- Living independently within the next two years
- Finding a great provider who is dedicated, proactive and cares, even if it requires changing many times

Challenges

- Doing repetitive tasks, or roles requiring high amounts of customer service
- Finding a provider who really cares about finding a great long term job
- Building a trusted relationship with consultant as they often change or don't check in
- Support to finish certificate three as the classroom based learning is too fast and difficult
- Fair and practical assessment of minimum work hours
- Limited public transportation options to commute to work

"I want to work like everyone else. I'm searching for a provider who just listens and cares. Sometimes I feel they just shove me in the corner."

A day in a life

8am

Wakes up, breakfast with family.

11am

Attends appointment at service provider in town.

2pm

Attends online course for certificate three in hospitality.

5pm

Plays video games

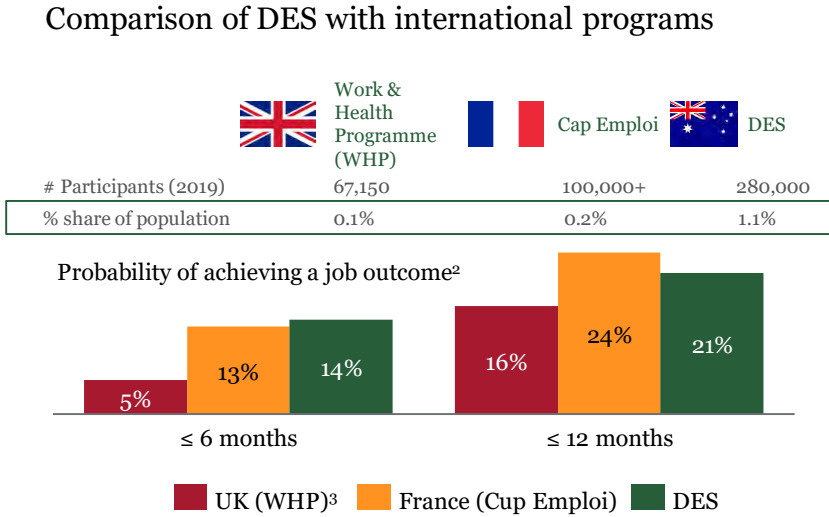
3.5. International performance comparisons

Comparing the performance of employment programs is inevitably challenging due to differences in population composition and the absence of a ‘controlled experiment’ approach to testing design variations. Nonetheless, it is instructive to compare performance against both parallel international programs and jobactive (the most similar domestic program to DES in terms of design and objectives).

Both the UK and France operate programs intended to assist people with a disability in finding employment outcomes. In the case of the UK, over the past decade the Work Programme (WP) followed by the Work and Health Programme (WHP) have followed a broadly similar path of using incentive design and third-party providers to drive outcomes. In France, the Cap Emploi program pursues similar goals, but through a state-operated system.

In both cases, the population served, both in absolute terms and as a share of the population, is substantially smaller than the DES caseload. However, outcome rates across DES and these parallel programs are broadly similar, as suggested in Exhibit 35 (again, it is emphasised that any such comparison should be treated as roughly indicative only).

Exhibit 35. DES achieves similar outcome rates to (smaller) programs internationally



1. For WHP, a job outcome is defined as when they have reached a specified level of earnings once in employment. Specified level of earnings varies across geographies within the UK. The national WHP and the majority of Local Government Partners have an earning so threshold as 16 hours per week for 26 weeks at the National Living Wage
 Source: UK Government Programme Statistics November 2019, Employment Services Outcome report Mar 2019

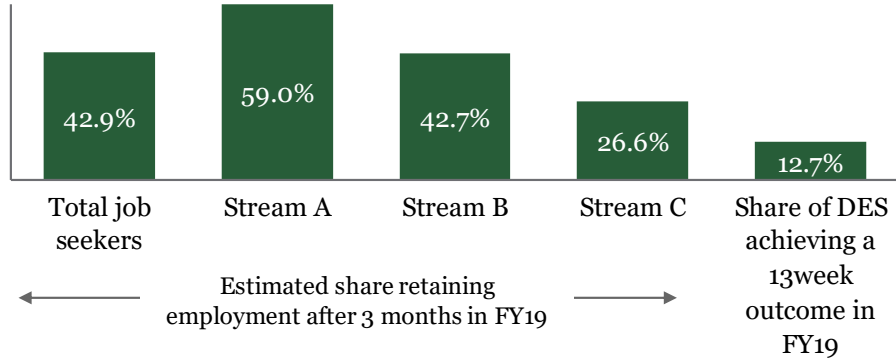
Locally, the DES population is most similar to that of jobactive Stream C, though individuals in DES should be expected to find disability to be a greater barrier to employment. As shown in Exhibit 36, however, it is estimated that outcomes rates in DES are substantially worse.

Exhibit 36. Approximate comparison of outcome rates across jobactive and DES

Comparison of jobactive and DES

	Stream A	Stream B	Stream C	DES
Population	158,460	160,740	60,800	280,000
% share of population	0.6%	0.6%	0.2%	1.1%

Job active employment outcomes¹



1. Stream A participants are the most job ready. Stream B participants face some barriers to employment (e.g. language barriers), Stream C are the most disadvantage (e.g. physical and /or mental health issues, or low capacity to work). A participant is considered employed if they indicate they work one or more hours, on average, per week.

Source: Employment Services Outcome report Mar 2019, DES Data

4. Assessing the impact and outcomes of the 2018 reforms

As discussed in Section 1.3, the 2018 reforms involved a large range of changes, including an increase in the degree of inter-provider competition and participant choice. This Section assesses the impact of each of the major planks of the reforms, finding a mixed set of positive and negative impacts overall.

- The expanded access to education outcomes has demonstrated the capability of the market to react to incentive design, particularly regarding the increased weight placed on education outcomes (Section 4.1). It is unclear, however, that the benefits of this approach to education outcomes exceed the costs, and the unanticipated run-up in spend has negatively affected program sustainability
- Greater competition and contestability has resulted in a substantially more dynamic market overall, with expanded provider activity and greater competitive tension (Section 4.2). The associated overall ramp-up in volumes can be viewed through both positive and negative lenses, but, to the extent the increase was unanticipated, it has contributed to perceptions of uncontrolled growth and spend. Additionally, and significantly, the market does not appear to be sufficiently rewarding 'good performance', nor sufficiently punishing 'bad performance', resulting in slow adjustment and contributing to the service quality issues identified in Section 3.
- Increased participant choice appears to be preferred by participants, with at least some evidence of greater satisfaction, at least compared to pre-reform state (Section 4.3). However, participant choice remains limited by lack of available and accessible information (despite the star rating system), and other limitations, at least some of which are under Departmental control
- The risk-adjusted funding model has allowed for greater flexibility to meet individual needs (Section 4.4), though there have been some teething issues in its implementation, particularly due to the lack of a regular and clearly communicated schedule for updates
- Among various other changes enacted in the reforms, adjustments to employment outcome payment structures (i.e. 4-week and 52-week outcomes) were likely a sensible measure, although further changes may be needed to better achieve the intended effect of lasting employment. In parallel, attempts to rebalance claims paid towards outcome payments can be considered a success, conditional on the classification of education as a type of outcome. In some respects, the 2018 reforms point the way to further reform of the payment schedule.

To the extent that the reforms had an overarching weakness, it was the lack of anticipation of the interaction effects of DES system design with jobactive, resulting in the unanticipated ramp-up in caseload and cost (see Section 2.2). Planks of the reforms are discussed in more detail below.

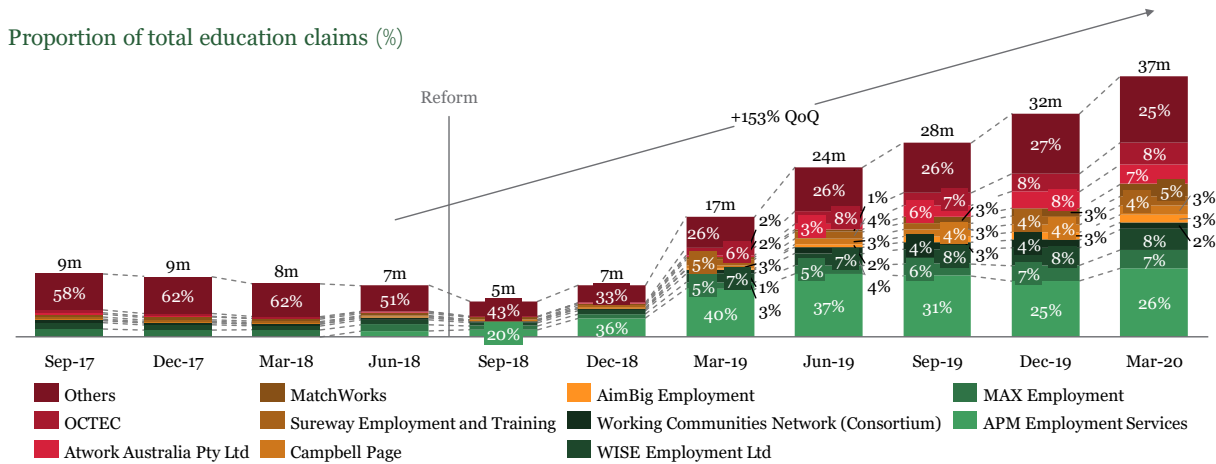
4.1. Expanded access to education outcomes

4.1.1. Education outcomes overview

As noted in Section 1.3, the reforms significantly expanded eligibility for education outcomes as it was considered that a broader cohort of participants may benefit from DES support in increasing their education level (i.e. participants who had not completed year 12 or equivalent, including DSP participants under 35 with compulsory participation requirements). Education outcomes have grown rapidly from a low of 3 per cent of total payments to providers in the September quarter 2018 (\$5m quarterly, \$20m annualised) to 12 per cent in the March quarter 2020 (\$37m quarterly, \$148m annualised), contributing around one-third of the total increase in spend over that period (see Exhibit 22).

Growth in education outcomes has been particularly concentrated among a small number of DES providers, as shown in Exhibit 37. However, the shift can be seen across provider business models, as shown in Exhibit 38, where reliance on education outcomes has picked significantly.

Exhibit 37. Growth in education has been driven by a small number of DES providers



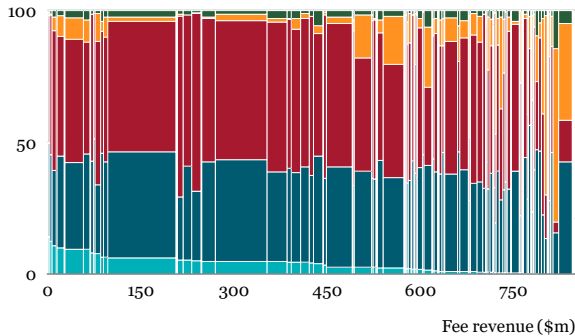
Source: DSS DES data, BCG analysis

Exhibit 38. Increased reliance on education outcomes spread across service providers, but to varying degrees

Pre-reform, education accounted for a small proportion of total revenue

Fee revenue by provider and fee type (FY18)

Fee type as percentage of total fees (%)



Following reforms, there has been a stark increase in education

Fee revenue by provider and fee type (FY20¹)

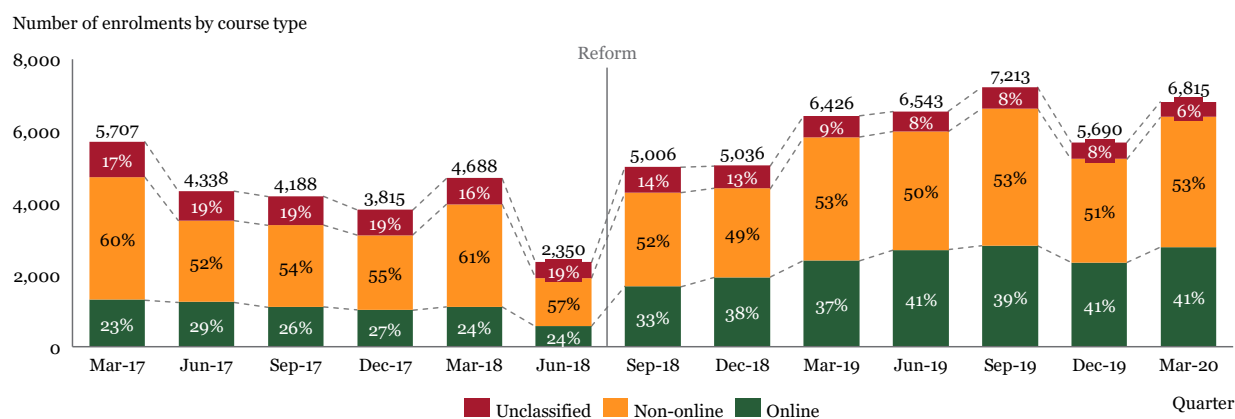
Fee type as percentage of total fees (%)



1. Q1-Q3 only
Source: DSS DES data, BCG analysis

Since the reforms, the market for provision of education services to DES participants has grown substantially. Indeed, some education providers have customised their offer to the needs of the DES market, integrating digital systems that assist in Mutual Obligation management (for both DES providers and participants) into their education services, providing them with a competitive edge in the market. Note also that the share of digital courses of study in education outcomes has increased substantially post-reforms (see Exhibit 39).

Exhibit 39. Online courses have increased their share of education outcomes post-reform



Source: DSS DES data, BCG analysis

4.1.2. Education outcomes assessment

Three considerations are relevant when considering the rise in education outcome spend:

1. Do education outcomes offer substantive benefits to jobseekers?
2. Do the benefits realised exceed their associated costs?
3. Does the approach of funding third-party providers to support employment outcomes offer the most favourable cost/benefit trade-off among available policy options?

For the increase in education outcomes to be unambiguously welcomed, an affirmative response would be needed against each of these questions. However, it rather seems that significant doubt exists in each case. Respectively:

4.1.3. Benefits of education outcomes

Opinions regarding the benefits of education outcomes for jobseekers are varied. Multiple provider interviewees expressed sharp scepticism on this issue, as summarised in Exhibit 40. While the value of education is generally accepted as a basic principle, concerns span the relevance of the courses studied, the extent to which participants are assisted in course completion, and the relationship between study and subsequent employment. Employers, in both interviews and survey, tended to have a more negative view of educational outcomes than providers (Exhibit 41).

Exhibit 40. A range of stakeholder interviewees expressed scepticism towards education outcomes

For employers, alignment in strengths and a motivated candidate, is more important than certificates

“Certificates? For <large org> that was given zero consideration when choosing candidates. It says nothing. I trust the judgement of the recruiter, not what is written on a CV”

“Value certificates? Nah. We are looking for raw talent. We do that through games, not a CV.”

“The only thing that education leads to is more money for providers. There is no eye on how education transitions into employments. What a waste of tax payers money education is.”

Claims harder to place individuals are being parked in education, with job readiness not addressed

“Education is a carpark. Some providers putting almost all people in education. How is that allowed?. The end game should be still be employment.”

“Participants don’t want to do education, but we have to force them.”

“There is no evidence that this type of education improves outcomes for people with an intellectual disability. Where our people benefit is on-the-job training.”

“They [the department] told us that education was the same outcome payment as job placements, so that is what we pursued.”

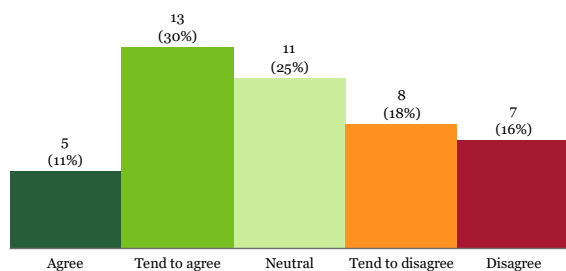
“the teachers don’t know how to teach for us, so what’s the point. I can’t keep up. I hated it.”

Service provider Employment consultant Employer Disability advocate Job seeker

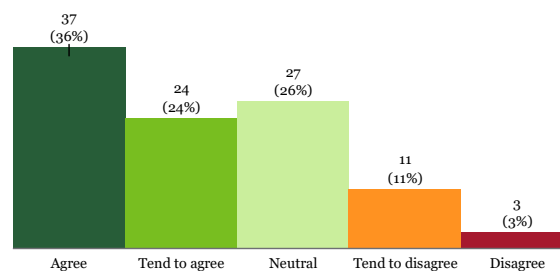
Source: DES Review research engagements, BCG analysis

Exhibit 41. 11 per cent of employers considered education critical to job outcomes, compared to 36 per cent of service providers

Employers | Completion of educational qualifications (such as Certificates III or IV) is an important factor in our decision-making when hiring people with disabilities



Service providers | Completion of education outcomes substantially increases DES participants’ chances of finding employment



Source: DES Review research engagements, BCG analysis

Furthermore, although the 2018 reforms intended to improve the number of participants achieving the qualification of the courses undertaken this has not actually occurred. By only requiring participants to be passing the course requirements at the time of the claim, it remained possible for participants to not achieve the actual qualification because they either:

- Were passing the semester at the time of the outcome, but then failed the final exam; or
- Passed the semester, but did not complete the work placement hours required to achieve the certification (which many Certificate IIIs require)

Participant interviewees gave evidence of them being given “participation certificates” by training organisations to satisfy this requirement, and were not given any assistance by their provider in undertaking the work placement hours. This is a flawed approach for courses of six months duration with modest work placement requirements (e.g. 120 hours for many Certificate IIIs)

The Department is considering options to more thoroughly require course completion and certification prior to payment of education outcome claims.

In addition, the assurance and oversight of education outcomes represents a challenge for the Department, particularly given the increasing online share. If a continued emphasis is placed on education outcomes, more mechanisms may be needed to ensure participants are truly benefiting from course learnings.

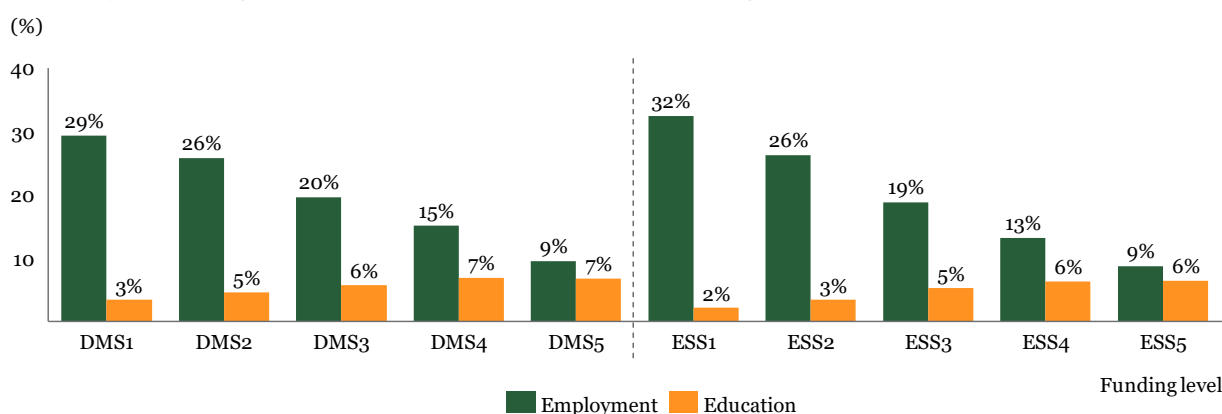
4.1.4. Education outcome costs

When considering whether the benefits of education outcomes are likely to exceed the costs, both direct and indirect costs should be considered. Among the former, the financial expenditure on education outcomes at the individual level can be indeed be quite large (see Exhibit 4), up to \$14,100 for completing 26 weeks of study at the ESS5 level.

Current education outcome incentives may also have indirect costs. It is estimated that the support, in terms of employee consultant time, needed to deliver an education outcome is substantially less than that for employment outcomes, and that consequently the provider profit margins for education outcomes are substantially larger. This effect is estimated to be particularly pronounced for higher Funding Levels. Indeed, it is noted that achievement of education outcomes is concentrated at higher Funding Levels (Exhibit 42). Overall, the slow increase in employment outcomes compared to education outcomes is suggestive that provider effort is being expended on the latter, rather than the former.

Exhibit 42. More difficult-to-place Funding Levels have higher rates of achievement of education outcomes, but lower rates for employment outcomes

Probability of achieving a 13-week outcome 12 months after commencing in DES



Source: DSS DES data, BCG analysis

4.1.5. Cost/benefit trade-offs among availability policy options

The question of whether other policy options would offer a more favourable cost/benefit trade-off is not addressed in detail. It is noted, however, that payments to third parties are inevitably an indirect mechanism. Alternative policy levers could include:

- Funding education providers directly to support participants (which could allow for benefits from economies of scale, rather than tying funding to individual people with a disability)
- Funding employers to support participants in training courses either pre- or post-employment
- Subsidising participants for course costs, or other expenses associated with study (including the hiring of support services)
- Incentivising course completion via, for example, bonus payments for participants, or release from mutual obligations not only during the period of study, but for some time afterwards

Recommendations regarding education outcomes are discussed in Section 7.1.1.

4.2. Greater competition and contestability

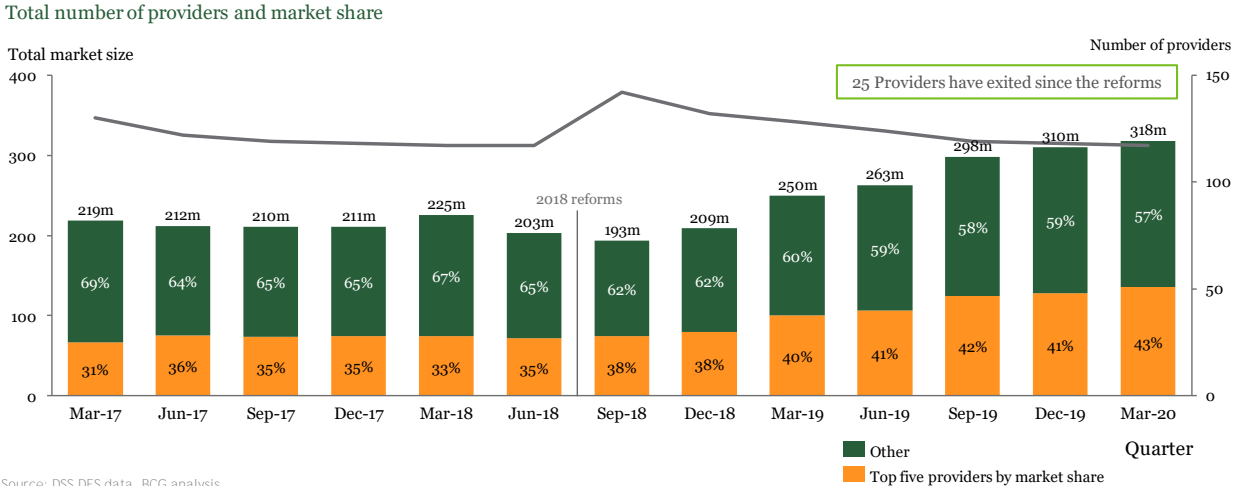
Removal of market share caps and the consequent greater level of competition between providers has made the DES provider market substantially more dynamic, evidenced in measures of activity across ESAs and reported in both provider interviews and surveys. As discussed in Section 2, this competition has been a key enabler of the post-reform increase in DES caseload. Challengingly, however, it is not clear that competitive energy is being channelled appropriately, with negative implications for overall program performance.

As an aside, it is worth noting that alternative approaches to competition have been employed elsewhere: for example, the UK Work and Health Programmes both assigned providers monopolistic positions in relatively large geographic areas, but using a process of competitive bidding to set payment schedules. Australia, conversely, fixes the payment schedules, with the intent of allowing competition on quality of service offered.

4.2.1. Increased competition strongly felt by providers

As shown in Exhibit 43, the total number of providers across the entire country ranged around 120 both pre- and post-reform.

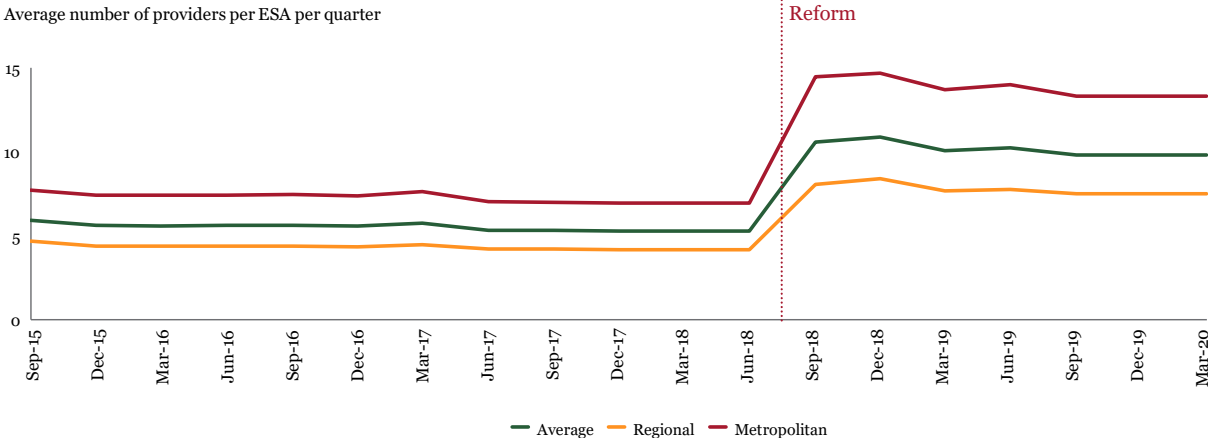
Exhibit 43. Some consolidation since the 2018 reforms, however the pace has been slow



However, this headline measure understates the change in the competitive landscape. At a regional level, following the reforms there was an immediate and sharp increase in the number of providers per ESA, in both regional and metro areas (Exhibit 44). This change has been distributed across all ESAs, with almost a third of ESAs seeing the count of providers more than 2x higher in March 2020 than June 2018 (see Exhibit 45).

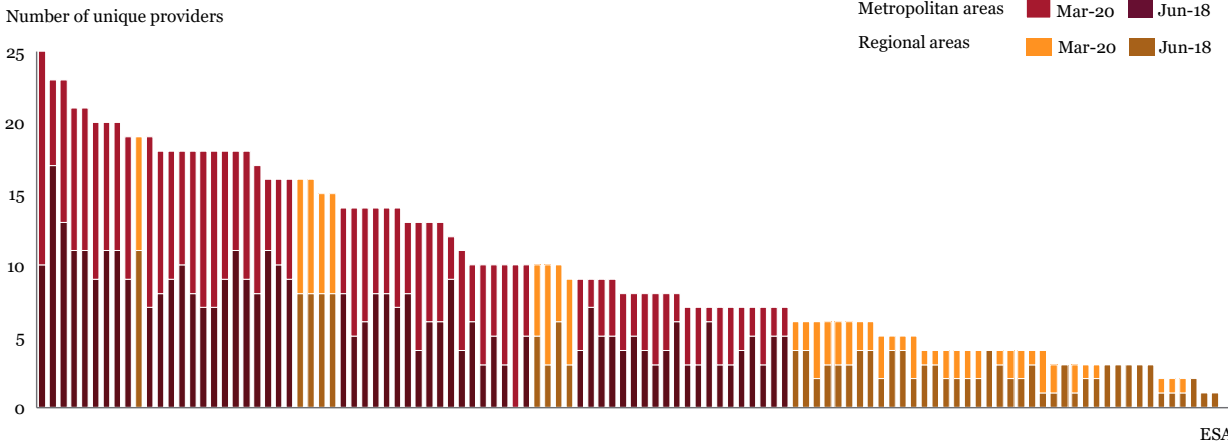
Exhibit 44. The average number of providers per ESA increased substantially following the 2018 reforms

The growth in providers per ESA was immediate after the reforms, with providers taking up the opportunities to enter new ESAs and open new sites



Source: DSS DES data, BCG analysis

Exhibit 45. Reforms have led to significantly more competition, with the number of providers per ESA doubling



Reports from service providers reflect how this change is felt on the ground. Providers expressed views that the extent of the competition, and the pace of growth, if anything is having negative effects, including:

- ‘Poaching’ of front-line staff
- Lack of collaboration or sharing of best-practice learnings
- Pressure to sign-up participants

Providers’ subjective experiences are summarised in Exhibit 46.

Exhibit 46. In interviews and surveys, emphasised the negative impacts of increased competition

Crowded ESAs leading to growth-orientated competition

"The bit they got wrong is opening up to everyone. Let the market consolidate. We have people knocking on our door, please buy out our caseload."

"Needs to be some sensibility of how many entrants are in one geography. It's ridiculous. It's flooded."

"We need to have less providers and larger case loads. Better for everyone"

"They try to poach our well trained staff, and get them to bring the caseload with them."

Competition for caseload claimed to distract from focus on the job seeker

"The battle for case load is challenging. Bad behaviour everywhere. Poaching staff, because they have no expertise. Trying to bring across the caseload with the staff."

"Cairns, Coffs Harbour. From 5 to 30 providers. It's insane. There aren't even enough jobs there."

"Everyone is focusing on growing a caseload, staying afloat, and somehow the client has been forgotten."

"The ones who can afford billboards are growing. Imagine if they spent the money on clients, not advertising?"

Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

4.2.2. Competition & contestability driving post-2018 ramp-up

Per Section 1, the removal of market share arrangements was a key contributor to the post-2018 ramp-up in caseload. It should be noted that this increase in caseload was at least partly intentional, to ensure individuals who required DES services were accessing them.

Assessing whether the increase caseload should be seen as desirable in and of itself is a difficult question: ultimately, the increase simply reflects the application of rules laid out by the Commonwealth (including in the JSCI, ESAs, and Funding Level assessments). At least to the extent that the increase has been unanticipated, uncontrolled, and has led to a continuing increase in costs while performance levels remain mixed, it is contradictory to policy intent.

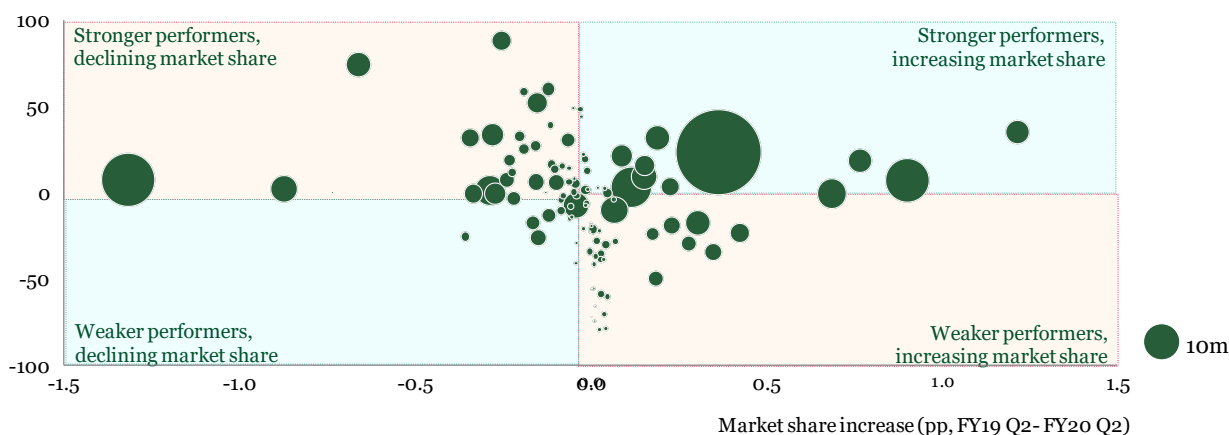
4.2.3. Unclear that market dynamics are supporting policy goals

An apparent challenge with the market's competitive dynamics has been the failure to sufficiently reward good performance, or to punish bad performance. As suggested in Exhibit 47. Unclear that highly performing providers are rewarded by the market, on average, there is not a clear link between provider star ratings, and consequently growth in revenue or market share. Indeed, as shown in Exhibit 48. Whilst participants are exercising choice, there is only a slight bias towards transferring towards providers with higher star ratings, where participants initiate transfers, they are only slightly more likely to move from a lower-performing to a higher-performing provide than the other way around.

Exhibit 47. Unclear that highly performing providers are rewarded by the market, on average

Stronger performers are both increasing and decreasing in market share, suggesting that performance may not correlate with market growth

Simple average star percentage¹ (Dec 2019)



1. Star percentage above or below the average (i.e. 0)
Source: DSS DES data, BCG analysis

While some provisos should be noted – e.g. the calculation of star ratings is complex, and does not necessarily translate directly to desirable performance from a policy perspective – it is consistent with subjective provider perceptions from interviews. Indeed, despite the increase in competitive tensions described by providers above, many providers have seen substantial revenue gains (of providers in the market as of the September quarter 2018, 28 per cent have seen a revenue increase of more than 100 per cent; though some degree of consolidation, and both market and ESA exit, has taken place, as indicated in Exhibit 45. Reforms have led to significantly more competition, with the number of providers per ESA doubling).

This is likely due to a combination of:

- The ability to obtain revenue from quarterly service fees and education outcomes (with higher profit margins on the latter), which allow providers with limited success in obtaining employment outcomes to remain operational
- Remaining limitations on informed participant choice (see Section 4.3), which soften the downside of poor performance
- Due to the human capital-intensive nature of provider activity, scaling good performance is relatively slow in any case

Prior to the reforms, the Department used to actively remove poor performing providers. While this power nominally continues to exist under the current grant agreement, it has not been actively exercised in the post-reform period (see Section 7.5).

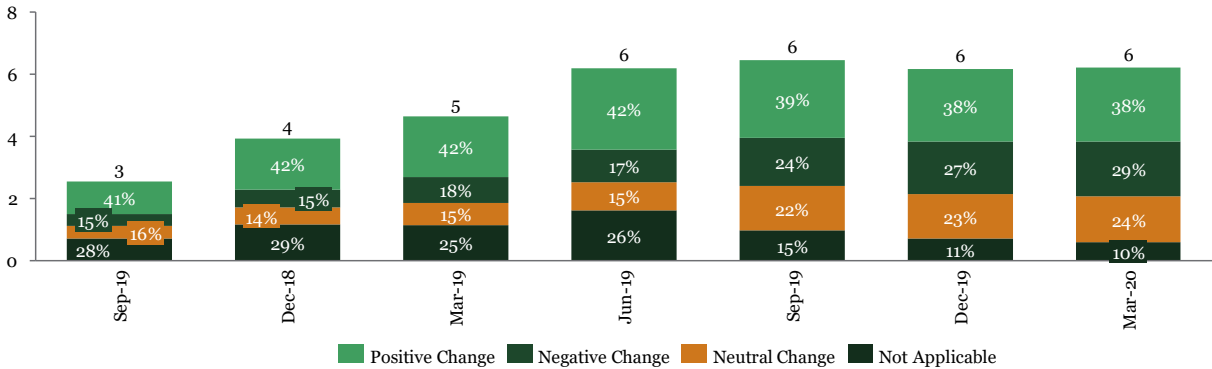
4.3. Benefits of participant choice

4.3.1. Participants making active use of transfer option

The increased flexibility in provider choice appears to have been welcomed by participants. An immediate increase of 2,539 participant-initiated transfers was seen in the September quarter 2018, immediately following the 2018 reforms. The quarterly participant-initiated transfer rate has since risen to an average of 5,158 transfers per quarter (that is, around 2 per cent of the active caseload) over the most recent year of data (see Exhibit 48).

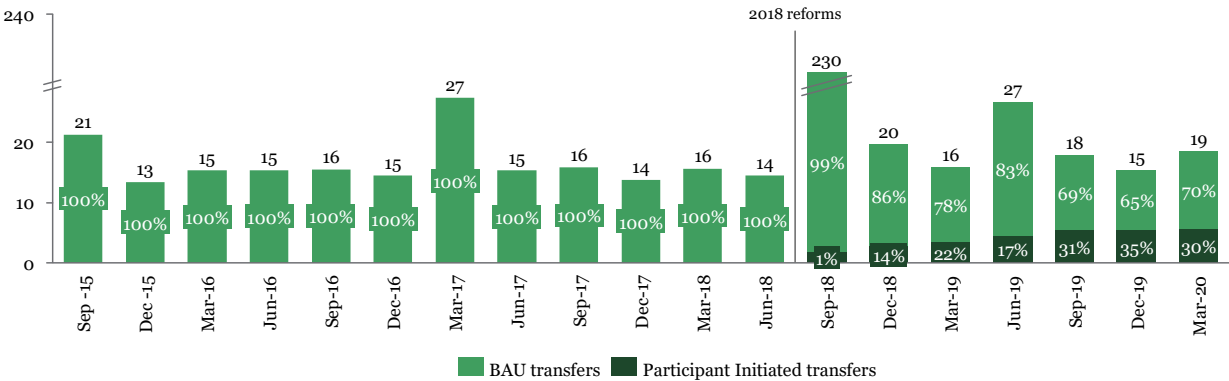
Exhibit 48. Whilst participants are exercising choice, there is only a slight bias towards transferring towards providers with higher star ratings

Number of participant initiated transfers per quarter ('000)



Source: DSS DES data, BCG analysis

Total number of transfers per quarter ('000)

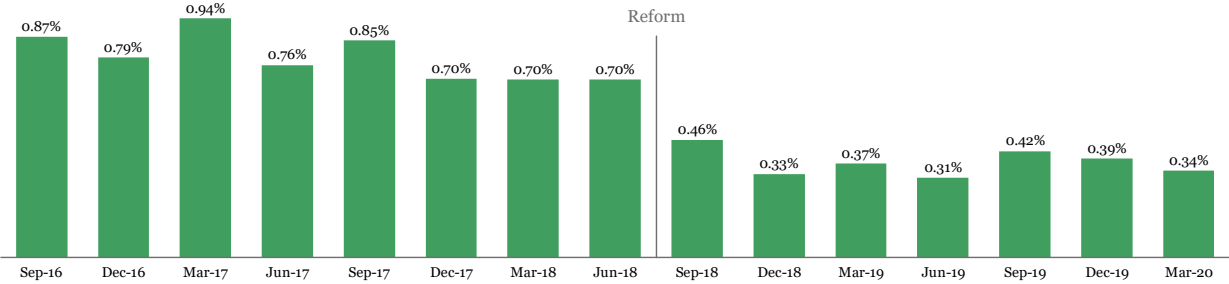


Source: DSS DES data, BCG analysis

This evidence of ‘voting with the feet’ is a *prima facie* suggestion that participants appreciate the flexibility of transferring providers. There is also some suggestion that transferring has resulted in a reduction in the rate of participant complaints, as shown in Exhibit 49. Average complaint rates have fallen post-reform.

Exhibit 49. Average complaint rates have fallen post-reform

Complaints per capita over time (%)



4.3.2. Choice still constrained by multiple factors, including asymmetric information

This exercise of choice is an interesting contrast to the low rate of provider exit identified above, and the overall challenges in program performance identified in Section 3. Assuming that – consistent with interviews across stakeholders – program participants are motivated to find employment, why does participant choice not more directly translate to better outcomes?

Research suggested there are likely two fundamental reasons:

1. Choice among providers may be motivated by multiple factors other than effectiveness at achieving employment outcomes, including (see Exhibit 50): geography and accessibility of provider locations, personal relationships with employee consultants, support of education outcomes, or even leniency in Mutual Obligations oversight (see Section 3.4). Indeed, given the large average number of providers in each ESA, participants in some anecdotal cases resort to some simple methods, such as choosing the first provider listed by Services Australia. Geographic constraints on choice may be caused by:
 - a. Restrictions on digital servicing in the Grant Agreement, that increase the reliance on face-to-face meetings and proximity to provider sites (see Section 3.4)
 - b. The nature of participant disability
 - c. The (relatively) limited coverage of specialist providers, as the bulk of providers are generalists
2. There may be no clear means for participants to assess provider performance (see Exhibit 50). Star ratings are often not seen as informative measures, and in any case, participants may not even be aware of their existence (none of the five participants interviewed for this Review had such awareness). Indeed, many participants may remain unaware even that active choice is an option.

Recommendations regarding participant choice are discussed in 7.3.

Exhibit 50. Participant commentary regarding provider choice in DES

Job seekers are not aware of star ratings or how to use them to make an informed choice, and when shown the star ratings were overwhelmed and confused

Job seekers expressed concern of the complexity and perceived consequences for changing providers, creating a further barrier to exercising choice

“Star ratings? What’s that. I don’t know if I can change. Can I change?”

“I worried that if we change there would be repercussions. Would they know? Could I get another one again?”

“I’ll keep changing... I need to find the right one who treats me the right way and care ...Star ratings? I’ve never heard of them. I just google, see them on the street.”

“I called [service provider] and asked to not be with them anymore. They never called back. Am I still with them? They never contact me now. But they didn’t contact me before either. I don’t know how to sign up for a new one. Do I need to go to centrelink?”

Disability advocate: “From one star to five stars, how would you rate your favourite food” [job seeker does not respond] “What I’ve just demonstrated is that people with intellectual disability are unable to make meaning from a star rating system.”

“Changing is too hard. I hate my provider, but I don’t know where to start. It’s too much”

[when shown star ratings] “Whoa that is too much. It overwhelms me.”

Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

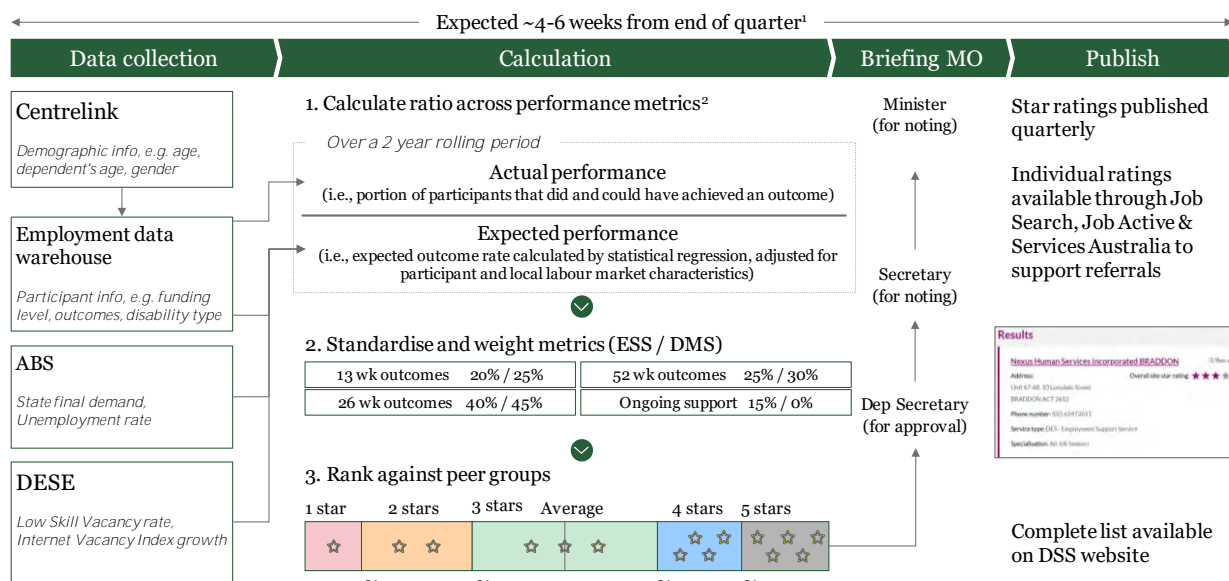
4.3.3. Star ratings criticised by providers

The star rating system is the principle metric to support participants in comparing providers. The star ratings rank providers based on their performance in achieving employment and education outcomes compared with their expected performance, accounting for variation in participant characteristics and labour market conditions. Advantages of the current approach include:

- Objectivity (as it is solely based on quantitative data)
- Resistance to forecasting error (therefore unaffected by extreme events e.g. COVID)

- The star ratings calculation process is summarised in Exhibit 51. Note that star ratings currently incorporate a wide range of data sources and include a noting process that extends up to the Minister.

Exhibit 51. Overview of the process for setting star ratings



1. Though actual duration can be longer: December 19 ratings only released in May due to bushfire and COVID delays: 2. Combines Education and Employment outcomes (if applicable)

However, there are several pain points in the current incarnation of star ratings:

- It is highly complex involving over 100 different variables, 500 pages of SQL code and a 30+ page methodology document, making developing an intuitive grasp of the ratings difficult
- Participants and providers are under-informed regarding interpretation and use of star ratings
- The ratings do not directly incorporate subjective participant or employer experiences of working a given provider
- The current rating system weights employment and education outcomes equally, which, given overall program goals, may over-emphasise the latter
- Delays in rating release inhibit effectiveness. Per Department guidelines, new ratings should be released within two months following the end of the quarter. However, this timeline is not always met: for example, December quarter 2019 results were released in early May. Such delays reduce the value of star ratings to either participants or providers

Survey results suggest over 50 per cent of providers feel star ratings do not support participant decision making (Exhibit 52). In addition to the issues above, providers feel the ratings:

- Can be unduly influenced, e.g. for example by transferring hard-to-place caseload to temporarily unrated new sites
- Disincentivise provider collaboration, due to the rating representing relative, rather than absolute, performance

Recommendations regarding star ratings are summarised in Section 7.4.

Exhibit 52. Providers generally expressed negative opinions on star ratings

Providers don't feel star ratings accurately represent quality and incentivises poor behaviour

"Star ratings are a joke. Consumers don't know what they are, little alone how to compare... our 5 star rated sites are our worst at providing long term outcomes for participants in my opinion"

"Star ratings are nothing more than a measure of a providers ability to game the algorithm."

"The star rating should be about how satisfied the client is with the service providers service. Instead, its about how you can game an algorithm."

With growing frustration on the lack of consequence for poor performance and delayed feedback

"We have massive underperformers with bad ratings blowing out the spend. The government needs to reallocate or remove... for the sector, for PwD, for the program as a whole"

"80 unrated sites... Why are they still operating?"

"How are we supposed to improve, to learn, if the ratings take 6 months to be published?"

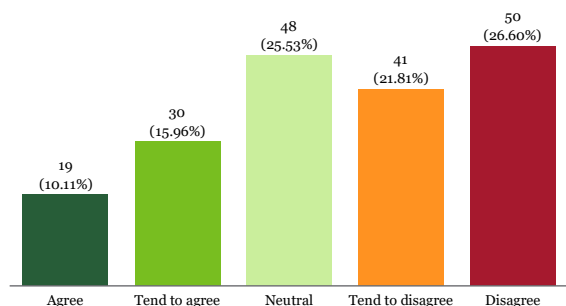
"What's the point of star ratings if you never shut them down?"

Service provider Employment consultant Employer Disability advocate Job seeker

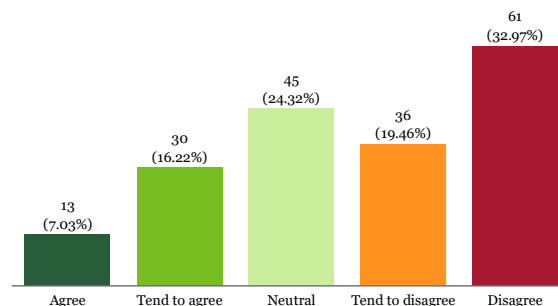
Source: DES Review research engagements, BCG analysis

Exhibit 53. Service providers do not feel star ratings are aiding job seekers to make better decisions

"The DES star rating system is a reasonably effective way of summarising the performance of DES providers"



"The DES star rating system is useful to DES participants, helping to inform their choice of provider"



Source: DES Review research engagements, BCG analysis

4.4. Other elements of the 2018 reforms

4.4.1. Adjustments to employment outcome schedule

The rebalancing of the employment outcomes payment structure via the introduction of 52-week outcome payments, and the replacement of job placement payments with 4-week outcome payments, is likely appropriate. This increased the emphasis on longer-term employment placements, while still allowing for short-term work.

In Exhibit 28, it was noted that there has not yet been an observable increase in the conversion rate between 26- and 52-week outcomes. This is not particularly surprising, as the weighting given to 52-week outcome payments is still relatively small.

4.4.2. Adjustments to employment outcome schedule

The 2018 reforms explicitly targeted a movement towards a 50:50 split between service and outcome fees, away from the previous 60:40 ratio. While this has been achieved, it is almost entirely attributable to growth in education outcome payments (see Exhibit 22).

5. Other challenges in program design

Beyond topics touched on by the 2018 reforms, research identified multiple other barriers that reduce DES efficacy and efficiency. These barriers largely span a mix of compliance, regulatory, process, and other design issues that affect system functionality and provider behaviour, and include:

- The consumption of provider effort, and reduction in service flexibility, caused by compliance and administration, including:
 - Oversight of participant mutual obligations
 - Ensuring consistency with Grant Agreement and guideline rules, including restrictions on face-to-face servicing (currently relaxed due to COVID-19)
 - Supporting assurance activities, and other administrative work
- Restrictions on regional entry and exit due to the design and oversight of the ESA system
- [Commentary on ESAs to be included in final report]

An overarching tension exists in balancing a market-based system with the necessity for assurance and risk minimisation in a program that (as of 2019-20) is responsible for well over a billion dollars of spend. Exhibit 54 and Exhibit 55 summarise how some of these issues are experienced by providers, from front-line staff to senior executive level.

Exhibit 54. Illustrative service provider CEO persona

CEO of service provider
Mary



56 years old
Manly, NSW
Married with 2 children
16 years tenure
Generalist provider
For profit

“We’ve grown 350 per cent and made significant investments. We need to balance the viability of the business with the needs of our clients.”

About

Sarah is an experienced CEO with more than a decade of expertise in employment services. She leads a large, purpose driven for-profit provider with more than 400 staff across 70 sites. Alongside both ESS and DMS DES contracts, they offer various services including jobactive, ParentsNext and online courses through their Registered Training Organisations (RTO).

The biggest challenge for Mary is managing the viability of low performing sites, and maintaining and growing caseloads in a competitive environment.

Motivators

- To be the country’s leading service provider, achieving exemplary results for clients while maintaining a healthy bottom line
- Be known for great customer experience and innovative servicing models, including flexible and remote consultation
- Develop scale through nurturing relationships with large employers
- Building strong brand equity through advertising and word of mouth

Needs

- Greater real time visibility on performance indicators, including star ratings, employment consultant targets, customer feedback and outcome placements
- Access to greater evidence based practice and expertise to scale across organisation
- Consolidation of the market to remove crowding
- Greater administrative efficiencies to enable staff to focus on achieving more outcomes for clients

Pain points

- Running a viable business while managing change, competitive pressures, capital investment and aggressive growth
- Poaching of caseload and staff in highly competitive ESAs
- Making informed decisions on if, and when to exit sites
- Inaccuracy of ESAs making some clients loss leading
- Managing cashflow with upfront client investment
- Rigid ESA model prohibiting national employer relationships

A day in a life

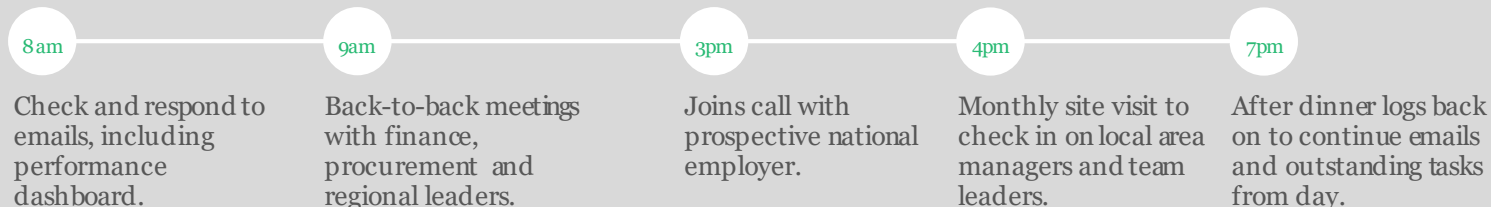



Exhibit 55. Illustrative employee consultant persona

Employment consultant

Sarah



32 years old
Mildura, VIC
Married with 1 child
18 months tenure
Generalist provider

About

Sarah entered the industry because she has a desire to help. With limited training, and an understaffed team, she was thrown into the deep end on day one as an employment consultant.

For Sarah, the pressure of the KPIs, challenging clients and excessive admin are often overwhelming. She balances high stress with very little monetary or personal reward. The pressure of targets at times conflict with the needs of her clients. The best part of her role is when a long term client calls and shares that they got the job; it makes it all worth it.

Motivators

- Building relationships with clients on their journey to job readiness
- Changing the lives of people with disability through meaningful employment
- Leveraging local networks and community to reverse market potential candidates and create new job opportunities
- To provide long term support to clients in their jobs through frequent site visits

Needs

- Better access to knowledge expertise to manage complex and varied needs of clients
- Increased pay and career progression opportunities
- Access to continued training and learning opportunities
- Greater flexibility on how to service clients
- Strong networks with local employers
- Insights into local labour market and future of work projections
- More time in the day to spend focusing on job seekers

Pain points

- High stress role managing many complex and conflicting priorities
- Overwhelmed by administration, including job plans and compliance
- A lot of KPI pressure to put job seekers into jobs, despite poor role candidate matching
- Enforcing mutual obligation payment suspensions
- Convincing clients to do education
- Lack of recruitment expertise expected by large corporate employers

“The KPIs, high case loads and complex client needs make my job stressful. Some days I spend 60 per cent of my time on administration.”

A day in a life

8am

Schedule and plan meetings with job seekers.

9am

Meets clients, develops job plans, oversees mutual obligations.

2pm

Weekly meeting with team leader to discuss KPI goals and development areas.

3pm

Follow up on administration, compliance, reporting.

5.1. Provider management of compliance, assurance, and regulations

Across interviews and survey results, providers were keen to emphasise what is seen as excessive burden of compliance and administrative activities. These include:

- The effort of participant Mutual Obligations oversight, which, besides the establishment of job plans, includes audit of participant job applications, and ongoing tracking and notification of participant compliance to Services Australia. Concerns span not only the time effort involved, but the extent to which this challenges participant/provider relationships, particularly in a competitive market (some providers did recognise value that the Mutual Obligations system allows interaction with participants via both positive and negative incentives, but this was a minority perspective)
- Ensuring consistency with various rules regarding provider behaviour and service models
- Support of audits and other administrative activities, principally concerning the gathering and documentation of evidence to support claims

Overall expenditure of effort on these activities was typically estimated at around 40 to 50 per cent of front-line staff time, with a large variance (Exhibit 56). Broadly speaking, this is consistent with previous research by People with Disability Australia that estimated ~35 per cent. The administrative burden tends to fall particularly on the smaller providers, as larger providers are more able to devote dedicated teams to process management or to leverage digital solutions.

It is important to recognise that given the scale of spend involved, a non-trivial degree of audit and oversight is essential and inevitable, to provide assurance to both government and taxpayers. Nonetheless, given the overarching concerns regarding DES productivity (in terms of ability to achieve job placements) and quality of service, the scale of effort reportedly involved in compliance and administrative activity should be considered a significant problem.

This is particularly the case given front-line employee consultants are typically relatively low-paid, at between \$45 – 65k per year (see Exhibit 57; this compares to the Australian average of over \$80k⁸), and low-skilled, which is seen as a key contributor to the poor experiences reported by employers and participants. A reduction in compliance burden would theoretically:

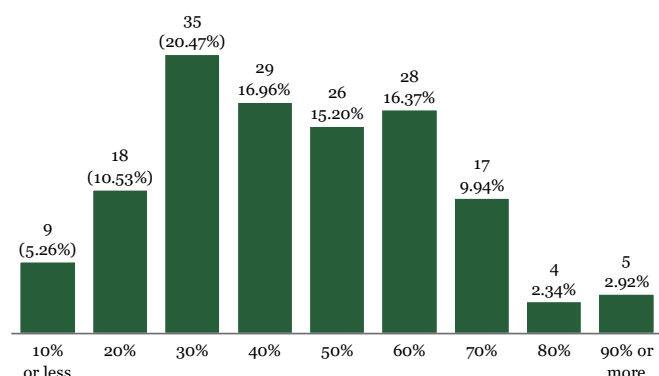
- Result in higher per-employee productivity, as an individual employee would be able to service a greater caseload
- Translate, over time, to higher employee consultant salaries, and consequently the attraction of more skilled individuals (as well as justifying greater investment in training by providers)

Further discussion follows below.

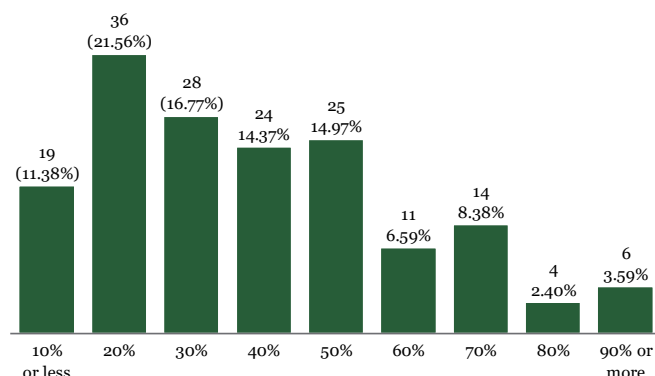
⁸ ABS, February 2020

Exhibit 56. Providers see assurance, Mutual Obligations, and other compliance activities as major drains on time

Indicatively, how much of the time of your employee consultant workforce is spent on assurance and regulation (not counting mutual obligations)?



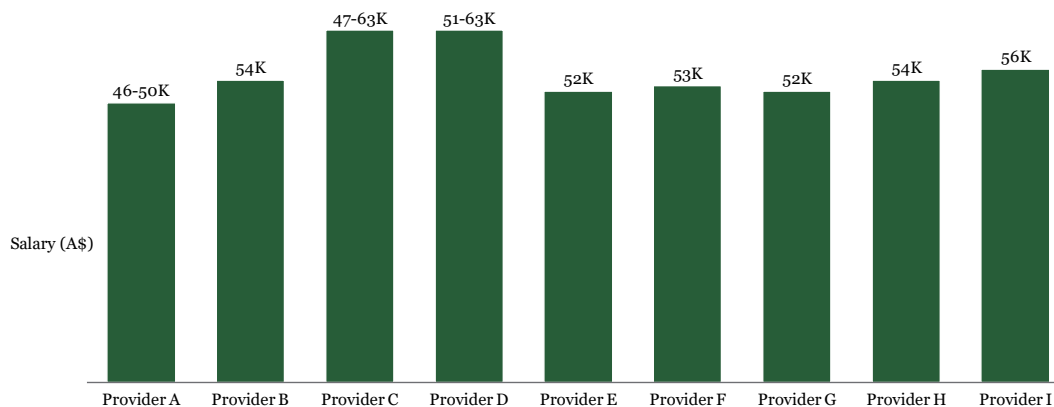
Indicatively, how much of the time of your employee consultant workforce is spent on oversight of mutual obligations?



Source: DES Review research engagements, BCG analysis

Exhibit 57. Salaries currently paid to front-line employee consultants are relatively low

Approximate salary for an employment consultant at some of the largest DES providers



Source: Seek, Payscale

5.1.1. Mutual Obligations oversight seen as impractical in competitive market

Participant’s Mutual Obligations are defined in a job plan agreed between the participant and their provider on commencement in DES. Job plans are expected to be customised to an individual’s capacity and context. Elements of a job plan typically might require:

- Conducting job searches, including applying for up to 20 jobs per month
- Attending appointments with the provider
- Acting on referrals to specific jobs made by the provider, and attending job interviews offered by employers
- Participation in approved activities, e.g.:
 - Activities to develop job search/interview skills e.g. Employability Skills Training
 - Study or language, literacy, and numeracy activities under Skills for Education and Employment (SEE) or Adult Migrant English Program (AMEP)
 - Work experience programs or PaTH internships

– Work for the Dole

Mutual Obligations can be suspended if, for example, an individual is studying for an education outcome, or for medical reasons.

Following establishment of the job plan, the provider is responsible for:

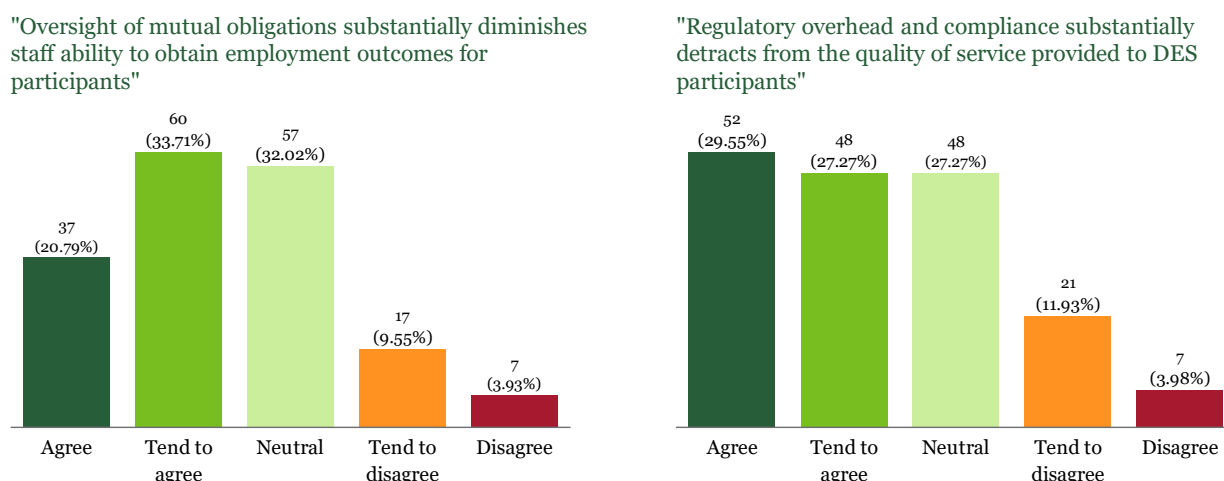
- Tracking participant compliance
- Validating and auditing activities (e.g. confirming validity of job applications; confirming job interview attendance)
- Liaising with Services Australia (principally digitally), allowing for identification of when a participant is non-compliant with their job plan. A application and management of penalties is then performed by Services Australia.

Providers identified three issues with this oversight role:

1. The drain that Mutual Obligations oversight represent on employee time (see Exhibit 58) and ability to service participants
2. The challenge of balancing the development of a trusting inter-personal relationship with participants (to understand their needs, support motivation of actions, and generally provide a quality service) with the responsibility of enforcing compliance and potentially leading to serious restrictions on participants' income support allowances
3. The difficulty of playing a compliance role in a competitive market: participant choice allows providers to be changed for any reason, rendering exerting control over compliance difficult

For interest, providers also expressed considerable negativity towards the Mutual Obligations system overall (Exhibit 58), considering that it does not, on balance, improve the likelihood of employment. Similar negativity was expressed by several employer interviewees, who expressed the view that Mutual Obligations job search requirements simply result in an excess of unsuitable applicants for advertised roles.

Exhibit 58. Providers expressed the view that Mutual Obligations oversight detracts significantly from employee ability to assist participants



Source: DES Review research engagements, BCG analysis

5.1.2. Micromanagement reduces service flexibility and adds to compliance burden

A tension exists between allowing DES providers the flexibility to innovate and adopt service models to participate needs, while minimising risk via regulatory constraints. Our assessment is that, ultimately, the success of a market-based approach requires DES providers to have greater freedom in their service delivery choices – conditional on simultaneous changes being made to ensure poor performance is punished by market discipline.

Currently, for example, Grant Agreement rules include various requirements for face-to-face servicing, including compulsory face-to-face contacts for the initial interview; the initial interview for a New Program; the first Contact following Re-engagement; and the first Contact following a Change in Circumstances Reassessment or a Program Review.

These restrictions are currently relaxed due to the COVID-19 pandemic. Interviews suggested that this has not substantially impacted the quality of service provided; more broadly, providers have welcomed these relaxations (Exhibit 5.9). Recommendations regarding rule design are discussed in Section 7.6.

Exhibit 5.9. Providers have broadly welcomed the relaxation of restrictions associated with COVID-19

New ways of working present as opportunity

"COVID is a HUGE opportunity for PwD. It's like. Millennials might finally get into the housing market, and PwD might finally get into employment. Remote working, a global case study of flexible working."

"In the past, we only serviced people who lived in the ESA because we needed to have access to the local job market. But now, with remote working, we can rethink that. People can stay in their communities, with their families, and work in the city."

Virtual servicing greater access to specialist providers

"We are a very niche service provider, and now that we can virtually service from the get go, we can increase who we offer our services to. If it's just a handful of people in a region, it just wasn't viable to tender for that contract."

"If I could find a specialised provider I would change in a heart beat... but there are none in my area for me"

Providers better able to spread caseload demand

"COVID has been great, we can remotely service our clients and have more demand sharing across sites"

"Since corona they've been calling. I've had more contact than I did before. It's good, I don't need to drive all the way to town. It's still important to see people in person sometimes though."

Service provider Employment consultant Employer Disability advocate Job seeker

Source: DES Review research engagements, BCG analysis

5.1.3. Department proposals to optimise assurance approach could be accelerated

Audit activities are necessary to provide assurance to government and taxpayers. Currently, approximately one per cent of all provider claims are checked for accuracy. Typical evidence to be provided by providers may include records of contacts made with participants and employers (to support Grant Agreement compliance and ongoing support in the workplace), documentation from employers regarding hours worked, workplace pay slips, records of education activities, etc. The burden of compliance falls not only on providers, but also to some extent on employers, discouraging the engagement of the latter.

A detailed assessment of the costs and benefits of assurance activities was not made as part of this Review. Recommendations regarding assurance are discussed in Section 7.5.

5.2. Impact of Employment Service Area system on competitive dynamics

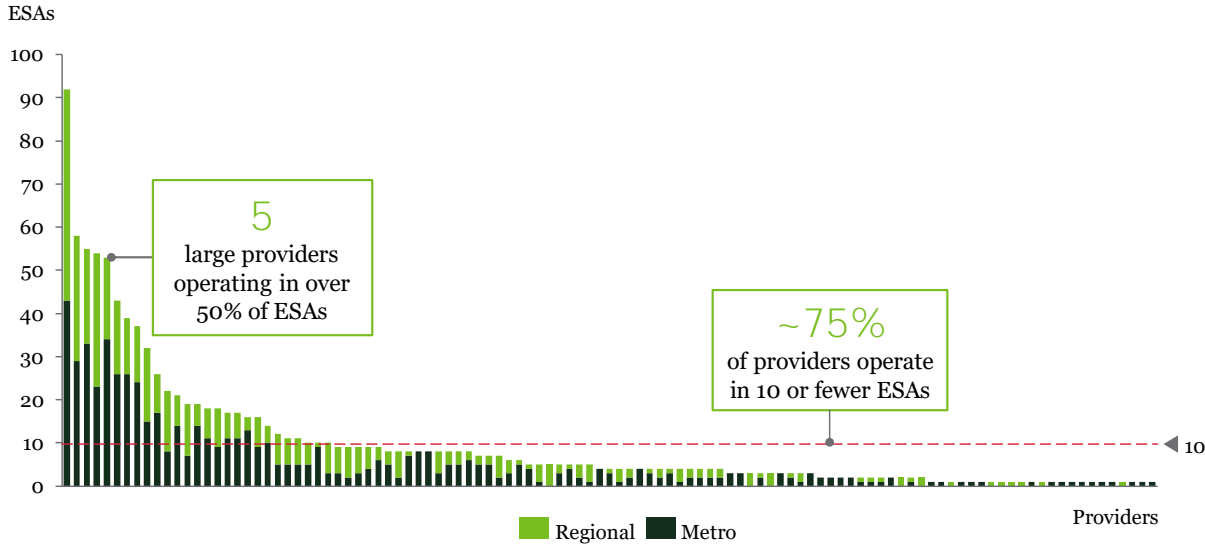
The 110 Employment Services Areas (ESAs), which divide up Australia's metropolitan and regional areas, are intended to ensure all participants have access to DES service providers regardless of geography. During the DES Provider Panel application process, providers identified the ESAs they wished to operate in, with the requirement that the entirety of each ESA in which they were active would be serviced.

Providers are confined to only providing services within their approved ESA boundaries, however participants can choose providers from any ESA, and providers can work with employers from any ESA. Providers can only enter a new ESA when DSS goes to market, or through the DES Panel Refresh process. However, providers can exit at any time by terminating the agreement with the Department (though Department does not need to accept), or nominating another DES provider to take their place.

Research engagements and analysis suggested that the current ESA design is leading to unintended consequences and pain points:

- The resulting restrictions on provider movement encourage a default business model orientation by geography. In particular, the limitations on ability to scale discourage specialisation by, say, disability type of industry, reducing the individualisation of service to participant needs. As shown in Exhibit 60, the bulk of providers serve only a fraction of the total number of ESAs
- There are limited opportunities to expand into new ESAs as providers must wait for DSS to go to market or the next DES Panel Refresh (once in every 5 years), inhibiting competition
- The regulatory requirement to fully service an ESA does not change the fundamental economics of service, with anecdotal suggestions that some providers consequently are only partially servicing regions via unattended satellite sites (see Exhibit 60)

Exhibit 60. The bulk of providers serve only a small share of all ESAs



Note: DES consists of 110 Employment Service Areas (ESAs) across Australia; Source: DES March 2020 Star Ratings

Exhibit 61. Some providers expressed negative perspectives towards the ESA system

With limited case loads and sparse job markets, providers are only partially servicing contract commitments through unattended satellite sites

Some providers suggest caseloads are being shifted to game the star rating system

"Show up once, open the office, tick the box. But you can't keep that office open and stay afloat, the case load in these areas is too low, the job market doesn't exist. So you close the door, and service those clients remotely."

"80 unrated sites from a single provider. What does that tell you? They are gaming the stars and not servicing the contract."

"We didn't bid because we knew there was no way we could service those contracts and stay profitable. So many providers with phoney satellite sites. It's not fair."

"Star ratings are all about understanding how the algorithm and regression model works. We have a dedicated analyst. And then you know how to shift your caseloads around."

"With remote sites, they just turn up once, satisfy the [contract] criteria and leave. Put a sign up on the door"

Service provider Employment consultant Employer Disability advocate Job seeker

5.3. Effectiveness of ESAs

Placeholder. Commentary on ESAs to be included in final report.

6. Interactions with other flagship programs

Even just at the Commonwealth level, Australia has a varied landscape of disability and employment supports, targeting a wide range of possible individual situations and contexts, operated in parallel by multiple agencies. DES sits conceptually at the intersection of the two flagship programs for employment (jobactive) and disability support (the National Disability Insurance Scheme, or NDIS).

Significant integration issues exist with both these programs, including:

- Lack of coordinated design between jobactive and DES, leading to the step-changes in incentives across both programs that have driven volume flows in recent years (see Section 2). In addition, tensions exist across other aspects of system design, including complicated process flows for participants and duplicated overhead burden for providers
- [Commentary on relationship with NDIS to be included in final report]

Additional discussion follows below.

6.1. Landscape of Commonwealth disability and employment supports

An overview of employment and disability supports offered by the Commonwealth is provided in Exhibit 62. This includes programs offered by the Department of Social Services (DES itself, as well as the NDIS), the Department of Education, Skills, and Employment (jobactive), and the Department of Prime Minister and Cabinet (the Community Development Program, which replaces the function of DES in remote regions).

As well as these flagship programs, a suite of supplements, subsidies, and other supports can also be accessed. The full complexity of the support landscape naturally extends beyond the Commonwealth, including State and Territory programs and non-government organisations.

However, jobactive (as the equivalent employment support service for people without a disability) and the NDIS (as the principal provider of support to people with a disability) are of particular relevance to DES. Across these three programs there is substantial variation in design, goals, and management approach; as well as a lack of integration and clear pathways for participants.

Exhibit 62. Landscape of Commonwealth employment and disability supports (not comprehensive)

	DSS portfolio			DESE				PM&C		
	DES	Employment Assistance Fund	NDIS	JobActive	Wage Subsidy programs	Various youth programs	National Disability Coordination Officer Program	Higher Ed Disability Support	Community Development Program	Social enterprises incl. ADEs
Summary	Provides employment support where disability the main barrier to work	Provides financial support for PwD & employers to buy work related modifications, equipment, Auslan services & workplace assistance	Supports PwD by funding reasonable & necessary supports to achieve their goals	Main stream employment service with limited support in the workplace includes programs such as Work for the Dole	Wage subsidy programs for target cohorts including mature age, young person, Indigenous, Parent, Long term unemployed, Apprentice, disability	Provides youth targeted programs including PaTH Internships, Transition to Work & National Work Experience Programme	NCDOs work strategically to assist PwD transition & link a cross education, employment services & disability program providers	Provides funding to higher ed providers to removing barriers to access for PwD	Disability employment services for remote areas are covered by CDP administered by PM&C	ADEs provide sheltered employment for those with moderate to severe disability to develop training & experience
Scope	Support to help find & keep a job	Financial support for mod, equipment & services	Funding for individual plans; ILC grants for organisations	Support to help find & keep a job	Financial incentive for employers	Support to enter workforce	Improve linkages & transitions	Funding to higher ed providers	Support to help find & keep a job	Sheltered employment opportunities
Eligibility	8+ hrs. p.w. work capacity	In a job for >8 hrs p.w for >13 weeks	Permanent & significant disability	On income support or volunteer	Various	Australians aged 15-24	Working age PwD	Higher ed students with disability	Live in remote area	Moderate to severe disability
Program cost (2019-20)	\$753m	\$11.7m	\$1.79b (ILC)	\$1.4b	\$377.5m		\$4.4m	\$7.7m	\$360m	ADEs: \$220, (incl. \$96m to NDIS)

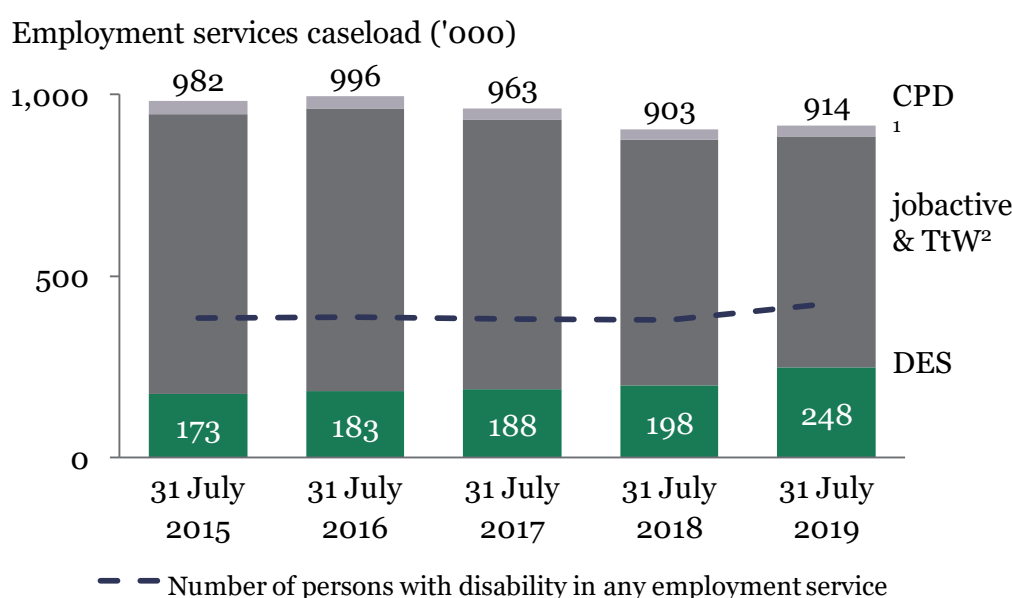
6.2. Challenges across jobactive and DES

Both DES and jobactive operate with a similar policy goal (improving individual employment outcomes) and via a similar fundamental design (incentivisation of a network of third-party providers that liaise between participants and employers). Indeed, in some aspects there is explicit overlap between the programs:

- Around three quarters of DES providers are also jobactive providers
- Individuals with a disability are present in large numbers within both DES (all participants) and jobactive (almost a quarter of participants describe themselves as having some variety of disability, see Table 5), as per Exhibit 63

Note that participation in DES requires disability to be the primary barrier to employment. However, jobactive participants may face multiple other, potentially more severe barriers (e.g. homelessness), depending on their circumstances.

Exhibit 63. Individuals with a disability are present in large numbers in both DES and jobactive



1. Community Development Programme 2. Transition to Work
Source: DESE analysis for DES

There are also substantial variations across the programs, both in their current form and in expected changes in the near-to-medium term, including:

- **Structure.** The DES market is somewhat less restricted, with jobactive continuing to impose market caps and restrict participant choice, and with (at least typically) more onerous mutual obligations. In addition, fundamental legal aspects differ across the programs, with DES operating under a Grant Agreement terminating in mid-2023, and jobactive under contracts applied under the jobactive Deed (expiring in 2022).
- **Service model.** Under the New Employment Services Model, jobactive is shifting to a predominantly digital service model for Stream A participants
- **Segmentation.** jobactive emphasises length of unemployment to drive Funding Levels, while DES applies the risk-adjusted Funding Levels. Other variations include the greater eligibility for education outcomes in DES

A summary view of differences across the program is provided in Appendix A. Note in particular that there is currently no shared decision-making function across both programs. The differences across the program create several points of tension, including:

- **Failure to coordinate incentive design.** As discussed in Section 2, differences in incentive design – including Funding Level structures, the level of service fees, and eligibility for education outcomes – was a critical enabler for the unanticipated and uncontrolled ramp-up in caseload and volume that

followed the 2018 reforms. Regardless of perceptions of the value of that ramp-up, it can be expected that unexpected outcomes of a similar magnitude will continue to eventuate so long as the current separate management approach is continued

- Inconsistency in program access. As a further consequence of the separated management, eligibility for programs affiliated with DES or jobactive varies widely, without clear justification. An overview of this variation across wage subsidy programs is shown in Exhibit 64.
- Duplicated compliance burden. On top of the compliance burden discussed in Section 5.1, providers active in both jobactive and DES must comply with dual sets of compliance requirements (note that this problem extends further, i.e. depending on their activities, providers may also need to comply with NDIS, RTO, and other requirements)
- Lack of clarity regarding boundaries. As discussed above, there is significant overlap of participant profiles across programs, including on the extent of barriers to employment faced, creating confusion for participants (and providers)
- Diminished brand. While jobactive is typically around 2 – 3x larger than DES in caseload, the effect of dividing the programs is to reduce the visibility of both to employers
- Inconsistent approach. There is currently an oddity in program design that the nominally more vulnerable cohort in DES is subject to a much less constrained market than jobactive (including more active participant recruitment, advertising, etc.)

These tensions are highly undesirable, particularly at a time when employment and job creation is a priority concern. Section 7 discusses change opportunities.

Exhibit 64. Variation in access to wage subsidy programs for DES participants

	Wage Subsidies ⁹						Various youth programs	Tailored Assistance Employment Grants
	Wage subsidy scheme	Wage start subsidy	Restart	Youth/Youth Bonus	Parents	Long term unemployed & Indigenous	Youth Jobs PaTH	
Summary	Give eligible jobseekers an opportunity to demonstrate their suitability for ongoing employment	Incentivise hiring of DES participants who are LT unemployed or offered ongoing employment after a Youth PaTH internship	Incentivise employment of jobseekers over 50 years old	Incentivise hiring of young people	Incentivise hiring Parents	Incentivise hiring longterm unemployed jobseekers	Support businesses to trial a young person in an internship, to see if they are the right fit	Connect ATSI peoples with sustainable jobs through funding employment, school based traineeships & cadetships
Eligibility	DES participant; other eligibility requirements depending on circumstance	DES participant not older than 50 years	50 years of age and over, VOEST ¹⁰ , DES and CDP participants also eligible	Youth Bonus—15 to 24 years of age Youth—25 to 29 years of age	Principal carer parent of any age commenced with a jobactive or Transition to Work provider	Jobactive/TtW participant receiving employment services > 12 mths (6 mths for ATSI)	Young person aged 15–24	Unemployed ATSI jobseekers in jobactive, CDP or DES; youth
Subsidy available	Up to \$1,650	Up to \$6,000	Up to \$10,000	Up to \$10,000 or \$6,500	Up to \$6,500	Up to \$6,500	\$1,000	
Department	DSS/DES	DSS/DES	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	PM&C
DES eligible?	✓	✓	✓				✓	✓

⁹ Participants can only attract one wage subsidy at any given time

¹⁰ Volunteer Online employment Services Trial

Source: JobAccess; DESE; Managing Wage Subsidies Guideline

6.3. Challenges across the NDIS and DES

Placeholder. High-level commentary on the challenges of DES and NDIS integration to be included in final report.

7. Review recommendations

Note this Section does not yet incorporate the Ministerial discussion on 23 June.

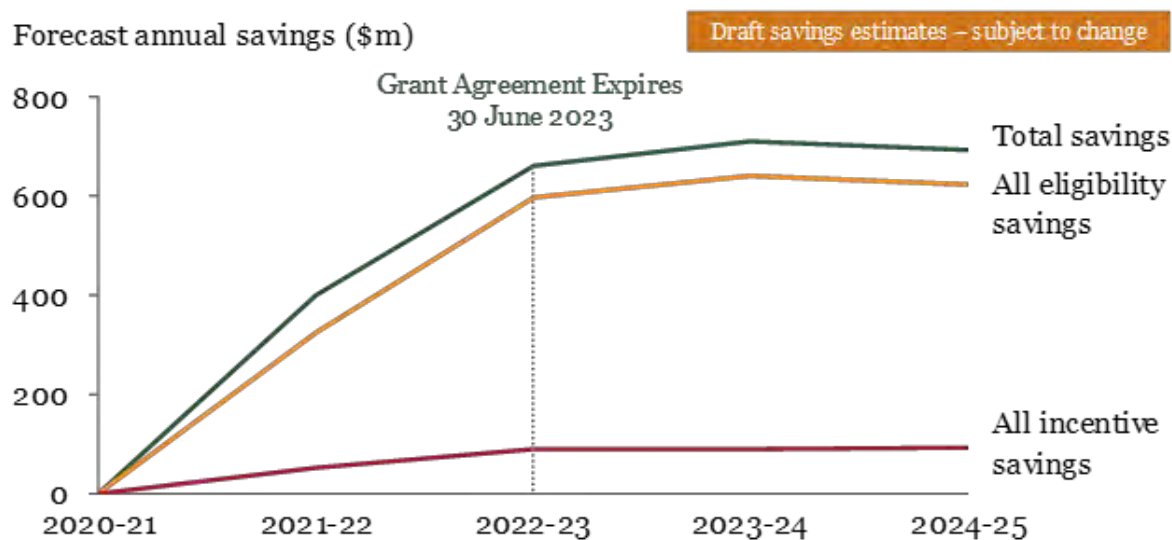
This Section both summarises themes from recommendations discussed so far, and introduces further options for short-to-medium term change.

DES currently operates on a market-based model, where third party providers are incentivised to provide services and deliver outcomes for participants. A necessary condition for success under this approach is consideration of elements of effective market design. This spans:

- Re-align incentives to desired outcomes. The capacity of the DES market to respond to incentives has been ably demonstrated in the post-reform period. Redesign of current incentives should encompass re-balancing towards employment outcomes, re-assessing the justification for current fee levels, and establishing a regular, committed rhythm for updating the risk-adjusted funding model.
- Ensuring focus on appropriate cohorts through eligibility changes. DES support should be focused on where it will have the most impact compared to baseline. A variety of options to improve program focus could be considered, including changes to eligibility based on work capacity, age, volunteer status, and prior DES experience.
- Informing customers to make effective decisions. Participants must be able exercise choice in a manner that meaningfully moves the market. This may require a revamp of how star ratings are communicated, and potentially changes in the calculation of star ratings themselves, to make them more useful for both participants and employers. More innovative options may also need to be investigated.
- Smoothing provider entry and exit. Increase levels of competition by loosening the current highly regulated ESA approach (with alternative mechanisms, such as fee structure rebalancing, used if needed to ensure equity of access)
- Managing performance to increase service quality. Until the DES provider market reaches a suitability competitive level, the Department should look to actively remove under-performing providers, per the provisions of the Grant Agreement
- Encouraging service flexibility and innovation. Market rules and guidelines must allow providers to adopt their service models to the needs of participants. As a consequence of other changes, providers will have increased scope to specialise by industry or disability type.
- Enhancing provider productivity. Optimising compliance and administrative burden to increase the share of time directly dedicated to assisting program participants.
- Ensuring effective, informed oversight. The Department to have the insight, decision-making speed, and capabilities needed to manage the market effectively. Data gathering and reporting activities to be expanded, sign-offs delegated where possible, and potentially some increases in resourcing also needed. In particular, legislative change should be pursued to ensure the Department can exert levers of control specified in the current Grant Agreement.

It is estimated that these changes – particularly around incentives and program focus – if implemented in their entirety could collectively reduce annual spend in 2022-23 by approximately \$[750]m (see Exhibit 65). Note however that the options are not inter-dependent, and do not require implementation as a combined package. It should be noted that proposed changes may variously be possible at discretion of the Government or with agreement of providers, or may require changes to the DES Grant Agreement and supporting legislation. These issues are discussed in Section 9.

Exhibit 65. Potential combined savings of up to \$[750]m through changes to program focus and incentives



The changes anticipate an active, dynamic market, where individual needs are recognised and achievement of genuine employment outcomes is rewarded. The proposed changes are integrated and cumulative in their effects. Overall, to justify the current market-based approach, it is critical that the level of risk borne by DES providers increase substantially from current levels. More broader-reaching reforms – i.e. discussing fundamental aspects of program organisation, structure, and approach – are discussed in Section 8.

7.1. Re-aligning incentives to desired outcomes

7.1.1. Re-focus outcomes on employment, rather than education

The 2018 reforms significantly expanded access to education payments. Providers have responded strongly to this incentive, which as resulting in an increase in expenditure on education outcomes of over \$100m.

However, these incentives are not aligned with the DES policy objective of improving employment for people with a disability. As discussed in Section 4.1, there is limited evidence that:

- participants are attaining the certification for the courses they complete, despite providers still being paid an education outcome
- Participants are being enrolled in courses which are strongly connected to the job prospects of the participant

These issues should be addressed in the short term by:

- Requiring participants complete their course in order for the provider to obtain a 26 week outcome
- Restricting the course types funded by DES to those with a strong connection to a participant's job prospects

Although educational attainment is an important factor in an individual's job prospects, funding for education outcomes does not lead to directly to an employment outcome for participants.

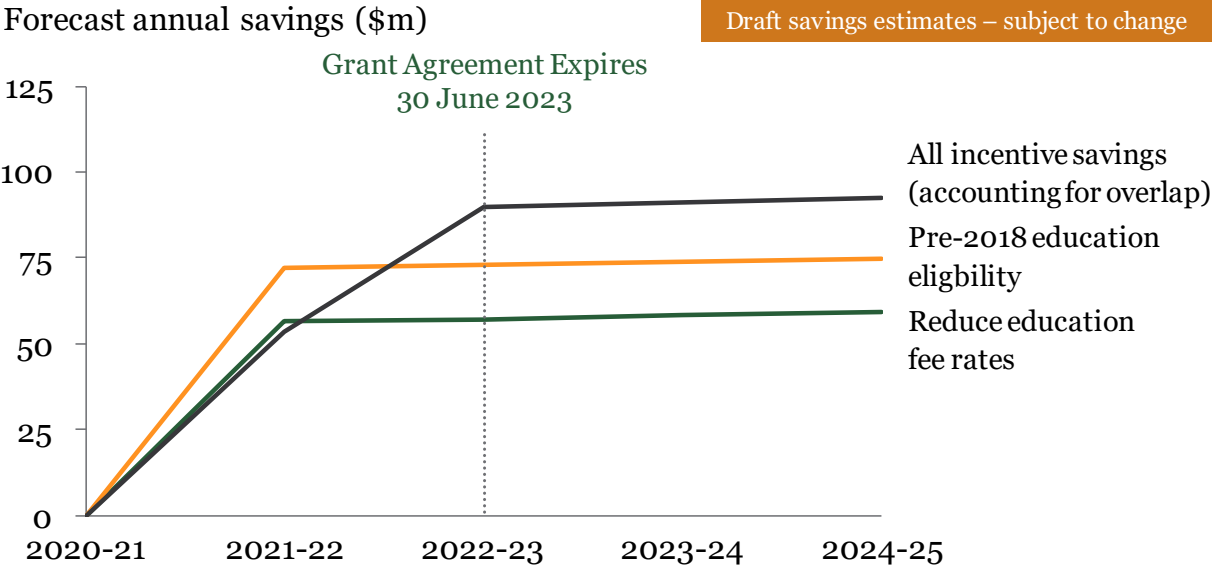
As such, incentives for education outcomes should be tightened by:

- capping outcome fee payments at Funding Level 2 rates, to reflect that education outcomes are a means to achieving employment outcomes rather than being the end goal of DES. This would also reduce program expenditure by approximately \$[57]m in 2022-23
- reverting to pre-reform participant eligibility, or a similar set of eligibility criteria, to focus education

funding on those who most likely to benefit from education. This would also reduce program expenditure by approximately \$[73]m in 2022-23

These changes will refocus DES provider effort on employment, improving outcome rates. Furthermore, if combined these changes would represent approximately \$[90]m savings in 2022-23. The impact of these changes over time is shown below in Exhibit 66

Exhibit 66. Changes to provider incentives could save \$ [50]-[100]m annually



Note: Savings calculated for each opportunity individually
Source: DSS DES data, BCG analysis

Furthermore, when designing the incentive framework for future DES contracts the Department should:

- align education activities to employment outcomes by paying education outcomes as a bonus payment upon achieving an employment outcome
- re-assess the justification for the current fee levels for education outcomes, employment outcomes and service fees

RECOMMENDATION 1. The Department require the participants completing a Certificate III course attain the qualification, including completion of any work placement component, to result in a full 26 week education outcome payment.

RECOMMENDATION 2. The Department restrict the course types funded by DES to those with a strong connection to job prospects for participants.

RECOMMENDATION 3. The Department reduce outcome fees for education to a materially lower rate in the next DES contract.

RECOMMENDATION 4. The Department revert to stricter eligibility criteria participants able to achieve a full outcome for education, in the next DES contract. For example, reverting to the pre-2018 reform criteria.

RECOMMENDATION 5. In future DES contracts, the Department should explicitly link payment for education outcome to achieving an employment outcome and re-

assess the justification of the required fee levels for education outcomes, employment outcomes and service fees.

7.1.2. Recalibrating the risk adjusted funding tool

The risk-adjusted funding model is seen as an improvement over the pre-reform system, offering greater recognition of the variation in individual needs.

However, there are a number of implementation challenges that have not yet been addressed, primarily because the risk-adjusted Funding Level categorisation algorithm (the risk adjusted funding tool, or RAFT) has not yet been recalibrated based on post reform data, as originally intended.

The original design of the RAFT intended for the distribution of Funding Levels to be 5/20/25/25/25 across Funding Levels one to five. However, the DES cohort has shifted towards higher Funding Levels and currently has a distribution of 5/14/22/27/32, as shown in Exhibit 23. The Department's budget forecasts assume the RAFL is recalibrated on an annual basis; if this did not occur Taylor Fry estimates over DES expenditure would be \$69m higher in 2022-23¹¹.

Furthermore, various concerns were expressed by external providers and disability advocates:

- The RAFT is perceived to overstate the ease of placing participants with individuals with an intellectual disability. It was suggested that due to the historically higher funding for these participants, the outcome rates for these individuals is overstates. This initial mis-weighting would naturally be resolved as a recalibration occurs
- 'Creaming' of easier-to-place cohorts within each Funding Level continues to occur to some extent
- Some concerns were expressed that the model groups together individuals with potentially disparate conditions, needs and cost to serve (although it is noted this was the intent of the RAFL)

The intent reflected in the DES Grant Agreement was to recalibrate the RAFT annually based on actual outcomes earned under the post reform program and the DES caseload mix at the time. This would address the concerns of providers and stakeholders, while managing costs for the Department.

It is recommended that the Department complete the recalibration that is currently underway. Furthermore, to avoid future ambiguity, it is recommended that a public commitment be made to continue to carry out such recalibrations on an annual basis.

RECOMMENDATION 6. The Department implement the recalibration of the RAFT that is currently underway.

RECOMMENDATION 7. The Department commit, publicly, to a fixed minimum frequency schedule for updates to the risk-adjusted funding model, with no more than 12 months between updates, and to ensure it is appropriately resourced to carry out such updates on time.

¹¹ Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020.

7.1.3. Broader redesign to increase flexibility and outcome focus

Synthesis across both qualitative and quantitative research, viewed a lens of economic analysis, suggests that there is scope for substantial further changes to improve the extent to which the incentive structure encourages competitive dynamics and achievement of policy goals.

The market-based approach used by DES is predicated on acceptance of a considerable degree of risk by non-government actors.

Per Exhibit 22, it is noted that while the share of outcome payments among total claims has risen in recent years, this has been driven by education outcomes. Given the objectives of the DES program, it is considered that education should not be considered a class of outcome, but rather a service (Recommendation 9). From a broader perspective, education may have a host of individual and social benefits, but to retain program focus and the ability to judge performance, it is necessary that DES consider education as instrumental for the goal of obtaining employment.

Given that, and recognising the recent growth in provider revenues and the current high level of servicing per ESA, there is scope to increase the relative reliance on employment outcome payments versus fees-for-service (Recommendation 8). In addition, there is likely scope to reconsider the profile of payments over the duration of employment outcomes, to rebalance towards encouraging longer-term placement (Recommendation 10).

RECOMMENDATION 8. The overall structure of payment types to be rebalanced so that payments for employment outcomes constitute 50 per cent of the total value of claims paid.

RECOMMENDATION 9. Education outcome payments to be reclassified as a type of service payment.

RECOMMENDATION 10. The Department to assess a shift in rebalancing the employment outcome fee structure towards 52-week payments. It should be expected that 52-week outcomes, which require the largest increment in employment duration to earn, should be the highest of the current four employment outcome payments.

It was also noted that the current Grant Agreement only allows the claiming of one 13-, 26-, or 52-week outcome payment for every 2-year period of participant on DES, but up to four 4-week payments. While this may help limit costs, it does create some odd incentives: for example, if an individual completes a 13-week employment outcome and then returns to the employment assistance phase, the financial incentive for the provider to assist in again finding a job that will last beyond 4 weeks is diminished. It is recommended that this rule be reconsidered (Recommendation 11).

RECOMMENDATION 11. The Department to rebalance the frequency caps on employment outcome claims, for example by limiting to two of every duration. Recognising that this rule may have cost implications, no near-term change is recommended until program growth and spend is stable, and any such change should be implemented in a staggered, careful fashion.

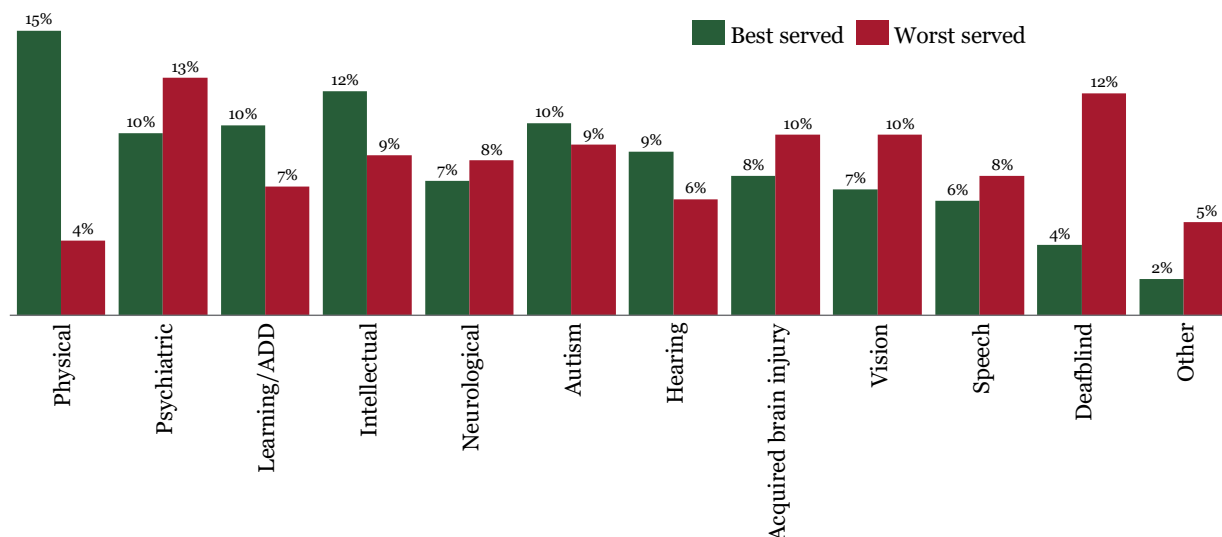
More broadly, a recurrent theme in participant (as well as disability advocate) interviews was the failure of the DES system to account for individual needs. For example:

- Individuals with episodic conditions may find sustaining continued employment without pause difficult. However, Grant Agreement guidelines for permissible employment breaks allow only 28 days in a 13-week period
- Individuals with autism may be particularly challenged by disruptions to routine. However, such disruptions (office relocations, new technology, business restructuring, etc) may well well after any financially-incentivised support from DES providers has ceased

Exhibit 67 provides an overview of the conditions that are well-served, and those that are not, by the current DES system, from the perspective of service providers (psychiatric conditions, for example, are seen as particularly badly served).

Exhibit 67. Best- and worst-served conditions in DES currently (service providers survey results)

What are the types of disability that are served best and served worst by the current system?



It is recommended that opportunities to expand program flexibility be tested, with care to avoid any further unanticipated spend increases (Recommendation 12).

More broadly, further review of program design and incentive structure is recommended (Recommendation 13), with the intent of:

- Testing that current fee levels are appropriate given business delivery costs
- Exploring opportunities to increase reliance on outcome payments and transfer business risk to providers
- Identifying further opportunities to increase service flexibility to accommodate participants' needs

RECOMMENDATION 12. The Department consider extending the duration of permissible breaks from employment, conditional on 1) the participant having an assessed episodic condition; 2) the provision of a medical certification describing the need for the break; 3) no other employment or education being entered into during the break period. Recognising that this rule may have cost implications, no near-term change is recommended until program growth and spend is stable, and any such change should be implemented in a staggered, careful fashion.

RECOMMENDATION 13. The Department to investigate opportunities for further service redesign and incentive structure changes, to continue driving towards a competitive, outcomes-focused market, while accommodating the diverse needs of program participants.

7.2. Ensuring appropriate focus via eligibility changes

As outlined in Section 2, caseload has increased by 46 per cent since the 2018 reforms and has been the primary cause of the subsequent cost increases. Furthermore, the deterioration in outcome rates (see Exhibit 21 above) indicates the need to tighten program focus.

It is recommended that support through DES should be focused on where it will have the most impact compared to baseline outcomes.

Five initial options have been identified for consideration to reduce spend by limiting referrals into the program:

1. Tighten ESA/JCA criteria for entry into DES, in order to focus resources on participants who benefit most from specialist disability employment services. For example, setting For example, participants with benchmark hours above 30 are more likely to be obtain mainstream employment and be better served by providers with connections to a broader range of employers. Setting a maximum of 30 benchmark hours would also result in approximately \$[80]m savings for DES in 2022-23.
2. Reduce DES age threshold to 60, given the large reduction in outcome rates for participants over 60 and to recognise the less stringent mutual obligations framework for this cohort. This would save approximately \$[224]m in savings for DES in 2022-23
3. Restrict volunteer eligibility to income support recipients and NDIS participants, to focus DES support on income support recipients and to enable the NDIS program to realise the employment benefits underpinning the NDIS business case. This would save approximately \$[90]m in savings for DES in 2022-23, depending on the overlap between volunteers not receiving income support and NDIS participants.
4. **Remove eligibility for Extended Employment Assistance ('EEA')**¹², to better identify participants who will not benefit for additional time participating in DES. This would save approximately \$[128]m in savings for DES in 2022-23, depending on how this change impacted re-entry rates into DES
5. Introduce stricter criteria for re-entry into DES to confirm that DES is the most appropriate support model for the participant given the first period of service did not result in a long term employment outcome. For example, reducing re-entries into DES by 20 per cent would result in approximately \$[124]m in savings for DES in 2022-23.

Each of these options, bar option 3, can be implemented within the limitations of the Grant Agreement. However, they all represent trade-offs for Government regarding who can access DES, given the expectation from Government that participants with mutual obligations or compulsory participation requirements are actively looking for work and are being supported to do so.

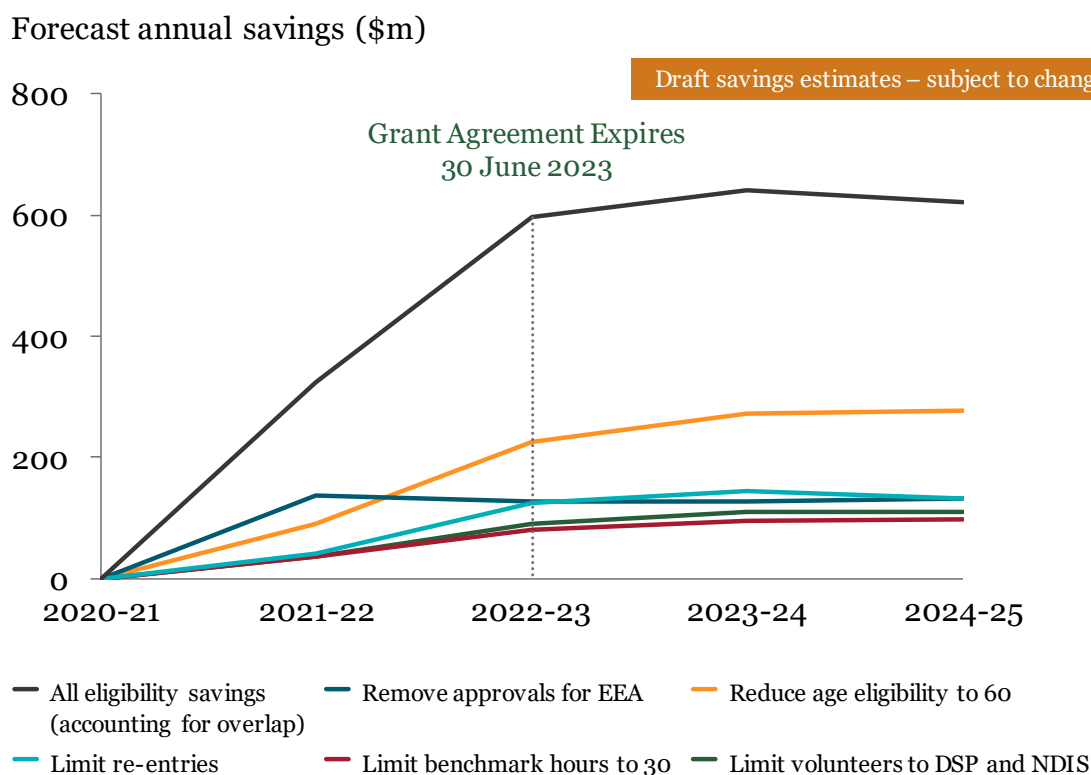
Furthermore, if these participants are not eligible for DES, they would be served by jobactive. Savings from restricting eligibility are offset, in part, by higher jobactive spend (although it is noted that jobactive has a much lower cost to Government per participant, as per Exhibit 14 in Section 2.2.1)

Together, if combined these changes would represent savings of approximately \$[597]m in 2022-23¹³. The profile of these savings, both in aggregate and individually, is shown below in Exhibit 68.

Placeholder. Estimated cost increase in jobactive due to DES eligibility changes will be included in the final report.

¹² After a participant has received 78 weeks of Employment Assistance, the participant may then continue to receive program services in Extended Employment Assistance for up to 6 months if assessed as requiring it by an ESA or, in some cases, by the provider.

Exhibit 68. Changes to eligibility could lead to substantial savings



1. Assumes re-entry rate for participants who complete 24 months in Employment Assistance decreases from 64% to 51% within 12 months of exit

Note: Savings calculated for each opportunity individually

Source: DSS DES data, BCG analysis

It is noted that the options to restrict eligibility by disability type or length of unemployment were also considered, but no clear policy justification was identified.

Further information on these recommendations is included in the following sections. Refer to Section 9 for the implementation roadmap for these items.

RECOMMENDATION 14. The Department tighten ESA t/JCA criteria for entry into DES. For example, by setting a maximum of 30 benchmark hours for eligibility to participate in DES.

RECOMMENDATION 15. The Department explore reducing the DES age threshold to 60 and improving alignment with participation requirements for this segment.

RECOMMENDATION 16. The Department restrict volunteer eligibility to income support recipients and NDIS participants.

RECOMMENDATION 17. The Department consider removing eligibility for Extended Employment Assistance ('EEA').

RECOMMENDATION 18. The Department consider introducing stricter criteria for re-entry into DES.

7.2.1. Tighten ESAt/JCA criteria for entry into DES

ESAts are the main referral pathway into DES. An ESAt assesses the Participant’s circumstances to determine work capacity and the most appropriate employment service, where one or more medical conditions are identified. The work capacity is assessed as one of the following bandwidths of hours per week: 0–7 hours, 8–14 hours, 15–22 hours, 23-29 hours, 30 or more hours. If the participant is referred to DES, their benchmark hours are set at the lower bound of their assessed work capacity band.

Making the ESAt stricter in some form would reduce the number of referrals into DES and focus the program on participants who benefit most from a specialist disability employment. This could be done by improving the rigour and effectiveness of ESAts, in light of the issues with ESAts discussed in Section 5.3

In the short term, this could also be achieved by setting a maximum benchmark hours for a participant to be eligible to participate in DES. Participants with benchmark hours above 30 are the most likely to obtain mainstream employment and could be better served by providers with connections to a broader range of employers.

Placing all participants with an assessed capacity of 30 or more hours into jobactive would save the Department \$[80]m in 2022-23. Refer to Exhibit 68 in Section 7.2 for further detail on savings forecasts.

For reference, these participants represent 6 per cent of caseload and achieve similar outcome rates to other cohorts, shown in Exhibit 69.

Exhibit 69. DES caseload and outcome rates segmented by benchmark hours

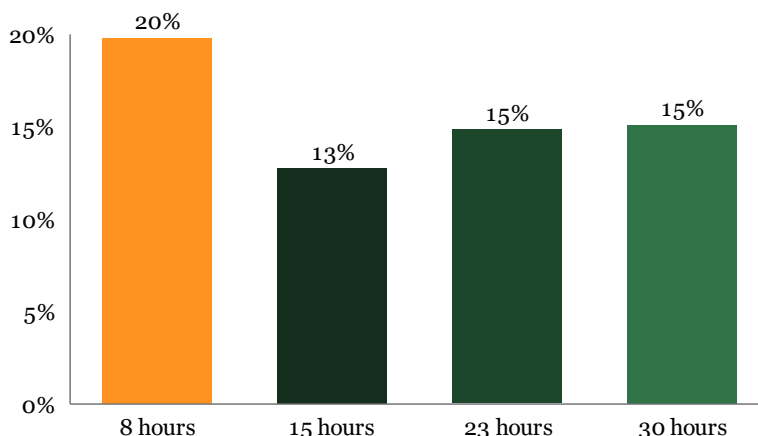
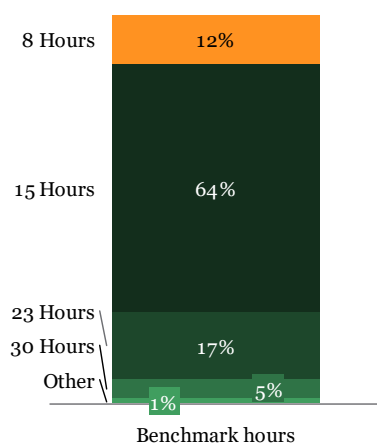
64 per cent of caseload at 15 benchmark hours, only 5% at 30+ hours

All cohorts have 4wk outcome rates of <30 per cent within 2 months

Percentage of active DES caseload

Probability of achieving a 4 week outcome within 12 months

Data requires validation – to be updated prior to final report



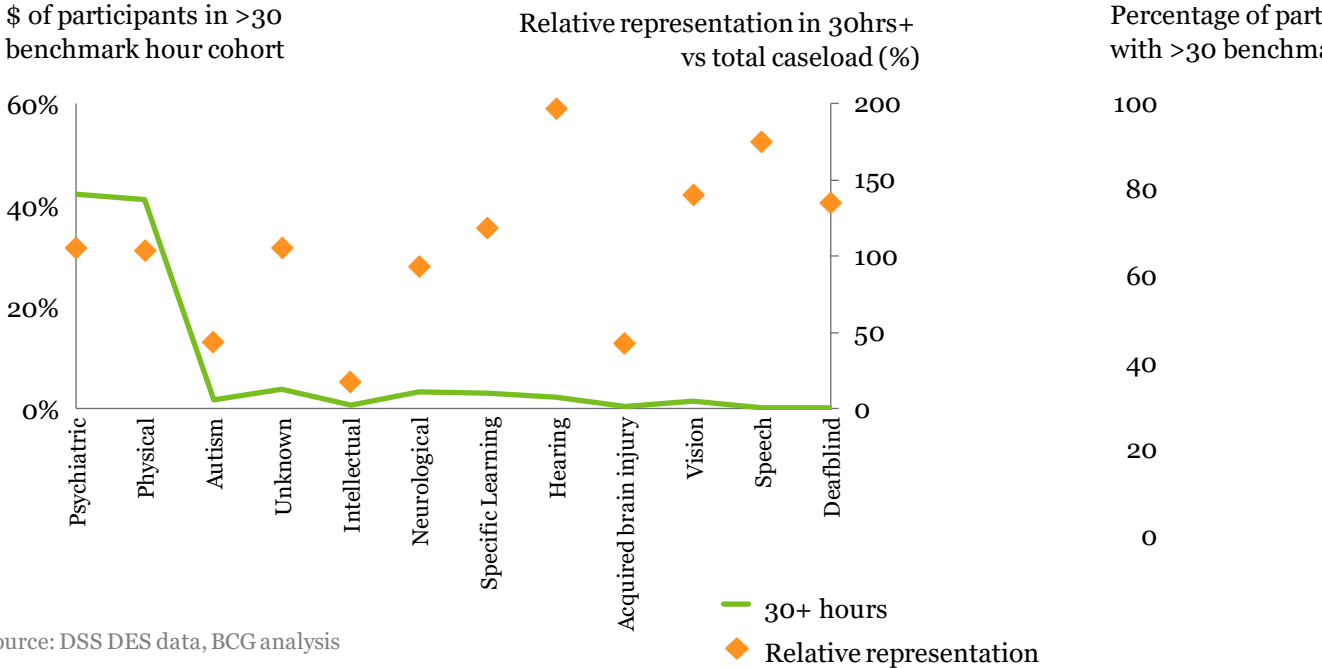
Source: DSS DES data, BCG analysis

However, restricting eligibility simply through lowering benchmark hours will involve a trade-off in who can access DES. The segments impacted most by limiting benchmark hours to 30 are:

- Psychological or physical disability, who each make up over 40 per cent participants in this cohort (see Error! Reference source not found.)
- JobSeeker Recipients or Non-allowees, who make up 69 per cent and 23 per cent of this cohort respectively
- Participants with a hearing, vision or speech impediment, who are 40 to 100 per cent overrepresented in this cohort compared to their presence in the general DES caseload (see Exhibit 70).

The least impacted segments are DSP recipients and participants with autism, intellectual disability or an acquired brain injury. There are low numbers of each of these segments with benchmark hours above 30 and are underrepresented compared to their presence in the general DES caseload.

Exhibit 70. Participants with psychiatric or physical disability are the largest part of the >30 benchmark hour cohort; but hearing, vision and speech impairments are most over represented



7.2.2. Reduce DES age threshold to 60

Over 60s make up over 17 per cent of the DES caseload. However, their outcome rates are far below that of other cohorts at [9] per cent for those aged 60-64 and [3] per cent for those aged 65+ (see Exhibit 71).

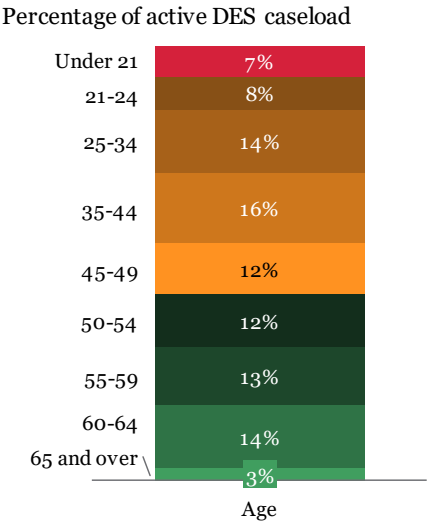
JobSeeker recipients over 60 also have less stringent participation requirements than other cohorts. As a comparison, the Annual Activity Requirement is only 10 hours per fortnight for over 60s, compared to 30 hours per fortnight for over 50s and 50 hours per fortnight for under 50s. Furthermore, for over 60s this can be fully met by approved voluntary work whilst this is capped for other cohorts.

Government could reduce the DES age threshold to 60 to recognise both of these factors. This would save the Department save \$[224]m in 2022-23, or \$[396]m in 2022-23 by reducing the age threshold to 55. Refer to Exhibit 68 and Exhibit 75 in Appendix C for further detail on savings forecasts.

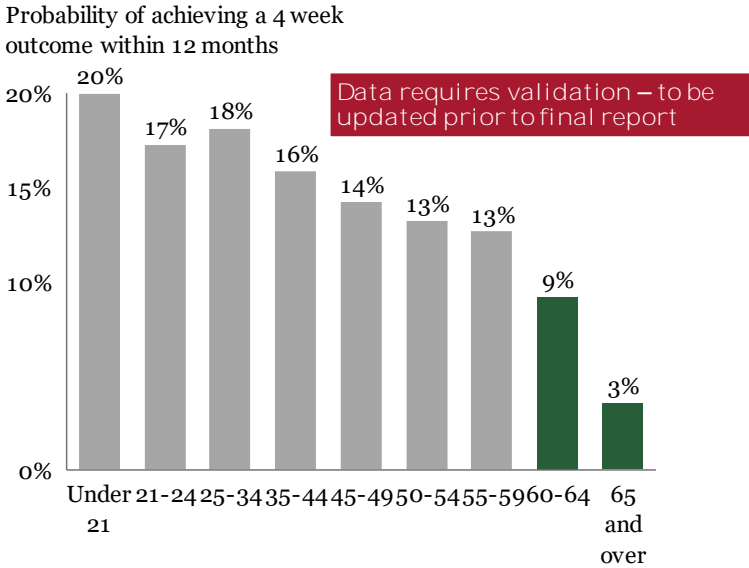
Alternatively, Government could consider alternative service model for this segment that have a cost structure which is better aligned to the expected outcomes.

Exhibit 71. Over 60s make up 17 percent of DES caseload, however have far lower outcome rates than other segments

17 per cent of participants are over 60 years of age



Outcomes rates decrease rapidly post 60 years of age



Source: DSS DES data, BCG analysis

7.2.3. Restrict volunteers to income support recipients, NDIS participants

Volunteers were a major contributor to the volume increase following the 2018 reforms, as per Section 2, and constitute 18.9 per cent of DES caseload as at 31 May 2020¹⁴.

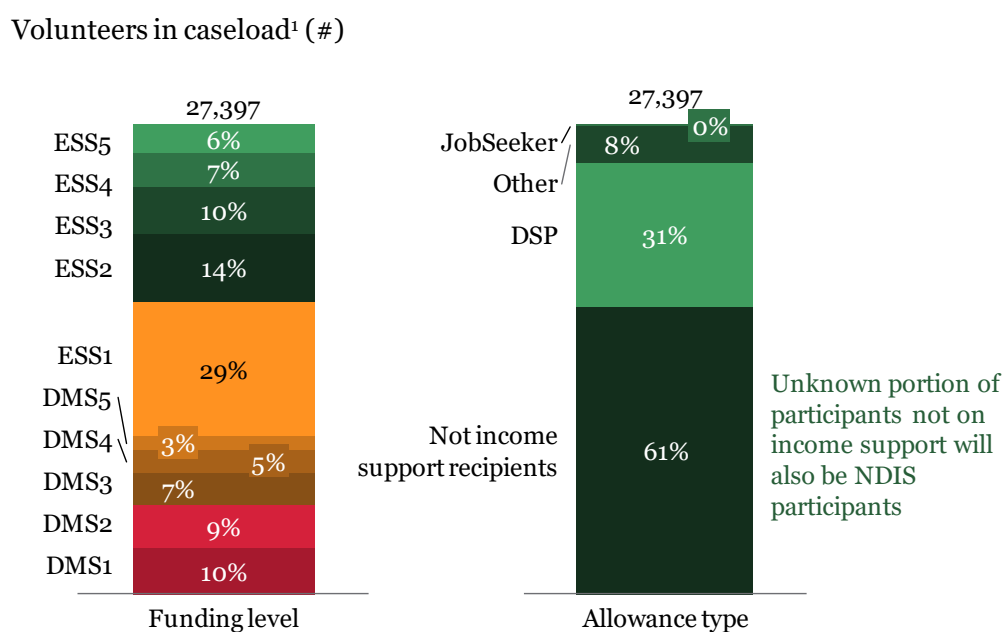
As shown in Exhibit 72, volunteers are far more likely to be placed into lower Funding Levels, not receive any income support, or receive DSP. Volunteers not receiving income support may include participants who do not qualify for income support due to their partners’ income or other reasons. It is not known how many NDIS participants are participating in DES as non-allowees. However, analysis of the DES caseload in April 2018 indicates this is likely to be a small portion. As at April 2018 there only approximately 5,800 participants on both DES and the NDIS, compared to 195,000 DES participants and 170,000 NDIS participants at the time¹⁵. It is acknowledged that the number of participants in the NDIS has increased substantially in the past two so this assessment may no longer be accurate.

Placeholder. Analysis of overlap between NDIS and DES volunteers, pending provision of data from DSS.

¹⁴ DES Monthly Report – May 2020

¹⁵ Analysis on overlap between NDIS and DES provided by the DSS DES Branch via email on 18 June 2020

Exhibit 72. Volunteers most likely to be in lower Funding Levels, not receive income support or receive DSP



Source: DSS DES data, BCG analysis

Restricting volunteer eligibility would allow DES to focus resources on activity tested participants who are receiving income support, depending on which participants remain eligible.

Three potential approaches have been considered:

1. Removing DES eligibility for all volunteers
2. Limiting volunteer eligibility to DSP recipients and other priority allowees (e.g. recipients of parenting payments)
3. Limiting volunteer eligibility as per 2, and allowing NDIS participants with a job component to their plan to volunteer for DES

From these options, number three is recommended because this:

- Focuses DES on achieving employment outcomes for income support recipients, which creates broader value for Government
- Enables the NDIS program to realise the employment benefits underpinning the NDIS business case.

The potential savings arising from option three are estimated at \$[90]m in 2022-23, as per Exhibit 68. However, there is significant uncertainty in these savings figures. This estimate assumes that 50 per cent of volunteers not receiving income support are NDIS participants with a job plan. Refer to Exhibit 76 in Appendix C for further detail on savings forecasts for each of these options.

As an alternative, Government could consider limiting program length for these participants to 12 months. However, this solution could not be implemented within the current Grant Agreement.

7.2.4. Remove eligibility for Extended Employment Assistance

After a participant has received 78 weeks of Employment Assistance, the participant may then continue to receive program services in EEA for up to 6 months if assessed as requiring it by an ESA or, in some cases, by the provider. The majority of participants who reach 78 weeks in Employment Assistance proceed to EEA.

However, from the additional 6 months of EEA the 13-week outcome rate only improves by 2-3 per cent

(see Exhibit 21. Outcomes rates have also fallen post-reform by ~12 to 14 per cent)¹⁶. Furthermore, approximately 36 per cent of participants who exit after 24 months in EEA do not re-enter DES within 12 months and 28 per cent do not ever re-enter DES.

This indicates that the current assessment process for EEA is not effective at determining whether the participant would benefit from a further 6 months of participating in DES.

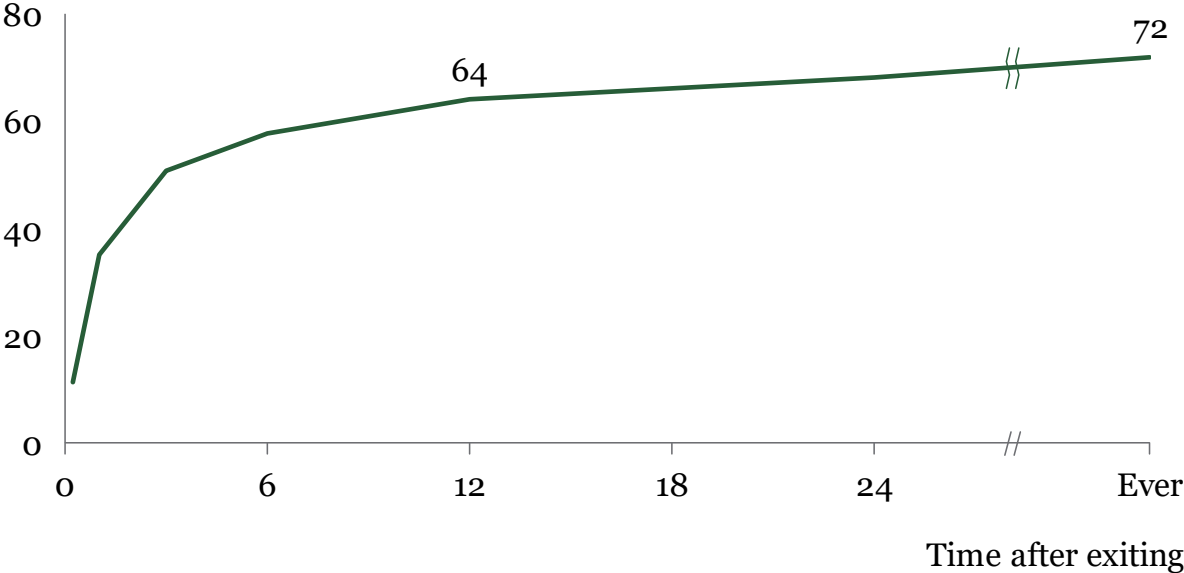
Hence, the Department should consider removing eligibility for Extended Employment Assistance. This would save approximately \$[128]m in savings for DES in 2022-23, depending on how this change impacts re-entry rates into DES. Refer to Exhibit 68 for further detail on savings forecasts.

7.2.5. Introduce stricter criteria for re-entry into DES

As at the end of 2018-19, 39 per cent of participants who had ever exited the DES program returned for a subsequent period of service in DES. This rate of re-entry is particularly high for participants who undertake 24 months in employment assistance without achieving an outcome, as per Exhibit 73, with 72 per cent of participants returning at some point.

Exhibit 73. 72 per cent of participants who exit DES after 24 months in Employment Assistance return to DES

Re-entries to DES after 24 months in Employment Assistance (%)



Source: Analysis by DSS DES Branch in 2019

Given the participant's the first period of service did not result in a long-term employment outcome, this may indicate that DES is not the most appropriate support model for the participant. The Department should have confidence that a subsequent period of service is the best support for the participant and will provide value for money to Government. The ESA alone may not be adequate for this purpose.

The Department should consider introduce stricter criteria for re-entry into DES to confirm that the participant will benefit from a second period of service.

This could result in substantial savings for the Department. For example, reducing re-entries into DES by 20 per cent would result in approximately \$[124]m in savings for DES in 2022-23. Refer to Exhibit 68 for further detail on savings forecasts. Savings from this initiative would be highly dependent the nature of the

¹⁶ The ≤21 months outcome rates correspond to achieving a 13 week outcome within the Employment Assistance phase account, as the time in employment must also be accounted for.

additional criteria for re-entry and the resulting reduction in re-entries.

7.3. Informing customers to make effective decisions

As discussed in Section 4.3, the star rating system is the principal mechanism for informing participants and providers of performance levels, yet significant concerns exist regard the value, transparency, and timeliness of the ratings. In the near term, it is recommended that the Department:

- Remove education outcomes from star ratings to align performance metrics with program's goal of getting people with a disability into employment (note the Department is currently moving forward with this approach)
- Simplify star ratings processing time to under a month either by reducing reliance on external data sources, or by streamlining the briefing and approval process
- Develop more participant-focused communications on what star ratings are and how they should be used, which may include providing a simplified explanation of what a 5-star rating means as the point of referral and ordering providers by star rating

Long term, the Department may find it useful to conduct a detailed review of the performance management approach to ensure the right metrics are in place.

RECOMMENDATION 19. The Department remove Education Outcomes from the current star rating calculation.

RECOMMENDATION 20. The Department judiciously simplify the calculation and approval of star ratings, and dedicate appropriate resourcing, to ensure ratings are published within a month of the end of each quarter.

RECOMMENDATION 21. The Department to develop more participant-focused communications on current rating systems, made available at the point of search.

RECOMMENDATION 22. The Department to explore options to simplify the performance management system, and to incorporate participant and employer perspectives on providers.

7.4. Smoothing provider entry and exit

As discussed in Section 5.2, besides membership of the DES Provider Panel itself, the principal mechanism governing market entry and exit for providers is the ESA system. Pain points associated with this system are discussed in Section 5.2. It is recommended that DES reconsider the ESA approach to provide more flexibility, competition, and allow a great diversity in provider business models (including increased specialisation).

Ultimately, it is suggested that attempting to force equity of service access via the ESA-based regulatory approach will not be successful, as provider's economic considerations will be the ultimate driver of the level of service offered. Should geographic access equity issues arise, alternative solutions (such as higher fee levels for regional areas) should be considered. However, given typically high levels of coverage in ESAs currently (see Exhibit 44), this seems unlikely to be a concern in the near-term.

Suggested options for ESA reform consideration include:

1. Keeping the ESA model but creating a mechanism for providers to enter ESAs in between the DES Panel Refresh process

2. Offering a 'national licence' (based on e.g. historically high performance levels, or pre-existing specialisation) to permit selected providers to operate nationally, that is, to enter and exit and ESA at will
3. Removing ESAs from metropolitan areas to create 'free entry and exit zones', leading a more open market. ESAs could continue to be used in regional areas
4. Eliminating all ESAs to create an open market.

Note that both the second and third of the models suggested could function as intermediate stepping-stones in a phased progression towards the fourth. The models are discussed in more detail in Table 1.

Table 1. Performance Management Levers

	1. Keep ESAs with easier entry	2. Remove metro ESAs	3. Allow national licences	4. Eliminate ESAs
Description	Providers continue to operate under the current ESA arrangement	Providers are allocated to regional ESAs, while free to operate in any metropolitan area	Select providers are given a national licence, enabling them to operate in any ESA	Providers given full autonomy to pick and choose where they deliver
Benefits	<ul style="list-style-type: none"> • Ensures national availability • Reduced competition benefits smaller providers • Works well under current performance framework 	<ul style="list-style-type: none"> • Ensures regional availability • Market drives decisions on preferred providers • Lowers barrier for entry in metropolitan areas • Allows orientation by speciality or industry 	<ul style="list-style-type: none"> • Ensures national availability • Allows orientation by speciality or industry • Able to use as an incentive for providers 	<ul style="list-style-type: none"> • Increases market competition • Market drives decisions on preferred providers • Lowers barrier for entry • Allows orientation by speciality or industry
Limitations	<ul style="list-style-type: none"> • Does not ensure quality of service in regions • Limited opportunities to enter / exit ESAs • High admin burden 	<ul style="list-style-type: none"> • Does not ensure quality of service in regions • Limited opportunities to enter / exit regional ESAs • High admin burden 	<ul style="list-style-type: none"> • Increased competition may be harmful for SMEs • Higher admin burden 	<ul style="list-style-type: none"> • Potential difficult ESAs will become underserved • High competition benefits larger providers • Potentially higher cost to deliver regional services
Considerations	<ul style="list-style-type: none"> • Provide rolling ESA entry option • Allow providers to service remotely 	<ul style="list-style-type: none"> • Provide rolling entry option • Allow providers to service remotely • Provide additional incentives for providers in regional areas 	<ul style="list-style-type: none"> • Use selection criteria to push market towards more specialised model • Reward generalist high performing providers 	<ul style="list-style-type: none"> • Provide additional incentives for providers in regional areas

However, it is emphasised that reforming the ESA model would be a significant change, with attendant uncertainties. Such reform options should be enacted only once program spend has demonstrably stabilised.

RECOMMENDATION 23. The Department establish a mechanism for providers to apply for a new ESA in between DES Panel Refresh processes.

RECOMMENDATION 24. The Department explore reforms to the ESA system, allowing for smoother provider entry and exit across the country, with alternative incentive-based systems deployed (only if needed) to ensure equity of access.

7.5. Managing performance to increase service quality

Prior to the 2018 reforms, business could be reallocated from poor performing providers if their star ratings were consistently two stars or below. An intended benefit of the market-based model was that poor performing providers would be subject to market discipline, reducing the need for active management.

The intended effect of other recommended reforms in this Section is to increase the effectiveness of the market's disciplining function. However, it is recommended that this be supplemented with ongoing active performance management, establishing a firm commitment to quality and continuous improvement by actively removing providers who consistently perform badly. Done carefully, this will ensure:

- Effective market turnover and expansion of high-performing providers
- Higher incentivisation to achieve outcomes

Indeed, the performance management framework would not only address the binary continue/discontinue question, but could also use other tools to incentivise providers. Possible options include:

- Reduced assurance requirements via Earned Autonomy (see Section 5.1)
- In-advance agreement of contract extensions (similar to mechanisms used in job active)
- Access to 'national licenses' or other more flexible geographic servicing models

Note, however, that implementation of this approach must be undertaken with care. While Section 156 of the Grant Agreement gives DES authority to discontinue providers based on performance, challenges include:

- The Grant Agreement requires providers undergo a formal performance assessment which assesses providers on efficiency, effectiveness and quality. However, of these three measures, only the effectiveness KPI has a defined associated metric (in the form of star ratings, which, as discussed in Section 4.3, may be problematic as a basis for discontinuance decision-making, as well as having low acceptance among providers as an accurate measure of performance)
- Re-starting active performance management would, practically, need to be communicated to providers in advance, to align on the performance framework and exit decision process. Indeed, once the chosen metrics are in place, it seems likely that at least a year's active measurement would be required to allow observations to be bedded down.

Overall, however, it is considered that the benefits of having an effective capability to manage performance would outweigh the effort required to establish that capability, per Recommendation 25.

RECOMMENDATION 25. The Department develop a defined performance management framework, with clearly defined KPIs and metrics, and processes for discontinuing poor performance.

7.6. Encouraging service flexibility and innovation

As discussed in Section 5.1, compliance with DES rules and guidelines can, at least in some cases, present as a burden for providers, and limit service flexibility.

It is suggested that the relaxed restrictions on face-to-face servicing as a result of COVID-19 be made permanent. This will reduce barriers to choice faced by participants, and allow greater digital innovation in service models (Recommendation 26) This change would also be consistent with the trend of change in the delivery of ESAs, which have also recently allowed for an increasingly digital model.

RECOMMENDATION 26. All requirements for face-to-face servicing be eliminated, with providers able to service by phone or digital. However, face-to-face meetings must still be provided on participant request.

Review of the DES Grant Agreement and stakeholder interviews identified other possible options for regulation relaxation. For example,

- Elimination of the requirement for providers to log a minimum number of contacts per participant, per quarter (currently six). It is assessed that the current rule is unlikely to translate to any meaningful improvement in service quality: there is no mechanism to force ‘contacts’ to be meaningful (or even of a non-trivial duration), and consequently such contacts are unlikely to change a pre-existing provider decision to under-serve a participant (note: in any case, providers should be required to continue to register contacts that do occur)
- Currently, providers are required to regularly follow-up with volunteers to confirm that their continuing status. Alternative mechanisms could be explored (particularly as providers are unlikely to be incentivised to confirm volunteer exit)

The preferred approach would involve a top-to-bottom assessment of current rules that restrict behaviour, including those that may be implicit rather than formal (see Recommendation 27).

RECOMMENDATION 27. The Department to engage an external, detailed assessment by appropriate specialists to identify opportunities for further simplifying system rules.

7.7. Enhancing provider productivity

Discussions with the Department’s assurance and compliance team, as well as with providers, suggested that there is likely value in:

- Strengthening compliance activities to reduce and recover payment leakage while cognisant of compliance burden for providers with history of high payment accuracy. The Department is currently considering apply the principle of earned autonomy, where providers identified as lower-risk due to past behaviour face lower assurance burdens
- Explore integrating other Commonwealth data assets into program compliance obligations such as integration with the ATO’s Single Touch Payroll to replace payslips. This is also currently under consideration by the Department

Recommendations 28 and 29 summarise these options. Broader-reaching options to reduce the effort spent by providers in Mutual Obligations oversight are discussed in Section 8.3.

RECOMMENDATION 28. The Department to review current audit procedures, strengthen compliance activities to reduce recover payment leakage and reviewing the option of applying Earned Autonomy to reduce compliance burden for providers with history of high payment accuracy.

RECOMMENDATION 29. The Department to prioritise plans to integrate assurance activities with Single Touch Payroll, to reduce burden of demonstrating employment. Any such assessment may usefully be conducted with the involvement of DESE, to assess value of rolling out across DES and job active.

7.8. Ensuring effective, informed oversight

The DES provider market serves around one per cent of the Australian population. It is critical to ensure the Department is appropriately equipped to play the oversight role. This includes access to relevant data and insights, streamlining of processes, and putting in place appropriate oversight powers.

7.8.1. Expanded data and reporting

As noted in Section 3.3, the Department currently has a lack of visibility on several metrics, including regarding the experiences of both participants and employers. Recommendations 30 to 34 seek to ensure that decision-makers are equipped with an understanding of the full costs and benefits of program operations.

RECOMMENDATION 30. The Department to conduct regular surveys of program participants, assessing the extent to which participation in the program is considered to improve their ability to obtain employment outcomes, as well as the quality and timing of those outcomes.

RECOMMENDATION 31. The Department to regularly produce direct estimates of the extent to which program outcomes represent an improvement above baseline.

RECOMMENDATION 32. The Department to include additional efficacy and efficiency metrics in its regular public reporting, including measures of average total costs per employment outcome.

RECOMMENDATION 33. To further aid assessment of program performance, the Department to examine methods for more rigorously assessing the quality of education and employment outcomes, potentially including participant surveys and/or data gathering on job characteristics.

RECOMMENDATION 34. To further aid assessment of program performance, the Department to perform a quantitative assessment of the benefits of employment outcome achievement as a function of individual characteristics (age, experience, location, etc).

7.8.2. Simplified processes

Particularly for elements of program design that are assessed algorithmically, and that could be considered to constitute normal program operations – such as star ratings updates and RAFT recalibration – opportunities to simplify processes and delegate decision-making should be explored (see Recommendations 6 and 7)

7.8.3. Resourcing

Placeholder. Discussion of resourcing to be included in final report.

7.8.4. Legal empowerment

As discussed in Section 9, [s42](#)

. This spans changes to fee rates and structures, to relatively minor rule adjustments. The Department's ability to manage the market in any kind of responsive, dynamic manner, is consequently severely limited.

RECOMMENDATION 35. Required adjustments to legislation be made to allow the Department to exercise controls and variations specified in the DES Grant Agreement.

8. Broader change opportunities

Fundamentally, the task of supporting individuals to find employment is challenging, with disability adding a significant additional layer of complexity. This challenge is only emphasised by the current uptick in Australia's unemployment rate. Given that context, and the scale of the problems faced by DES, fundamental changes to system operations are worth consideration.

Research and interviews identified a suite of four design dimensions. These dimensions, and accompanying directions for future investigation or emerging recommendations, are as follows:

1. Funding model and participant autonomy. Multiple options to consider in who is compensated for service, and how:
 - a. Within the current framework of providers claiming payments, a spectrum of possibilities exists between fees-for-service and fees-for-outcomes. It is suggested that greater reliance on employment outcome fees will significantly assist DES in driving towards a more effective competitive market.
 - b. The option of a 'participant account' approach, where participants exert decision rights over supports provided, should remain as a possible consideration for the Department, but is unlikely to be practical for the time being.
 - c. Significant benefits (including mitigation of unintended consequences and regulatory simplification) could be unlocked by moving away from the concepts of capacity-to-work, and towards rewarding providers on the simple basis of hours worked
2. Size and segmentation. A range of lenses can be applied to the questions of who should participate in the DES program, and how supports should vary for participants. At a high level, it is suggested that DES's focus should not only be on who will struggle the most to find work, but who will benefit the most from work once it is found. This could involve significantly reducing the program scale, in-line with international examples. By comparison, where DES supports approximately one per cent of the Australian population whereas the equivalent program in the United Kingdom services only 0.1 per cent of the population.
3. Separation of roles. DES currently combines all three of the employment, disability support, and Mutual Obligations oversight roles into providers. Alternative models could see, for example, oversight of mutual obligations conducted by either Services Australia or third parties.
4. Alternative policy models. Depending on the choice future pathway, substantial funding could be liberated to support alternative policy approaches. Some consideration should be given to the relative costs and benefits of different approaches, such as wage subsidies or other supports provided directly to employers.

These dimensions are discussed in more detail in the following sections. [Five] future state models, reflecting alternative possible combinations of decisions across dimensions, are also identified. It is recommended that the Department design and pilot a new DES program, including testing of different design choices, for implementation following the expiry of the DES Grant Agreement on 30 June 2023.

Government also has a choice to make about the level of integration between DES and jobactive design and operations. DES and jobactive are currently operated by separate Departments and have largely separate processes to oversee design and operations, as discussed in Section 6.2. Options could include:

- Continuing to separate program oversight across two Departments or consolidate under a single Department. The latter model is strongly recommended, as recent experience has demonstrated the issues which can be caused by separating the programs across two Departments.
- If the programs were overseen by a single agency, there is still a decision about whether the programs should be 'merged' at an operational level or continue to operate as separate programs. Further work will be required to make this decision once the target state program design has been completed.

RECOMMENDATION 36. The Department to design and pilot a new DES program for implementation following the expiry of the DES Grant Agreement on 30 June 2023.

8.1. Funding model and participant autonomy

Placeholder. Full discussion of design dimensions will be included in the final report.

8.2. Size and segmentation changes

Placeholder. Full discussion of design dimensions will be included in the final report.

8.3. Role separation options

DES providers currently perform multiple roles from a system perspective, including support of placement into employment, post-placement support, and overseeing participant compliance with Mutual Obligations.

While multiple possible divisions of those functions could be considered, as discussed in Section 5.1, responsibility for Mutual Obligations oversight appears to be the greatest current pain point from a provider perspective.

The principal option for mitigating the burdens of Mutual Obligations oversight responsibility is to transfer the bulk of that responsibility to either Services Australia, or to a third party. Explicitly reducing the scale of Mutual Obligations could also have some effect (anecdotally, providers may bias towards being aggressive in, for example, setting the number of job applications required per month, to avoid being perceived by the Department as too lenient), but was not investigated for this Review.

A proof-of-concept view of this possibility is provided in Exhibit 74, where providers would retain responsibility for agreeing job plans (due to their participant-facing role), but subsequent oversight and maintenance would be performed by a third party.

Exhibit 74. Indicative model for Mutual Obligations outsourcing

Current Mutual Obligations oversight activities undertaken by providers

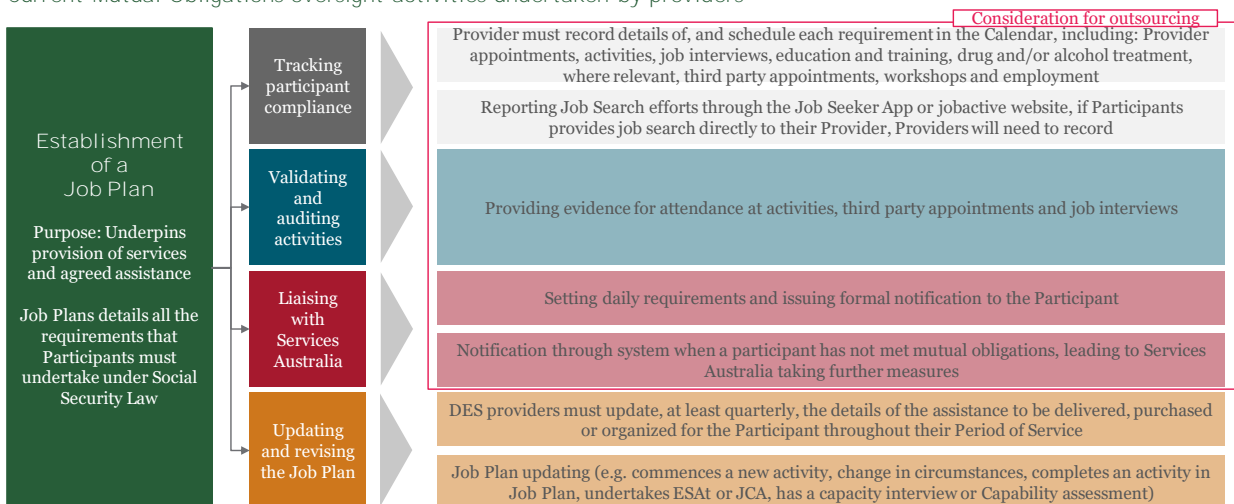


Table 2. High-level comparison of options for assigning Mutual Obligations oversight responsibility

Current and alternative models :

	1 Provider	2 Services Australia	3 Third Party
Description	Providers continue conduct Mutual Obligations oversight and enforce compliance	Providers to retain responsibility for agreeing job plans, but subsequent oversight and maintained would be performed by Services Australia	Providers to retain responsibility for agreeing job plans, but subsequent oversight and maintained would be performed by third party (using digital solutions)
Benefits	<ul style="list-style-type: none"> ✓ Single point of contact for all matters relating to participants 	<ul style="list-style-type: none"> ✓ Reduces relationship management complexity ✓ Already conduct compliance related activities 	<ul style="list-style-type: none"> ✓ Leverage economies of scale in Mutual Obligations validation ✓ Leverage digital solutions that would directly interface with Services Australia systems, reducing manual effort
Limitations	<ul style="list-style-type: none"> ✗ High admin burden, reduced capacity to service participants ✗ Strain on provider-participant relationships ✗ Awkward fit with competitive market approach 	<ul style="list-style-type: none"> ✗ Methodology to validating information is still quite manual ✗ Participants will have to manage multiple different stakeholders 	<ul style="list-style-type: none"> ✗ Requires initial upfront investment and for employers and participants to adopt the new system
Cost impact	<ul style="list-style-type: none"> • NA 	<ul style="list-style-type: none"> • Potentially neutral 	<ul style="list-style-type: none"> • Potentially net saving

Since a major share of quarterly service fees are payment for performing the Mutual Obligations oversight, a substantial reduction in such fees would be anticipated. This would be offset by the costs of Services Australia or the third party. However, if the provider complaints above are valid, the move would be beneficial even if it was revenue neutral. Moreover, in the case of a third party at least, it could in fact be revenue positive, as a third party may be able to:

- Deploy digital solutions that would directly interface with Services Australia systems, reducing manual effort
- Leverage economies of scale in Mutual Obligations validation / assurance

A summary view of some of the benefits and limitations of different options are provided in Table 2. Very preliminary inquiries indicated that there is at least some market appetite to take on such a n oversight role.

RECOMMENDATION 37. The Department to assess options for the DES provider role in Mutual Obligations oversight to be minimised, and replaced with oversight by either Services Australia or a third-party provider.

8.4. Alternative policy models

Placeholder. Full discussion of design dimensions will be included in the final report.

8.5. Integration between DES and jobactive

As discussed in Section 6.2, DES and jobactive have similar policy goals and have explicit overlaps in the participant base and the provider network. However, variations between the programs, which were increased following the reforms, have created undesirable tensions between the programs.

Managing these programs through different Departments has naturally led to some of these variations. Furthermore, running the two programs in different Departments reduces the ability to take a whole of Government approach to program management, particularly regarding caseload allocation and cost management across the programs.

This raises two critical questions discuss in the following sections:

1. Should DES and jobactive be overseen by a single Department?
2. How far should the design and delivery of DES and jobactive be integrated?

8.5.1. Departmental oversight of design and operations

It is recommended that DES and jobactive are moved under the remit of a single Department. This provides a number of material benefits to Government:

- Reduces the likelihood of creating differences between the programs resulting in unintended consequences
- Facilitates a whole-of-Government approach to managing volumes and costs
- Gives the Department greater end-to-end control over policy, systems and process (e.g. IT, data)
- Reduces complexity for participants and providers

Alternatively, a minimum a joint accountability and decision-making function should be established across both Departments to guide cross-program design.

Preliminary analysis of this issue is summarised in Table 3.

Table 3. Recommend that a single Department should oversee DES and jobactive

	Option 1: Separate Departments, separate approach to design and governance	Option 2: Separate Departments, joint accountability for design and governance	Option 3. Single Department overseeing both programs
Description	<ul style="list-style-type: none"> Current approach: programs run by different Departments, DESE consulted in specific elements of DES design where there are strong interdependencies 	<ul style="list-style-type: none"> Multi-departmental governance body oversees program design and decision making 	<ul style="list-style-type: none"> Both programs sit under same Department (although they may still be run as distinct programs)
Opportunities	<ul style="list-style-type: none"> Allows programs to operate with limited dependency, if programs have distinct designs and objectives Aligns DES program design with the broader disability policy and disability services landscape 	<ul style="list-style-type: none"> Reduces likelihood of creating misaligned incentives, to some degree Facilitates whole of government approach to managing volumes and costs, in theory 	<ul style="list-style-type: none"> Reduces likelihood of unintended program misalignment Facilitates a whole-of-Government approach to managing volumes and costs Gives the Department greater end-to-end control over policy, systems and process (e.g. IT, data) Reduces complexity for participants and providers
Challenges	<ul style="list-style-type: none"> Increases likelihood of unintended program misalignment e.g. gaming by providers Results in each program optimisation for outcomes and costs within silos Necessitates DSS being dependent on DESE for key aspects of service delivery (e.g. IT) Creates additional complexity for participants and providers 	<ul style="list-style-type: none"> Adds significant complexity and creates unclear decision rights, unlikely to be a practical solution given the breadth of the programs Maintains some additional complexity for participants and providers 	<ul style="list-style-type: none"> Creates limited benefits if programs have very distinct policy objectives, participants and providers
Assessment	<ul style="list-style-type: none"> Not recommended 	<ul style="list-style-type: none"> Minimum necessary approach 	<ul style="list-style-type: none"> Recommended approach

RECOMMENDATION 38. Government to consolidate oversight of DES and jobactive under a single Department.

8.5.2. Program operational integration

If the programs were overseen by a single agency, there is still a decision about whether the programs should be 'merged' at an operational level or continue to operate as separate programs.

There is a spectrum of alignment between jobactive and DES ranging from being completely distinct programs with fundamentally rules, through to dissolving them into a single program with no distinct

service for people with a disability compared to other jobseekers (see Table 4 for further detail).

Further work will be required to make this decision once the target state program design has been completed.

RECOMMENDATION 39. Government should decide whether to consolidate jobactive and DES into a single program, or maintain separate programs, based on the target state design of the new DES model.

Table 4. Degree of integration depends on longer term vision for DES

	Distinct programs, different rules	Separate programs, but with more consistent rules	Dedicated DES within jobactive	Merged DES and jobactive
Description	<ul style="list-style-type: none"> Current approach: each program run as independent programs with separate contracting 	<ul style="list-style-type: none"> Consistent rules and approaches across both programs in major areas e.g. contracting, provider management, fee structure 	<ul style="list-style-type: none"> DES is a separate stream within jobactive for PwD as the primary barrier May include specialist providers 	<ul style="list-style-type: none"> DES program is completely merged with jobactive May include additional support packages for PwD (e.g. support packages, assessment packages)
Opportunities	<ul style="list-style-type: none"> Allows for fundamentally different program designs Reduces implementation timeframe risk 	<ul style="list-style-type: none"> Allows for greater flexibility in managing DES vs jobactive differently while maintaining alignment in priority areas Reduces implementation timeframe risk 	<ul style="list-style-type: none"> Greatly increases consistency Streamlines employment services journey Simplifies program management 	<ul style="list-style-type: none"> Likely enables large cost reductions Streamlines employment services journey
Challenges	<ul style="list-style-type: none"> Leads to greatest potential for misaligned rules to cause unintended consequences Adds additional program management, compliance 	<ul style="list-style-type: none"> Maintains potential for misaligned rules to cause unintended consequences Need to manage multiple programs 	<ul style="list-style-type: none"> May reduce focus and support for PwD Increases risk to implementation timeframe given new jobactive deed starts on 1 July 2022 	<ul style="list-style-type: none"> May reduce focus and support for PwD Increases risk to implementation timeframe given new jobactive deed starts on 1 July 2022
Choose this option when	<ul style="list-style-type: none"> Programs have distinct objectives, clear segmentation and fundamentally different operating models 	<ul style="list-style-type: none"> Implementation timeframes require separate programs in the short term 	<ul style="list-style-type: none"> Operating model for supporting PwD and other participants is the same, but evidence demonstrates PwD need support from specialist providers Implementation timeframes allow for both programs to be consolidated 	<ul style="list-style-type: none"> Primary focus of both programs is on employment Implementation timeframes allow for both programs to be consolidated

9. Proposed implementation roadmap

Placeholder. Proposed implementation roadmap will be included in the final report.

Appendix A. Comparison of jobactive and DES

Table 5. Comparison of features of DES and jobactive

	DES	Jobactive	Jobactive New Employment Services Model 2022	
Structure	Responsible Department	DSS	DESE	
	Legal framework	DES Grant Agreement July 2018 – June 2023 Providers engaged via grants	jobactive Deed 2015-2022 Providers engaged by contract	Providers will provide Enhanced Services through a contractual license
	Market restrictions	<ul style="list-style-type: none"> No market caps Participant choice of provider 	<ul style="list-style-type: none"> Market caps for providers Limited participant choice 	<ul style="list-style-type: none"> Specialist licenses in some regions Licenses will be capped in each region
	Mutual obligations	<ul style="list-style-type: none"> Job search requirements dependent on capacity Anecdotal evidence that DES providers usually agree 10-20 job searches in job plan to "flick and stick" Other suitable activities determined by job plan 	Job search requirements dependent on stream: <ul style="list-style-type: none"> Stream A and B: 20 job searches per month Stream C and over 60s: dependent on capacity, in general 10 job searches per month Other suitable activities determined by job plan 	<ul style="list-style-type: none"> Job search requirements will remain key focus Shift to new points-based approach will require job seekers to meet a certain number of points each fortnight through a choice of activities including job search and training, work focused activities
Service model	Service delivery	Regular contacts from provider during employment assistance phase	Regular contacts from provider during employment assistance phase Some online servicing via jobactive website	Three tiers of support will be introduced for job seekers: <ul style="list-style-type: none"> Digital first: those who are job-ready & digitally literate will self-manage online Digital plus: those who need extra support will access digital services & receive face-to-face support from an

				<p>employment services or training provider as needed</p> <ul style="list-style-type: none"> Enhanced services: most disadvantaged job seekers will receive Enhanced Services delivered through employment services providers
Segmentation	Segmentation structure	<p>Services</p> <ul style="list-style-type: none"> Disability Management Service (DMS) – job seekers with disability, injury or health condition who require assistance to find sustainable employment, but who are not expected to need long-term support in the workplace Employment Support Service (ESS) – job seekers with permanent disability who require long-term Ongoing Support in the workplace 	<p>Streams</p> <ul style="list-style-type: none"> Stream A - most job ready Stream B - some employment barriers Stream C - multiple & complex employment barriers 	<p>Enhanced Services will be delivered in two tiers:</p> <ul style="list-style-type: none"> Tier 1: assessed as being ready to participate in intensive work readiness activities including vocational and non-vocational activities to address their barriers to employment Tier 2: assessed as facing more substantial, non-vocational barriers to employment than Tier 1 job seekers <p>Providers will have the discretion to place job seekers into either tier based on their assessment & personal circumstances</p>
	Substructure	Funding Levels 1 – 5 for both DMS & ESS	Period of unemployment (<24mths, 24-59mths, >60mths)	JSCI score (moderate or high)
	Eligibility for education	DSP recipient or have not completed year 12 or equivalent	Aged 15-21yrs, have not completed year 12 or equivalent, or Cert III	
Participants	Participant referral	Referred by Services Australia following an ESA or JCA	Referred by Services Australia following a JSCI or where applicable an ESA	

	Caseload (March 2020)	280,180	757,316	
	Population with disability	All	186,343 (24 per cent)	
Providers	Provider application process	Applications for grants via Community Grants Hub	Contract procurement process via DESE Delivery & Employer Engagement Division	Panel of employment service providers
	Performance information	Quarterly Star rating results	<ul style="list-style-type: none"> Quarterly Star rating results Weekly performance reports provided by the Department 	
	Provider overlap		47 per cent of DES providers also in job active	

Table 6. Mutual obligations are typically less strenuous in DES compared to jobactive

	jobactive	DES
Applicable job seekers	Job seekers receiving participation payments but usually determined by age, assessed work capacity and caring responsibilities: <ul style="list-style-type: none"> • JobSeeker payment • Youth allowance (other) • Parenting payment or ParentsNext • Special benefit 	
Job plan	<ul style="list-style-type: none"> • A job plan is developed by the provider, the job seeker signs off agreement. Job plan will outline activities required for the job seeker to satisfy mutual obligation requirements 	
Job search obligations	<ul style="list-style-type: none"> • Stream A and B: 20 job searches per month • Stream C and over 60s: dependent on capacity, in general expected 10 job searches per month 	<ul style="list-style-type: none"> • Job search requirements dependent on capacity • Anecdotal evidence that DES providers usually agree 10-20 job searches in job plan to "flick and stick"
Other suitable activities	Job seekers may consider the following for inclusion in their job plan: <ul style="list-style-type: none"> • Requirement to attend provider appointments • Requirement to act on referrals to specific jobs made by their provider and attend job interviews offered by employers • Participation in approved activities including <ul style="list-style-type: none"> ○ Activities to develop job search/interview skills e.g. Employability Skills Training ○ Study or language, literacy, and numeracy activities under SEE or AMEP programs ○ Work experience programs or PaTH internships ○ Work for the Dole 	
Annual activity requirement	After 12 months of support, must complete one or combination of: <ul style="list-style-type: none"> • Work for the Dole • Paid or voluntary work • Accredited language, literacy and numeracy courses • Study/accredited education and training • Drug/alcohol treatment 	<ul style="list-style-type: none"> • Not required for DES participants
Exemptions	<ul style="list-style-type: none"> • Job seekers may be exempt in the following cases (however preference is to reduce requirements): temporary incapacity, special circumstances, partial capacity to work whose carer is unavailable 	
Oversight	Employment services provider	

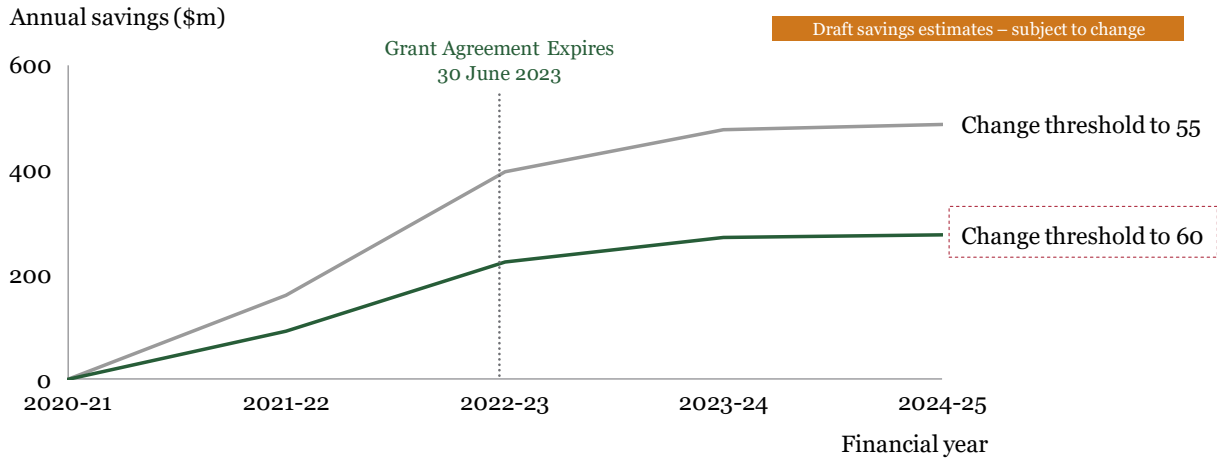
Appendix B. Parallel international programs

Placeholder. Summary descriptions of relevant international programs to be included in final report.

Appendix C. Savings estimates

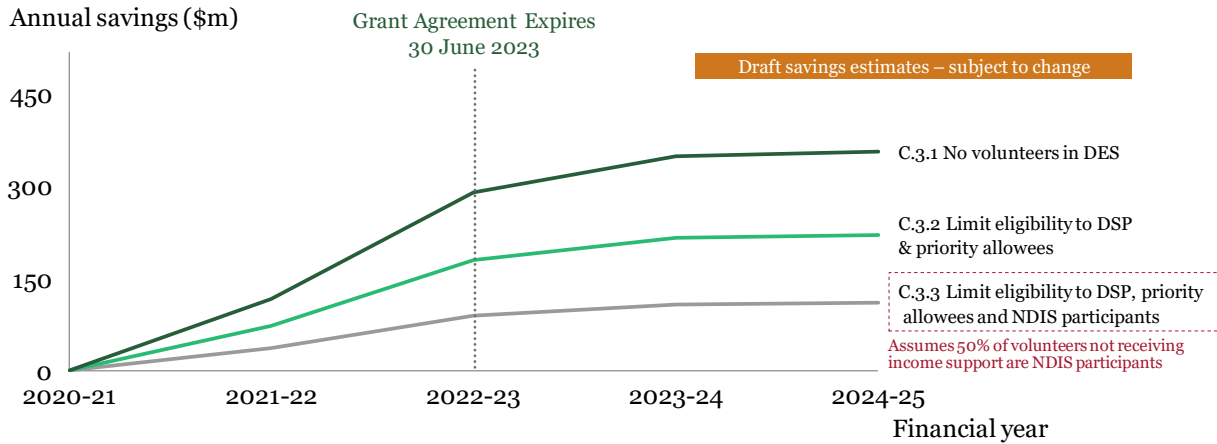
This appendix provides summarises savings forecasts for the eligibility changes outline in Section 7.2.

Exhibit 75. Savings of approximately \$[80]m in 2022-23 by limiting eligibility for DES to less than 30 benchmark hours



Source: DSS DES data, BCG analysis

Exhibit 76. Restricting volunteer eligibility to income support recipients and NDIS participants could potentially save \$[90]m in 2022-23



Source: DSS DES data, BCG analysis

Disclaimer

The services and materials provided by Boston Consulting Group (BCG) are subject to BCG's Standard Terms (a copy of which is available upon request) or such other agreement as may have been previously executed by BCG. BCG does not provide legal, accounting, or tax advice. The Client is responsible for obtaining independent advice concerning these matters. This advice may affect the guidance given by BCG. Further, BCG has made no undertaking to update these materials after the date hereof, notwithstanding that such information may become outdated or inaccurate.

The materials contained in this document are designed for the sole use by the board of directors or senior management of the Client and solely for the limited purposes described in the presentation. The materials shall not be copied or given to any person or entity other than the Client ("Third Party") without the prior written consent of BCG. These materials serve only as the focus for discussion; they are incomplete without the accompanying oral commentary and may not be relied on as a stand-alone document. Further, Third Parties may not, and it is unreasonable for any Third Party to, rely on these materials for any purpose whatsoever. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by BCG), BCG shall have no liability whatsoever to any Third Party, and any Third Party hereby waives any rights and claims it may have at any time against BCG with regard to the services, this presentation, or other materials, including the accuracy or completeness thereof. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.

BCG does not provide fairness opinions or valuations of market transactions, and these materials should not be relied on or construed as such. Further, the financial evaluations, projected market and financial information, and conclusions contained in these materials are based upon standard valuation methodologies, are not definitive forecasts, and are not guaranteed by BCG. BCG has used public and/or confidential data and assumptions provided to BCG by the Client. BCG has not independently verified the data and assumptions used in these analyses. Changes in the underlying data or operating assumptions will clearly impact the analyses and conclusions.



Australian Government
Department of Social Services



Mid-term Review of the Disability Employment Services (DES) Program

August 2020

Table of contents

Table of contents	1
Executive summary	3
Recommendations summary	8
List of terminology	13
Part I: Context for the Review	14
1. Introduction	14
1.1. Program goals, approach, and composition	14
1.2. Fee design and program flows	18
1.3. Major reforms introduced in July 2018	18
1.4. Scope of Mid-term Review	24
1.5. Mid-term Review methodology	25
2. Drivers of DES program caseload growth	27
2.1. Growth in JobSeeker recipients	28
2.2. Growth in voluntary participation	32
2.3. Other growth drivers.....	33
2.4. Implications of growth on future costs.....	33
Part II: Review findings	35
3. Overall assessment of DES program efficacy and efficiency	36
3.1. Trends in outcome rates.....	36
3.2. Trends in cost-per-outcome	43
3.3. Breaking down the growth in spend	46
3.4. Employer and participant feedback	47
4. Impact of the 2018 reforms	55
4.1. Expanded access to education outcomes	56
4.2. Revised competition and contestability model.....	60
4.3. Enhanced participant choice	64
4.4. The risk-adjusted funding model	68
4.5. Other elements of the 2018 reforms.....	69
5. Other challenges in program design and oversight	70
5.1. Provider management of compliance, assurance, and reporting.....	73
5.2. Impact of Employment Service Area constraints	76
5.3. Efficacy of Employment Service Assessments	78

5.4. Engagement with school-aged participants	80
5.5. Interactions with other disability & employment programs	81
Part III: Review recommendations	89
6. Constraints on program change	90
7. Opportunities within the current legislative arrangements	92
7.1. Improve cohort targeting	94
7.2. Re-align incentives to enhance employment outcomes	101
7.3. Improve program management with informed decision making and oversight	104
7.4. Smooth provider ability to enter and exit the market	108
7.5. Encourage flexibility and innovation in support models	109
7.6. Enhance provider productivity	109
7.7. Unlock employer demand	110
8. Longer-term opportunities for reform.....	111
8.1. Improve cohort targeting	112
8.2. Re-align incentives to enhance employment outcomes	116
8.3. Improve program management with informed decision making and oversight	122
8.4. Smooth provider ability to enter and exit the market	123
8.5. Encourage flexibility and innovation in support models	125
8.6. Enhance provider productivity	125
8.7. Unlock employer demand.....	127
8.8. Improve integration between DES and jobactive.....	128
8.9. Integration with the NDIS, and broader program strategy	133
9. Proposed implementation roadmap.....	135
Appendix A. Comparison of jobactive and DES	139
Appendix B. Parallel international program case studies	145
Disclaimer and conditions	149

Executive summary

The Disability Employment Services (DES) program, overseen by the Department of Social Services (the Department), employs a market-based approach to deliver employment outcomes for people with a disability, chronic illness, or injury. As of March 2020, over 100 service providers support close to 280,000 registered participants in job search, in the workplace, and in education. As an employment services program, DES focuses on, and pays for, the matching of individuals to job opportunities, as well as pre-employment and post-employment support.

In mid-2018, the Commonwealth Government introduced a series of reforms designed to improve outcomes for DES participants by allowing them to choose their service providers, expanding access to education supports, and adjusting how provider payments are structured. The reforms also sought to expand access to the program, including by allowing more people to join voluntarily, rather than only when referred by a government agency (*Chapter 1*).

Since these reforms were introduced, the number of participants in the program has grown significantly. Service provider caseloads have risen by 46 per cent in under two years, yet the number of employment outcomes achieved for participants has risen by only 8 per cent. Government expenditure on the program has increased over the same period by approximately 48 per cent, to a forecast \$1.25 billion in 2019-20. With no changes to program design, expenditure is projected to reach \$1.6 billion by 2022-23, taking into account the COVID-19-induced economic recession (*Chapter 2*).

In light of these results, the Department brought forward the scheduled Mid-term Review of the DES program to assess its efficacy and efficiency, and to evaluate the impact of the 2018 reforms. The Review aims to identify opportunities to improve employment outcomes for program participants, and maintain financial sustainability.

Boston Consulting Group (BCG) was commissioned to conduct the Review over nine weeks from May to July 2020. The Review's analysis, and recommendations reflect the findings from interviews with participants, providers, and employers, as well as engagement with other stakeholders, plus extensive analysis of performance and expenditure data and consultation with experts.

The Review found that the 2018 reforms have had a number of positive outcomes (e.g. participant take-up of the option to choose their provider). Nonetheless, their overall effectiveness has been constrained by insufficient supporting infrastructure (e.g. effective mechanisms for participants to assess provider quality), and misaligned provider incentive structures (e.g. over-emphasis on education outcomes).

The Mid-term Review identified six primary challenges for the DES program (*Chapters 3, 4 and 5*):

1. **Mixed quality service.** Participants and employers provided negative feedback on several aspects of service quality, including that providers lack specialist skills and professionalism;
2. **Insufficiently flexible to allow innovation.** Program rules limit providers' ability to tailor their support or adapt their business models to the specific needs of individual participants. Employers and participants feel their individual needs are neglected;

3. **Excessive complexity and lack of clarity.** Stakeholders believe DES program processes, information, and incentive structures are not transparent. Providers and participants express confusion around features of program design, from star ratings to risk-adjusted funding tool updates;
4. **Ineffective market mechanisms.** Market competition has increased, yet market mechanisms have not driven observable improvements in outcomes for participants. Market dynamics are complicated by providers' dual role: supporting participant employment outcomes and overseeing participant compliance with mutual obligations;
5. **Poor alignment with adjacent programs.** Inconsistencies in incentive structures of DES and the aligned jobactive program have contributed to the growth in DES program participant numbers. Poor integration with the NDIS also causes confusion for participants and employers;
6. **Growth in cost-per-outcome.** The average spend for each 26-week employment outcome achieved has risen to almost \$40,000 in recent quarters, from an average of \$28,000 pre-reforms.

The Review proposes a set of recommendations and options to improve DES program performance. These recommendations and options are intended to:

- Improve the delivery model so that participant and employer needs are met;
- Create an integrated government approach to the provision of disability and employment support;
- Restore the sustainability of DES program caseload and expenditure;
- Ultimately, improve the number and quality of employment outcomes for people with a disability.

s42

It is proposed that a broad-ranging redesign of DES be undertaken prior to the expiry of the current Grant Agreement on 30 June 2023, allowing implementation of a new DES model to comprehensively address current pain points. The longer-term recommendations are intended to inform this redesign, but are not intended to pre-empt its scope.

Both sets of recommendations are summarised in Table 1. Note that all recommendations were produced by BCG under the terms of reference of the DES Review, and do not necessarily reflect the views of the Commonwealth Government.

Table 1. Overview of reform options

Theme	Short-to-medium term (Chapter 7)	Longer-term (Chapter 8)
<p>1. Improve cohort targeting</p>	<p>Consider eligibility changes to improve the program's focus, including changes to eligibility based on work capacity, age, prior DES experience, and chance of obtaining a successful employment outcome. Recommend tightening eligibility for volunteers.</p>	<p>Redesign DES program's focus to support both those who struggle the most to find employment, and those for whom the individual and social benefits of work will be greatest.</p> <p>Consider alternative segmentations of participants (e.g. based on needs, disability type, etc.) and look to create a more differentiated service model.</p>
<p>2. Re-align incentives to enhance employment outcomes</p>	<p>Re-balance incentive design towards employment outcomes, link payment of education outcomes to certified course completion (and require a work experience component), and establish a regular, committed rhythm for updating the risk-adjusted funding tool.</p>	<p>Conduct an end-to-end redesign of the provider incentive structure, fee levels and metrics.</p> <p>Cap education fees at a lower level and revert to pre-reform eligibility.</p> <p>Consider alternative structures on the spectrum of service fees, outcome fees, and 'participant accounts', particularly for moving towards a more outcomes-based model. Consider removing reliance on 'benchmark hours' and 'capacity to work'.</p>
<p>3. Improve program management with informed decision making and oversight</p>	<p>Establish an active performance management framework allowing for removal of under-performing providers.</p> <p>Simplify how star ratings are calculated and the timeliness and process for communicating information on performance.</p> <p>Improve the Department's data collection and reporting, analytics capabilities and decision-making speed.</p>	<p>Continue to build the Department's capability to manage the program. Ensure that the legal framework for next DES agreement allows the Department to exercise controls and variations on an ongoing basis.</p>

Theme	Short-to-medium term (Chapter 7)	Longer-term (Chapter 8)
	Improve operations, design, and incentives associated with ESAs.	
4. Smooth provider ability to enter and exit the market	Ease provider ability to enter and exit ESAs in between DES Panel Refresh processes.	Explore more fundamental changes to the ESA system, up to and including eliminating controls on provider geographic coverage.
5. Encourage flexibility and innovation in support models	As a consequence of other changes, providers will have increased scope to specialise by industry or by disability type.	Conduct a top-to-bottom assessment of the current rules that unnecessarily restrict behaviour and innovation.
6. Enhance provider productivity	Optimise compliance and administrative requirements to increase the share of time directly dedicated to assisting program participants.	Explore models where mutual obligations oversight is performed by third parties or by Government, rather than by providers.
7. Unlock employer demand	Seek to address common employer concerns around employing someone with a disability (e.g. risk, liability), accompanied by a communications and outreach effort.	Consider placing greater emphasis in policy mix on wage subsidies and other employer support. Work with NDIA to improve deployment of NDIS funding to enhance employment and education outcomes through on-the-job and classroom support.

Chapter 9 proposes an implementation plan for both the short-to-medium term and longer-term reforms. To progress implementation, the following immediate next steps are identified:

1. By 31 August 2020, finalise advice to Government including:
 - Advice on near-term changes to eligibility and education, with consideration given to the marginal cost of DES compared to jobactive;
 - Recommendation to commence DES reform;
 - Advice on level of integration between DES and jobactive.
2. By October 2020, complete the activities listed below for implementation on 1 January 2021:
 - Obtain agreement from providers on changes required to the Grant Agreement;

- Conduct a detailed review of ESATs for implementation on 1 January 2021;
 - Redesign compliance and assurance procedures for implementation on 1 January 2021.
3. By December 2020, design a performance management regime for implementation on 1 April 2021.
 4. By early 2020, conduct initial reform design and planning for consideration by Government:
 - Finalise advice on target state DES model;
 - Model the financial implications of the target state DES model;
 - Conduct detailed planning for the design process, including deciding on the extent of iterative design and trials.
 5. On an ongoing basis, monitor the impact of the COVID-19 induced recession on the DES market and provider economics.

Recommendations summary

Chapter 7. Proposed and possible discretionary changes	
7.1 Improve cohort targeting	Recommendation 1. As a general principle, DES should target cohorts where the impact of assistance (compared to baseline outcomes) will be greatest, and seek maximum possible benefit for every dollar spent. Recommendation 18 to Recommendation 22 will help guide the application of this principle.
	Recommendation 2. The Department should restrict DES eligibility for voluntary participants to income support recipients and NDIS participants.
	Recommendation 3. The Department should explore whether there are high-capacity-to-work cohorts within DES who would be better served by jobactive (e.g. participants with more than 30 benchmark hours, or a lower JSCI score).
	Recommendation 4. The Department should explore reducing the DES age cut-off to 60, and improving alignment with participation requirements for this segment. Alternatively, the Department could explore an alternative service model for this segment.
	Recommendation 5. The Department should explore ways to increase the engagement of DES with school-aged participants.
	Recommendation 6. The Department should consider introducing additional criteria for re-entry into DES (beyond the ESAt) to ensure DES is the best program to support participants who do not achieve an outcome through DES initially.
7.2 Re-align incentives to enhance employment outcomes	Recommendation 7. The Department should require participants to complete all course requirements, including any work placement component, and receive the relevant certification before education outcome payments are made to the provider.
	Recommendation 8. The Department should restrict the course types funded by DES to those that include a work placement component.
	Recommendation 9. The Department should change the Grant Agreement so that participants remain on the DES program and attached to their provider immediately following completion of an education outcome. Time taken to achieve a 26-week outcome should be counted as time in the Employment Assistance phase.
	Recommendation 10. The Department should complete the recalibration of the risk-adjusted funding tool that is currently underway.
	Recommendation 11. The Department should recommit, publicly, to a fixed minimum frequency schedule for updates to the risk-adjusted funding tool, with no more than 12 months between updates, and to ensure it is appropriately resourced to carry out such updates on time.
	Recommendation 12. The Department should continue exploring options for mitigating the tendency of funding level reclassifications to result in an upwards drift in program spend over time.

Chapter 7. Proposed and possible discretionary changes

7.3 Improve program management with informed decision making and oversight	Recommendation 13. The Department should develop a defined performance management framework, with clearly defined KPIs and metrics, and processes for discontinuing poor performance.
	Recommendation 14. The Department should remove Education Outcomes from the current star rating calculation.
	Recommendation 15. The Department should simplify the star ratings calculation process, streamline approvals, and commit necessary resources to ensure ratings are published within a month of the end of each quarter.
	Recommendation 16. The Department should gather data on participant and employer perspectives on provider performance, and either: incorporate it into star ratings; offer it as complement to star ratings; or use it as a replacement for star ratings.
	Recommendation 17. The Department should develop more participant-focused communications to explain the star rating system, that are non-technical, easy-to-read, and readily available at points of search and during interactions with Services Australia.
	Recommendation 18. The Department should regularly survey program participants to assess the extent to which they consider DES participation improves their ability to obtain employment outcomes, and the quality of these outcomes (e.g. duration of employment, and whether jobs match participant skill levels).
	Recommendation 19. The Department should regularly produce estimates of the extent to which program outcomes represent an improvement above baseline.
	Recommendation 20. The Department should include additional efficacy and efficiency metrics in its regular public reporting, including measures of the total average costs per employment outcome.
	Recommendation 21. To further aid assessment of program performance, the Department should examine ways to rigorously assess the quality of education and employment outcomes, potentially including participant surveys and/or data gathering on job characteristics.
	Recommendation 22. To further aid assessment of program performance, the Department should perform a quantitative assessment of the benefits of employment outcome achievement as a function of individual characteristics (age, experience, location, etc).
	Recommendation 23. The Department should re-assess the total resourcing required to ensure effective program oversight.
Recommendation 24. The Department should continue to monitor the impact of the COVID-19 induced recession on the DES market and provider financial viability.	
Recommendation 25. The Department should conduct a detailed review of Employment Service Assessments, assessing their accuracy, identifying opportunities for process improvement, and identifying options for reduce incentive misalignment.	

Chapter 7. Proposed and possible discretionary changes	
7.4 Smooth provider ability to enter and exit the market	Recommendation 26. The Department should establish a mechanism for providers to apply for a new ESA outside the DES Panel Refresh processes.
7.5 Encourage flexibility and innovation in support models	Recommendation 27. The Department should eliminate all requirements for face-to-face servicing, allowing providers to service by phone or digital channels. However, face-to-face meetings must still be provided on participant request.
7.6 Enhance provider productivity	Recommendation 28. The Department should review current assurance procedures, seeking opportunities to use analytics and other tools to maximise the impact on payment accuracy, optimise resourcing effort, and reduce provider burden.
	Recommendation 29. The Department should prioritise plans to integrate assurance activities with Single Touch Payroll, to reduce burden of demonstrating employment. Any such assessment may usefully be conducted with the involvement of DESE, to assess value of rolling out across DES and jobactive.
7.7 Unlock employer demand	Recommendation 30. The Department should investigate opportunities to increase employer demand by addressing common employer concerns associated with hiring someone with a disability (such as risk, ability to access support, liability concerns, etc.).
	Recommendation 31. Once targeted messages are identified, the Department should design specific communication campaigns that target employers and promote the hiring of people with a disability.
	Recommendation 32. The Department should conduct an end-to-end review of its employer engagement strategy.

Chapter 8. Longer-term change opportunities	
Overall	Recommendation 33. The Department should undertake a major reform of the DES program to be implemented on the expiry of the DES Grant Agreement on 30 June 2023.
8.1 Improve cohort targeting	Recommendation 34. The Department should review the target size of the DES program, informed by its policy objectives and whether particular cohorts are more appropriately served by other programs.
	Recommendation 35. The Department should consider alternative segmentation approaches based on best practice service models, ethnographic research on the needs of different segments, data-driven assessment of outcomes, expected cost to serve, and benefits to Government.
	Recommendation 36. The Department should review whether the length of participant participation on the DES program is appropriate.
	Recommendation 37. The Department should review the need for Extended Employment Assistance, and consider whether the

Chapter 8. Longer-term change opportunities	
	assessment approach for Extended Employment Assistance is appropriate.
8.2 Re-align incentives to enhance employment outcomes	Recommendation 38. The Department should design a new service delivery model based on desired policy outcomes, participant needs, best practice, expected service costs, and the role of the DES program within the broader employment and disability support ecosystem.
	Recommendation 39. The Department should design a new incentive structure for the DES program.
	Recommendation 40. The Department should consider trialling and testing shortlisted service models and incentive structures prior to implementation.
	Recommendation 41. Education outcome payments should be reclassified as a type of service payment.
	Recommendation 42. The Department should reduce outcome fees for education to a materially lower level (e.g. capping at funding level 2 rates) in the next DES program.
	Recommendation 43. The Department should revert to stricter eligibility criteria for participants able to achieve a full outcome for education, targeted at segments who benefit the most. For example, reverting to the pre-2018 reform criteria.
	Recommendation 44. The Department should consider explicitly linking payment for an education outcome to achieving an employment outcome, and re-assess the justification of the required fee levels for education outcomes, employment outcomes and service fees.
	Recommendation 45. The Department should conduct a detailed cost-benefit analysis of the payment of education outcomes, to consider whether they are a justified approach in comparison to other possible policy mechanisms.
	Recommendation 46. The Department should consider rebalancing the overall structure of payment types so that payments for employment outcomes constitute at least 50 per cent of the total value of claims paid.
	Recommendation 47. The Department should consider rebalancing the employment outcome fee structure towards 52-week payments. It should be expected that 52-week outcomes, which require the largest increment in employment duration to earn, should be the highest of the current four employment outcome payments.
Recommendation 48. The Department should rebalance the frequency caps on employment outcome claims, for example by limiting to two of each duration per period of service.	
Recommendation 49. The Department should consider extending the duration of permissible breaks from employment, conditional on 1) the participant having an assessed episodic condition; 2) the provision of a medical certification describing the need for the break; 3) no other employment or education being entered into during the break period. Recognising that this rule may have cost implications, any such change should be staggered and monitored.	

Chapter 8. Longer-term change opportunities	
	<p>Recommendation 50. The Department should explore opportunities to consolidate the current long list of potential payments that providers can claim, as well as opportunities to simplify the division into DMS and ESS streams.</p> <p>Recommendation 51. The Department should allow for forms of ‘gig economy’ and self-employment in future program design.</p>
8.3 Improve program management with informed decision making and oversight	<p>Recommendation 52. ^{s42}</p>
	<p>Recommendation 53. The Department should not use grant funding in the next iteration of DES, but rather pursue either contractual or licensing arrangements (regardless of whether Recommendation 52 is carried out or not).</p>
8.4 Smooth provider ability to enter and exit the market	<p>Recommendation 54. The Department should explore reforms and alternatives to the ESA system, to simplify provider entry and exit across geographic areas. Further, the Department should deploy incentive-based (rather than regulatory) systems, if needed, to ensure equity of access in regional areas.</p>
8.5 Encourage flexibility and innovation in support models	<p>Recommendation 55. The Department should engage an external, detailed assessment by appropriate specialists to identify opportunities to further simplify system rules.</p>
8.6 Enhance provider productivity	<p>Recommendation 56. The Department should assess options for the DES provider role in mutual obligations oversight to be minimised, and replaced with oversight by either Services Australia or a third-party provider.</p>
8.7 Unlock employer demand	<p>Recommendation 57. The Department should explore greater reliance on alternative policy approaches which engage employers more directly (which may include, but are not limited to, more emphasis on wage subsidies).</p>
8.8 Improve integration between DES and jobactive	<p>Recommendation 58. Government should consolidate oversight of DES and jobactive under a single Department.</p>
	<p>Recommendation 59. Government should decide whether to consolidate jobactive and DES into a single program, or whether to maintain separate programs, based on the target state design of the new DES model.</p>
8.9 Integration with the NDIS, and broader program strategy	<p>Recommendation 60. The Department should explore opportunities to work with the NDIA to develop a participant-centred approach to support people with disability into employment.</p>
	<p>Recommendation 61. The Department should consider the role of the DES program within Government’s broader strategy for disability and employment services when designing the future DES program.</p>

List of terminology

Term	Description
ABS	Australian Bureau of Statistics
ADE	Australian Disability Enterprises
DES	Disability Employment Services
DMS	Disability Management Service (DES stream)
ESS	Employment Support Service (DES stream)
Disability	Includes sensory impairment, physical impairments, learning disabilities, mental health conditions or behavioural conditions, and injuries and chronic illnesses, and including both permanent and temporary disabilities
DESE	Department of Education, Skills and Employment
DSP	Disability Support Pension
DSS	Department of Social Services
Employment Assistance	Program services provided to a participant prior to entering employment or education. This continues for a maximum of 18 months, included all prescribed program services to participants who are not receiving Post Placement Support, or until the participant exits the program, starts Ongoing Support, or transitions to Post Placement Support.
EEA	Extended Employment Assistance. An additional six months of Employment Assistance, following a review of needs after 18 months.
ESA	Employment Service Area
ESAt	Employment Services Assessment
ESL	Eligible School Leaver program
FL	Funding Level
Grant Agreement	The Disability Employment Services Grant Agreement, spanning 1 July 2018 to 30 June 2023, with up to 10 years of extensions at the Department's discretion.
JCA	Job Capacity Assessment
JSCI	Job Seeker Classification Index
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
NIAA	National Indigenous Australians Agency
OECD	Organisation for Economic Co-operation and Development
Ongoing Support	Services provided to participants assessed as requiring further support in the workplace. This is determined via an Ongoing Support Assessment and is available to participants achieving a 26-week Employment Outcome or receiving Work Assistance, and who are currently employed.
PaTH	Youth Jobs PaTH (Prepare Trial Hire) program
Post Placement Support	Services provided to a participant after starting an education or education activity, unless receiving Ongoing Support.
SLES	School Leaver Employment Support program
SME	Small-to-medium employer

Part I: Context for the Review

Part I provides context regarding the DES program, its participants and service providers. It summarises the changes enacted in the 2018 reforms and relevant recent program history. Specifically:

- Chapter 1: Details of program goals and design, and the intent and methodology of this Review;
- Chapter 2: Causes of the volume increase following the 2018 reforms.

1. Introduction

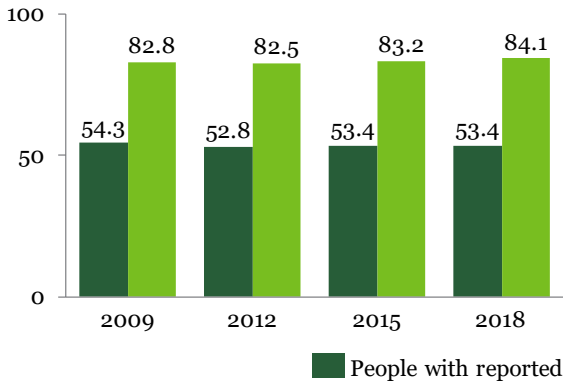
1.1. Program goals, approach, and composition

Employment outcomes for people with a disability lag outcomes for other Australians. People with a disability have a labour force participation rate of around 53 per cent, compared to 84 per cent for the general working age population. The unemployment gap between these population groups has widened steadily over the past decade (Exhibit 1).

Exhibit 1. Employment outcomes for people with a disability lag the general population

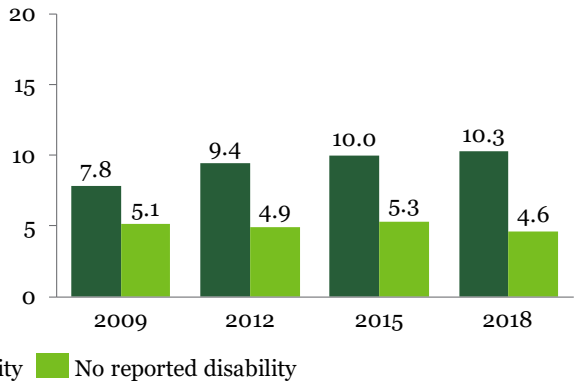
Labour force participation has remained stable for people with a disability, behind general population...

Labour force participation (%)



...while the unemployment rate for people with a disability has increased steadily over the past decade

Unemployment rate (%)

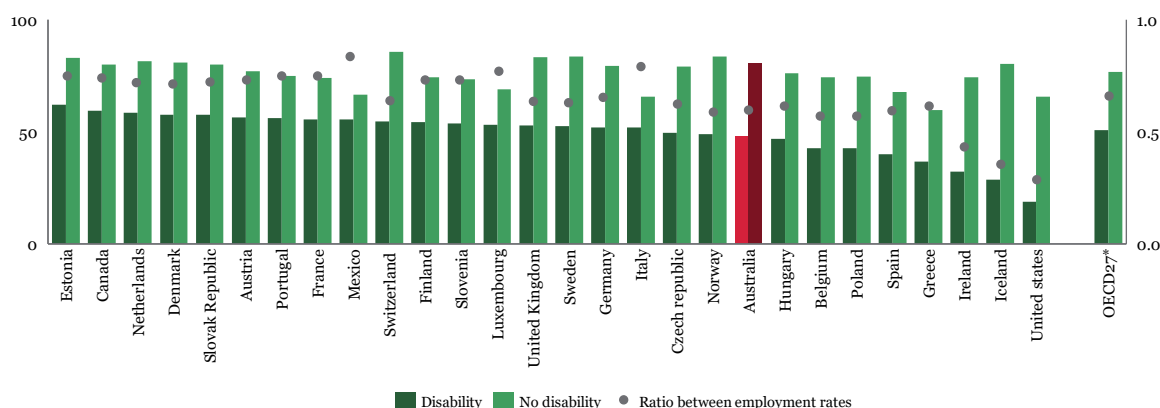


Source: ABS, Disability, Ageing and Carers, Australia; BCG analysis

Further, Australia’s employment rates for people with a disability lag international peers: a comparison across data sources suggests that in 2017 Australia ranked 20th out of OECD nations for disability employment rates (Exhibit 2).

Exhibit 2. Labour force participation rates for people with a disability in Australia lag most of the OECD

Employment rates by disability status (left axis) and ratio of employment rates (right axis), 2017



Note: OECD27 refers to an unweighted average for 27 countries for employment rates. Estonia and Slovenia are not included in the OECD averages.

Source: EU-SILC 2017 except: Australia: Survey of Disability and Carers 2017, Australian Bureau of Statistics, 4430.0 – Disability, Ageing and Carers, Australia: Summary of Findings, 2017; Canada: Canadian Survey on Disability, 2017, Statistics Canada, Table 115-0005 – Labour force status for adults with and without disabilities, by sex and age group, Canada, provinces and territories; Iceland: Statistics Iceland, Disability pensions beneficiaries and the labour market; United States: Survey of Income and Program Participation, SIPP 2017; Note: data for Mexico, Switzerland is for 2012.

The Disability Employment Services (DES) program is Australia's flagship policy for supporting people with a disability into employment. DES is overseen by the Department of Social Services (DSS) under the *Disability Services Act (1986)*, the principal enabling legislation. The Act specifies the goal (among others) of:

...assist[ing] persons with disabilities to receive services necessary to enable them to work towards full participation as members of the community.

The DES Grant Agreement governs the terms and conditions under which DES providers offer and are compensated for their support. It states:

The objective of the Program Services is to help individuals with disability, injury or health condition to secure and maintain sustainable employment in the open labour market.

The Program Services will increase the focus on the needs of the most disadvantaged job seekers and will achieve greater social inclusion.

The Program Services will boost employment participation and the productive capacity of the workforce, address Skills Shortage areas and better meet the needs of employers

The term 'disability' is used in this Review to encompass sensory impairment, physical impairments, learning disabilities, mental health conditions or behavioural conditions, chronic illnesses, and injuries, and includes both permanent and temporary disabilities. (Each of these conditions may qualify an individual to participate in DES.)

The DES program takes a market-based approach to supporting people with a disability into employment. Around 110 DES service providers ('providers' or 'DES providers') support 280,000 program participants (as of the March quarter, 2020) across 460 sites in metropolitan and in regional Australia.¹ With the intent of ensuring equitable access across the country, provision is divided into 111 Employment Service Areas (ESAs). Each ESA

¹ Employment services for people with a disability in remote regions are provided by the National Indigenous Australians Agency (NIAA) via the Community Development Program (see Exhibit 67). Provider and site numbers based on DES Caseload Data as of March 2020.

covers a defined geography, with large variance in size and population between metropolitan and regional areas.

DES program participants include:

- Recipients of the JobSeeker payment (80 per cent of DES program participants as of May 2020), who are referred to DES providers via Services Australia on establishment that disability is the individual's primary barrier to employment. This requires completion of both the Job Seeker Classification Instrument (JSCI) and the Employment Services Assessment (ESAt);
- Recipients of the Disability Support Pension (DSP), including participants with compulsory participation requirements and voluntary participants (approximately 10 per cent of DES participants);
- Recipients of other forms of income support (approximately 2 per cent of DES participants), including parenting payments;
- Non-allowees (approximately 8 per cent of DES recipients), who do not receive any form of income support.

DES thus has significant interdependencies with other government support programs. For example, changes to eligibility for DSP had flow-through effects on the DES caseload by changing the number of JobSeeker recipients.

Where participants have mutual obligations as a condition of their income support (e.g. JobSeeker recipients), DES providers are responsible for overseeing compliance with these obligations. As at May 2020, 81 per cent of DES participants are 'activity tested', meaning that they are participating in DES as a condition of their income support payment. The remaining 19 per cent are voluntary participants.

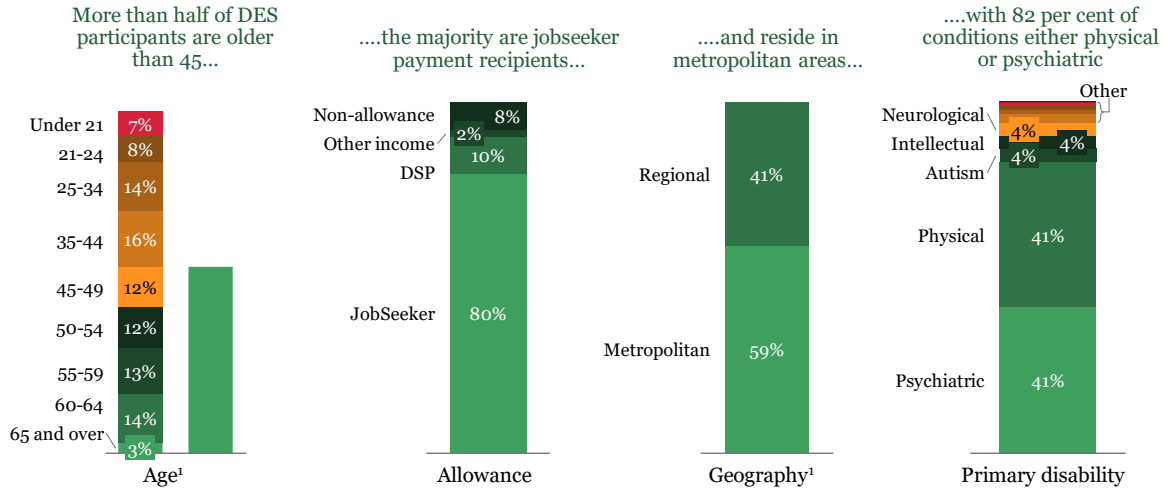
The DES population predominantly consists of people with a physical (40 per cent) or psychiatric (40 per cent) disability. The average age of DES participants is higher than that of the general population (Exhibit 3), with more than half over 45.

The DES population is split evenly between the Disability Management Service (DMS) stream (45 per cent), for non-permanent injuries, health conditions or disabilities, and the Employment Support Service (ESS) stream, for permanent or long-term disabilities or health conditions (55 per cent).

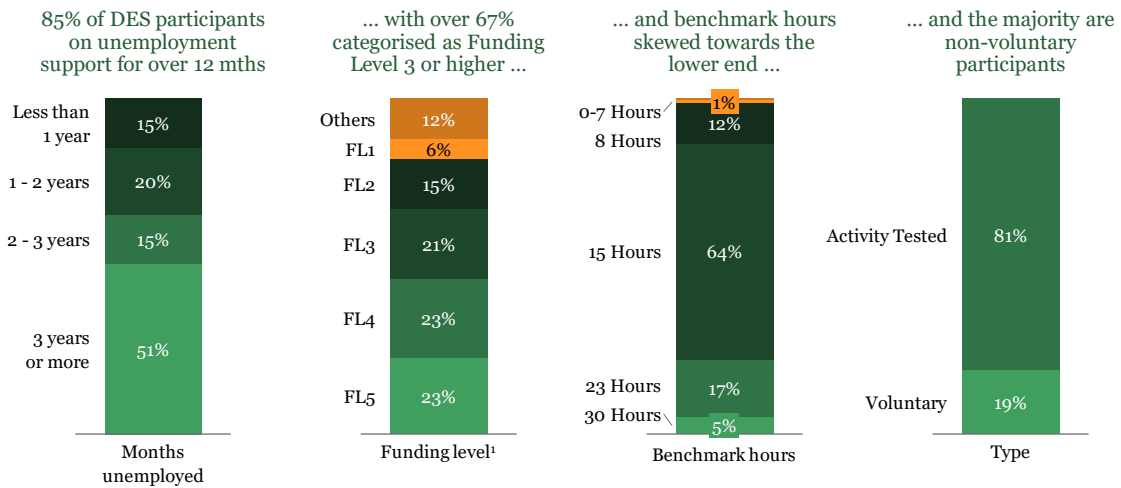
Regarding DES providers: around two-thirds of providers are not-for-profit, and a similar proportion is classified as generalists rather than specialists in a disability type (Exhibit 4). Providers are frequently engaged as providers for other government programs (e.g. jobactive, NDIS (National Disability Insurance Scheme), ParentsNext, the National Disability Coordination Officer, Youth Jobs PaTH, and Transition to Work). Many providers are also Registered Training Organisations. Collectively, DES program providers form the DES Provider Panel.

Provider performance is assessed using a 'star rating' system, which assesses providers on a bell curve based on relative performance across employment and education outcomes. Star ratings are calculated algorithmically, using regression analysis to account for variations in provider circumstances, such as caseload composition. Ratings are publicly released quarterly.

Exhibit 3. Summary characteristics of DES participants

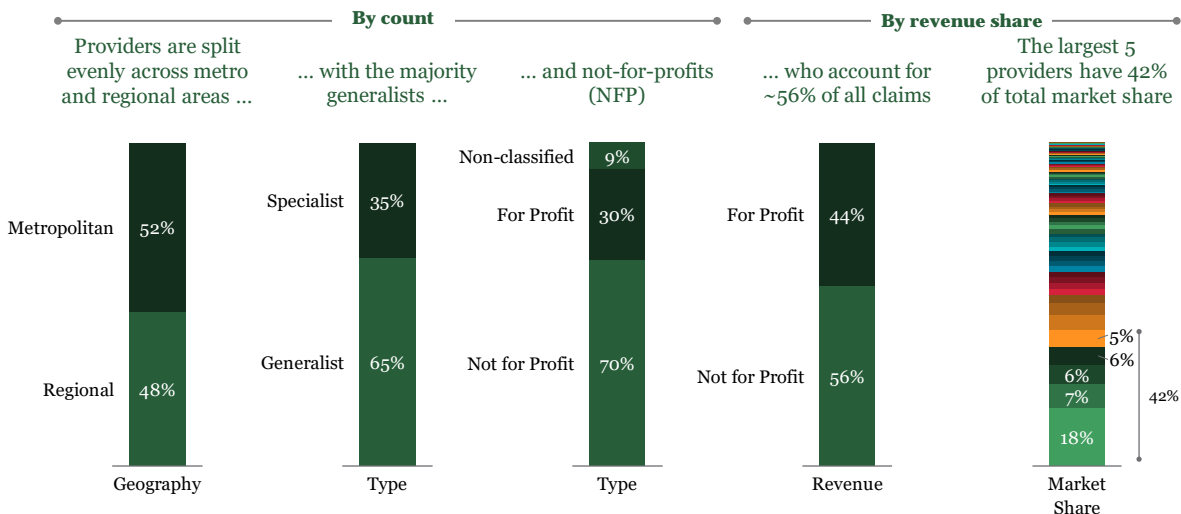


Data shown is DES public data as of 31 May 2020, except where footnoted (1), which indicates caseload data as of 31 March 2020. Source: DSS, BCG analysis



Data shown is DES public data as of 31 May 2020, except where footnoted (1), which indicates caseload data as of 31 March 2020. Source: DSS, BCG analysis

Exhibit 4. Summary characteristics of DES providers



Source: DSS data as of March 2020, BCG analysis

1.2. Fee design and program flows

DES providers offer a range of services including advice and preparation for job search; liaison with employers; support in the workplace (e.g. discussions with employers and/or workmates, arranging and obtaining funding through other programs for physical workplace changes); and advice on and support for obtaining educational qualifications. Providers are compensated via a mixture of fee-for-service and fee-for-outcomes, including:

- Quarterly service fees: cover the cost of ongoing advice, support, and liaison, and oversight of participant compliance with mutual obligations;
- Education outcome fees: obtained at 13 and 26 weeks of an eligible participant's study for a single qualification course at Certificate III level or above;
- Employment outcome fees: obtained at 4, 13, 26 and 52 weeks of employment, when individuals remain in employment at or above (for full fees) or partially at (for pathway fees, around one-third the full rate) their assessed hours-per-week benchmark work capacity;
- Ongoing support fees: cover the cost of support for participants in the workplace. Ongoing support is provided at one of three levels (flexible, moderate or high) with varying fee schedules, with the level of need assessed by the National Panel of Assessors;
- Other fees and supplements: include bonus payments for participants who gain outcomes via apprenticeships, for individuals with Moderate Intellectual Disability, and for Work Assist, which provides more intensive interventions for individuals needing additional workplace support.

Provider fee rates for Disability Management Service and Employment Support Service participants are similar, with some exceptions: fees are doubled for DMS participants in the first and second quarter; and moderate and high Ongoing Support is only available for ESS participants. The higher service fees for DMS participants are intended to support rapid rehabilitation assistance, and return to the workforce.

Fee payments to providers in 2018-19 totalled \$900 million. As of March 2020, around 33 per cent of fees paid are associated with employment outcomes and 12 per cent with education outcomes. The remainder consist of quarterly service fees.

Exhibit 5 illustrates how participants flow through stages of the DES program, and the fees that providers can claim for different activities and outcomes. Note that participants are limited to two years in the Employment Assistance phase of the DES program, after which they may re-enter, but must be reassessed with a new ESA.

1.3. Major reforms introduced in July 2018

Prior to the July 2018 reforms, the DES market operated under notable restrictions:

- Provider market share was capped; Service Australia allocated participants to providers; participants had limited choice of provider and could only transfer between providers in specific circumstances, such as moving to a new ESA;
- Funding levels for participants were limited to two levels in ESS, with total outcome fees per participant capped at \$14,740, and one funding level in DMS, with total outcome fees capped at \$8,030.

Access to Full Outcome payments for education was limited to participants who either:

- had not completed Year 12 or equivalent and were aged 15 to 21 years, or were an Aboriginal or Torres Strait Islander People;
- Were Principal Carers with part-time participant requirements, receiving a Parenting Payment, Newstart Allowance, Youth Allowance (other) or Special Benefit.

Pain points in the system prior to the July 2018 reforms included a perception of insufficient investment in harder-to-place individuals ('creaming'); excessive, repeated short-term placement of the same individual ('churning'); and insufficient emphasis on long-term participant outcomes. There were also multiple issues associated education outcomes:

- With no minimum qualification requirement, many providers placed participants in Certificate II courses or below. Of participants who undertook such courses, only 9 per cent subsequently achieved an employment outcome (in contrast, 16 per cent of those who undertook a Certificate III achieved an employment outcome);
- The provider's education outcome payment was not dependent on the participant passing their course. The provider only had to provide evidence that the participant took part in the program to the satisfaction of the training organisation;
- Eligibility for educational outcomes excluded cohorts of participants who it was judged could potentially benefit, such as some DSP participants under 35, as well as other participants without year 12 or equivalent.

The July 2018 reforms followed a multi-year consultation process that explored a range of design options. Ultimately, the 2018 reforms focused on expanding access to education, improving participant choice and control, and increasing incentives for providers to invest in harder-to-place participants. Changes are outlined below:

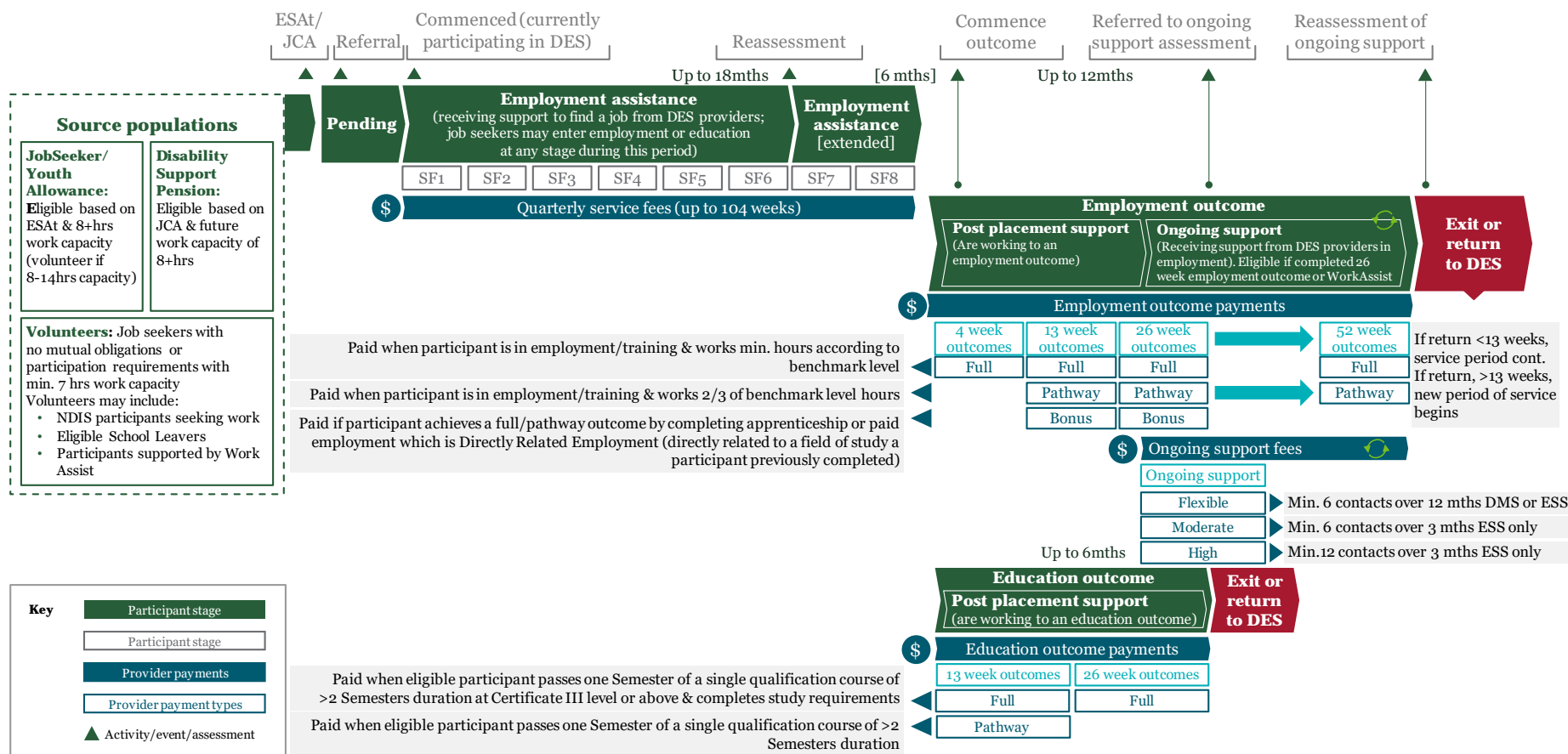
Expanded access to education outcomes

- Access to education outcomes and funding was expanded by:
 - Removing age limits, and extending eligibility to participants without a Year 12 equivalent qualification, and to DSP recipients with mutual obligation requirements;
 - Increasing the minimum requirement for an education outcome from Certificate II to Certificate III, and redefining Year 12 equivalency from Certificate II to Certificate III;
 - Making provider education outcome payments dependent on a participant passing the course (to date this means the participant is passing each semester when the payment is claimed, as a result, participants who undertake a Certificate III do not need to complete the work placement requirements necessary for some qualifications, but the provider is still able to receive the payment outcome).

Increased participant choice over providers

- Participants now choose their provider when entering the program;
- Participants can change providers, without conditions, up to five times during their time in the program (if this limit is reached, participants can request a transfer, subject to assessment);
- More flexible servicing arrangements have been introduced, for example after an initial meeting between participant and provider, appointments are not restricted to in-person meetings if both parties agree;
- Participants can choose a provider from outside their local ESA.

Exhibit 5. As DES participants flow through program stages, they may generate a range of fees for providers



Note: Indicative of an illustrative participant journey only. Participants can flow back through diagram (e.g. moving from post placement support to employment assistance), and exit the program at any time. Source: DSS, BCG analysis

Greater competition and contestability between providers

- Market share of referrals from Service Australia is no longer capped;
- Providers now have greater incentives to acquire eligible and consenting participants through direct registration rather than via referral from Services Australia. A stated objective of the reform was to broaden DES' reach, particularly regarding DSP recipients without a compulsory participation requirement;
- Providers can nominate a limit on their caseload (as low as '1'), beyond which they take on additional participants at their discretion.

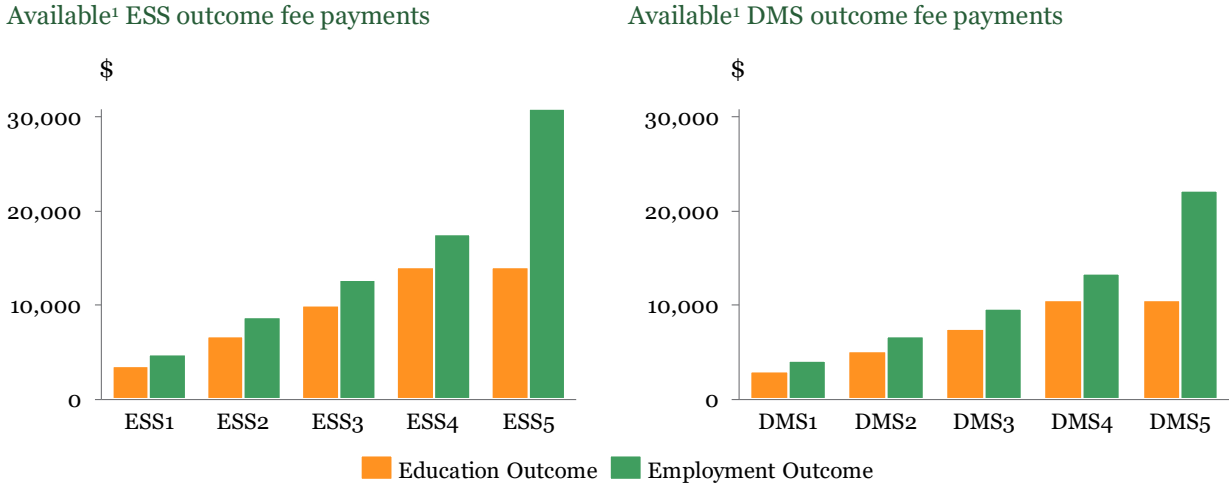
Introduction of a risk-adjusted funding model

- Ten funding levels across ESS and DMS programs replace the previous three funding levels. Funding level 1 (e.g. ESS1 or DMS1) represents easiest-to-place participants and funding level 5 (e.g. ESS5 or DMS5) represents the hardest to place (Exhibit 6);
- An actuarial model (i.e. the risk-adjusted funding tool) is used to allocate participants to a funding level, based on their likelihood of achieving an employment outcome. The primary characteristics which influence categorisations are length of unemployment, JSCI scores, allowance type, disability type, age, other barriers to employment, and benchmark hours;
- The risk-adjusted funding tool model is expected to be recalibrated periodically, to reflect changes in observed outcome rates and labour market demand.

Other changes

- 52-week outcome payments have been introduced to encourage longer-term employment outcomes. These payments are substantially lower than other employment outcome payments (Exhibit 7);
- A 4-week outcome fee replaces fees for job placement;
- The fee expenditure schedule has been adjusted to target a 50:50 split between service and outcome fees (including education outcomes in the latter), away from the previous 60:40 split;
- A commitment was made to explore opportunities to improve the functioning of ESAts.

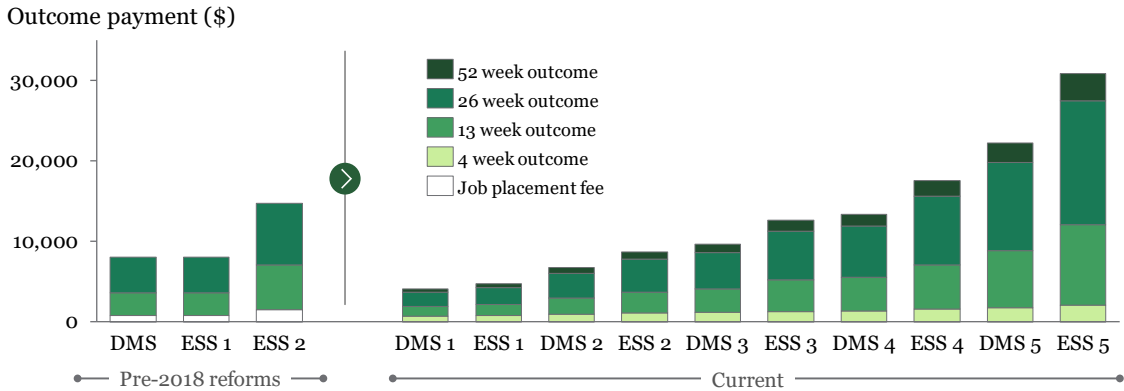
Exhibit 6. Since the 2018 reforms, the value of payments available to providers for education outcomes is close to that for employment outcomes across most funding levels (values shown include all payments received for a placement that lasts 52 weeks)



1. Total fee revenue including all available outcome payments across 4, 13, 26 and 52 weeks. Source: DES Grant Deed

Exhibit 7. The risk-adjusted funding model introduced new payment structures and fee levels, reflected in employment outcome payments

Employment outcome payments for DES providers



Source: DSS DES Grant Agreement 2018, DSS DES Deed 2015, DSS expert interviews

Exhibit 8 shows the impact of the 2018 reforms on provider payments for an illustrative participant journey that includes a period in the Employment Assistance phase, an education outcome, and a lasting employment outcome, demonstrating the contributions of different fee types.

As part of the 2018 reforms, the Department established a panel of DES providers (‘the panel’) who commenced on 1 July 2018 for an initial five-year period with the option to extend to a maximum of ten additional years. The panel was established through a multi-stage grant process open to interested participants, with a parallel Invitation to Treat (ITT) for existing DES providers. Under the ITT process, existing DES providers were invited to continue delivering services in ESAs where they had been meeting minimum performance criteria.

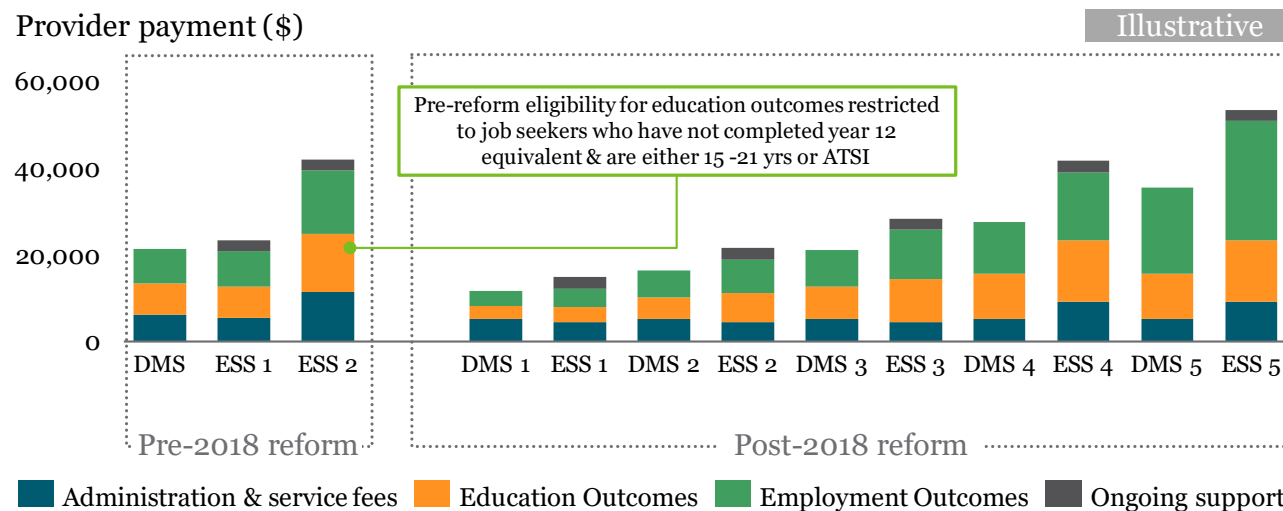
Exhibit 8. Composition of fees for an illustrative participant journey pre- and post- reform. Fee levels at the higher categorisations were increased, and eligibility for education outcomes expanded.

Using an illustrative participant journey...

Illustrative journey includes education, employment outcomes and ongoing support



...shows the changing composition of incentives pre- and post-2018 reform, with the latter offering more incentives for harder to place cohorts

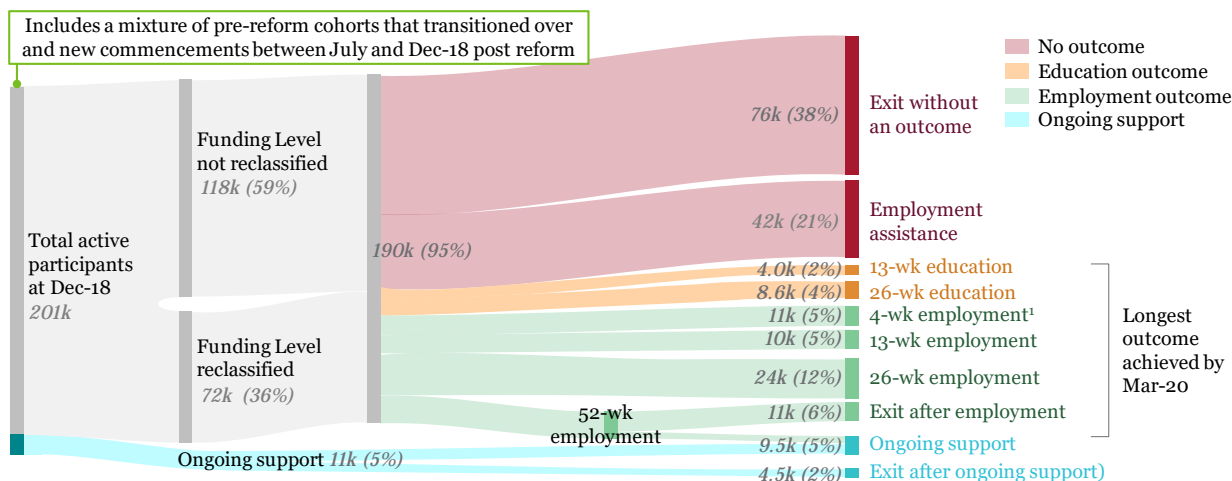


1. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 mths, ESS only), participants may also receive flexible or moderate support
 Note: Illustrative pathway for a 26-week outcome not including bonus payments.
 Source: DSS DES Grant Agreement 2018, DSS DES Deed 2015, DSS expert interviews

Exhibit 9 maps the progress of DES participants through the program from Dec 2018 up to March 2020: 28 per cent achieved an employment outcome, six per cent achieved an education outcome, 60 per cent either exited or remained on the program without either outcome. The balance continue with ongoing support.

Exhibit 9. Illustrative summary of observed activity for DES participants, December 2018 to March 2020

Observed outcomes by March 2020 for all participants on DES as of December 2018



1.4. Scope of Mid-term Review

DES caseload and DES expenditure have accelerated since the 2018 reforms. Caseload rose 46 per cent between June 2018 and March 2020. Program spend is forecast to rise 53 per cent from 2017-18 to 2019-20, or from \$800 million to \$1.2 billion over the two years, driven primarily driven by the caseload increase (Chapter 2). Employment outcome rates have fallen over the same period.

The Department brought forward the scheduled Mid-term Review (originally planned for December 2020) to provide an earlier assessment of DES's efficacy and efficiency. The COVID-19 pandemic has lent additional importance to the timing of the Review. As Australia enters recession for the first time in 30 years, providers report declining rates of achievement of employment outcomes, while caseloads continue to grow.

Boston Consulting Group (BCG) was commissioned to conduct the Mid-term Review over nine weeks, from May to July 2020. The Review was given a broad scope to:

- Assess the overall efficacy and efficiency of the DES program;
- Assess the impact and outcomes of the 2018 reforms;
- Identify, assess, and recommend opportunities for further change and reform, over the short- and long-term.

This Review, the Review recommendations and the associated financial modelling have been produced by BCG under the given terms of reference, and do not necessarily reflect the views of the Commonwealth Government.

1.5. Mid-term Review methodology

To conduct this Review, BCG deployed a skilled team comprising experienced policy analysts, economists, and experts in data analytics and research engagement design.

Multiple strands of evidence were investigated and synthesised, including:

- Broad-ranging interviews with program stakeholders, spanning:
 - 10 employers, evenly split between small and large businesses, including representatives of some of Australia's largest corporate organisations;
 - 5 current or former DES program participants, including a range of disability conditions;
 - 30 service provider employees from 15 distinct service provider organisations, with roles from front-line employee consultants to long-term CEOs.
- Two surveys: one for employers, one for DES service providers:
 - 148 responses from employers, including 128 who had previously or currently employed staff through DES;
 - 301 responses from DES service providers, again spanning front-line staff to senior leadership.
- Analysis of data covering program activity, claims, caseload, financials, spanning mid-2014 to the March quarter 2020, and totalling around 20 million rows. Multiple other data sources were referred to as needed, including from the ABS, other reviews and reports, and independent academic research.

The number of program participants engaged was lower than the number of employers and providers. This was due to the combination of:

- The high sensitivity of engaging with program participants, given that a large proportion are vulnerable individuals, and the consequent requirement of acquiring ethics approval for any extensive consultations (which was challenging given the Review's timelines);
- The impact of COVID-19, which was causing extensive disruption to participants' day-to-day lives during the research period, heightening the sensitivities around engagement.

In addition to stakeholders directly involved in the DES program (employers, participants, and providers), the Review consulted disability, employer, and provider peak bodies (including members of the DES Reference Group); agencies across the Commonwealth; other organisations including policy, disability, and return-to-work specialists, education service providers, and recruiters (Exhibit 10). Disability experts and academics were also individually consulted.

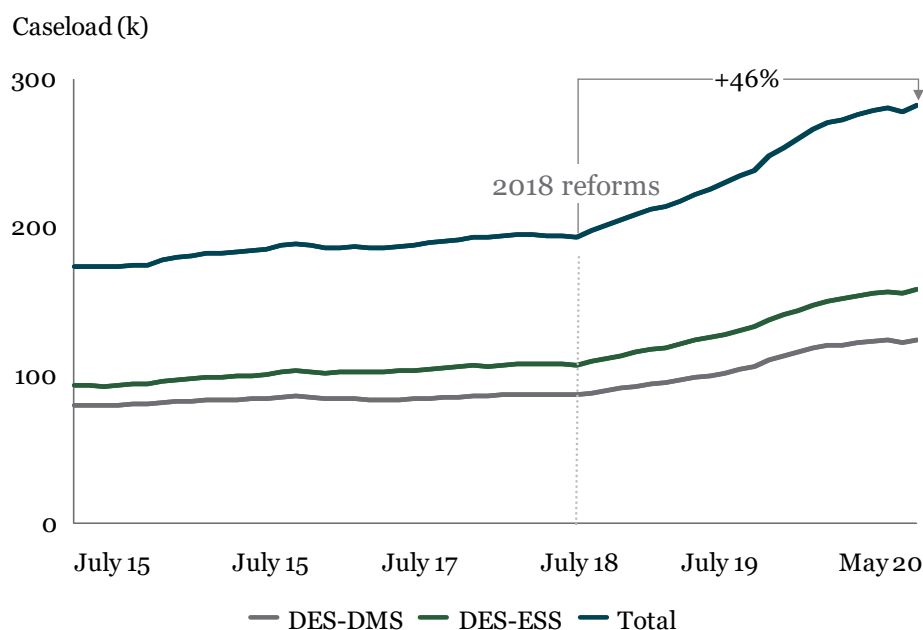
Exhibit 10. Overview of stakeholders consulted to support this Review

Commonwealth agencies	Disability peak bodies	Provider peak bodies	Employer peak bodies	Other
				
				
				
				
				
				
				
				

2. Drivers of DES program caseload growth

The DES caseload grew 46 per cent between July 2018 and May 2020 following the introduction of the DES program reforms. This growth reflected an increased number of referrals to the program, and a decrease in exits (see Exhibit 11). The increase was not anticipated at the time of the reforms.

Exhibit 11. Caseload has grown by 46 per cent since the reforms



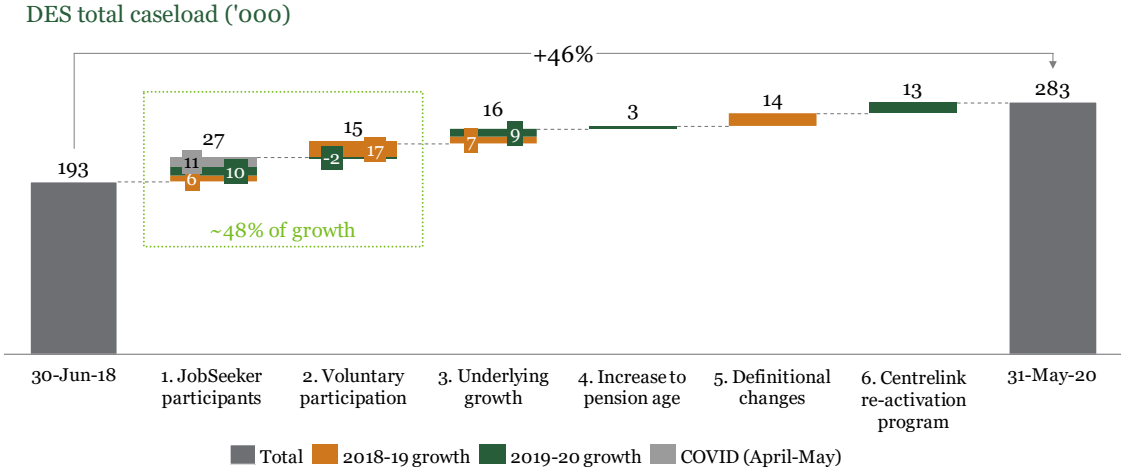
Note: Includes participants who are commenced, suspended, and referred but not yet commenced.
Source: DSS, BCG analysis

There were six main drivers of this growth (Exhibit 12):

1. Growth in participants receiving the JobSeeker Payment, not accounted for by other factors. This includes growth of approximately 11,000 in April and May 2020 after COVID-19 began impacting employment (31 per cent of total growth);
2. Growth in voluntary participation (17 per cent);
3. Underlying growth of 3.8 per cent per year, not linked to the reforms and reflecting the average growth for the three years pre-reform (18 per cent);
4. Increase in the qualifying age for the Age Pension on 1 July 2019 (4 per cent);
5. Definitional changes following the introduction of 52-week outcomes which meant individual participants remained on the DES caseload for an additional 26 weeks (15 per cent);
6. One-off Centrelink re-activation program (15 per cent).

Each of the six growth drivers is examined in the following sections.

Exhibit 12. Nearly 50 per cent of DES caseload growth since 2018 is driven by growth in number of JobSeeker Payment recipients and voluntary participants



Note: Includes participants who are commenced, suspended, and referred but not yet commenced.
Source: DSS DES data, BCG analysis, EY DES Caseload and Cost Analysis

2.1. Growth in JobSeeker recipients

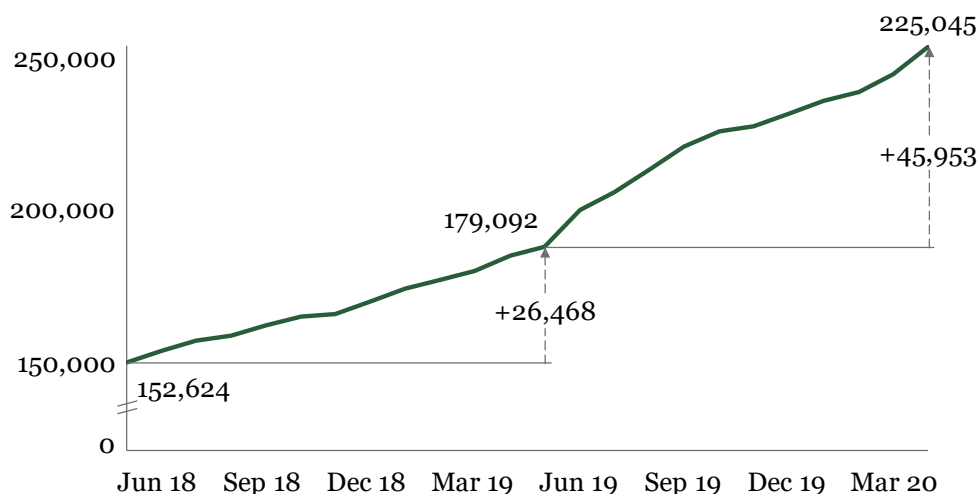
The number of JobSeeker Payment recipients² and Youth Allowance recipients in the DES program rose from 152,624 on 30 June 2018 to 225,045 on 31 May 2020. Most of this growth occurred in 2019-20 (Exhibit 13), and is 30,569 above forecast once other factors are accounted for (Section 2.2 and 2.3). Of this above-trend growth, 10,619 occurred in April and May 2020, and likely reflects the impact of COVID-19.

Note there is some uncertainty in this estimate due to uncertainty in the calculations of other growth drivers: for example, if underlying growth is estimated to be higher, then the estimated above-trend growth in JobSeeker participants would be lower.

² Newstart Allowance prior to 20 March 2020

Exhibit 13. The number of JobSeeker Payment and Youth Allowance participants in DES has increased by 72,421 since the reforms, with most growth in 2019-20

Participants in DES caseload receiving JobSeeker/YA (#)



Note: Includes participants who are commenced, suspended, and referred but not yet commenced.
Source: DSS, BCG analysis

This above-trend growth from JobSeeker participants can be attributed to:

1. **Change in the characteristics of JobSeeker recipients.** The number of people with a disability, illness or injury participating in an employment service has increased by more than the historical growth rate. Prior to the reforms, this number had been steady at approximately 380,000 since 30 June 2015. In 2018-19, this increased to 422,000.³ This increase may include underlying changes in characteristics, higher disclosure rates, and other factors such as the growth in voluntary participants.
2. **Change in Services Australia referral behaviour through the ESAt.** This Review has not included a detailed review of ESAt outcomes and referral behaviour. However, it is noted that changes to referral behaviour may have resulted in a higher number of people who undertake an ESAt being referred to DES.
3. **Participant incentives:**
 - Less stringent mutual obligations may lead participants to perceive the DES program to be 'easier' (Appendix);
 - Greater eligibility for education outcomes mean DES program participants are more likely to be able to access subsidised study;
 - Anecdotal evidence suggests there is a perception that participating in the DES program makes DSP approval more likely.

These incentives are corroborated by provider survey responses. For example, "We have a bunch of clients coming in because they want the Disability Support Pension, and they heard from their friend that DES was easier. They're unmotivated and don't want to work. They are hard to work with".

³ DESE analysis 'Trends in DES and jobactive participants with disability'

4. Provider incentives:

- The removal of provider market share caps in the DES program expands the scope for providers to grow revenue by growing their caseload. Providers can achieve this by targeting JobSeeker recipients through marketing activities and referring participants for an ESAt. This includes ‘hard-to-place’ participants into DES, where they attract fees for relatively lucrative (due to the lower effort required) education outcomes, along with service fees (Exhibit 15).

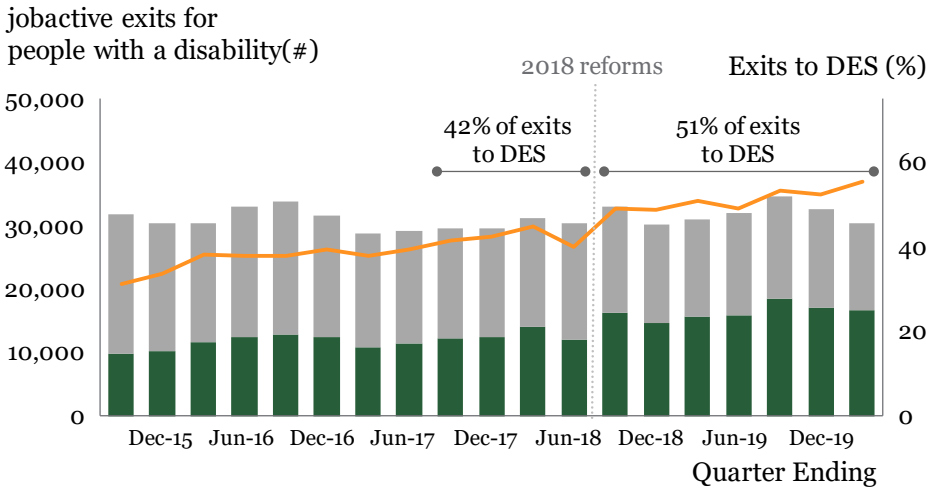
The importance of these incentives was identified in interviews with DES providers, the Department of Social Services, the Department of Education, Skills and Employment (DESE) and Services Australia staff involved in provider management and ESAt process.

The rise in number of JobSeeker participants in the DES program has coincided with an increase in the proportion of jobactive participants with a disability who exit and subsequently participate in DES, a trend which began before the reforms in July 2018 (Exhibit 14). This includes participants who did not immediately transition from jobactive into DES, for example due to a period of employment. Since 1 July 2018, 51 per cent of people with a disability who exited jobactive subsequently participated in DES, up from 42 per cent in 2017-18. If this ratio had remained at the 2017-18 rate, DES would have received around 21,000 fewer referrals. This change may be influenced by each of the above factors.

It is noted that all DES participants are required to undergo an ESAt to determine whether DES is the most appropriate program for them. This highlights the importance of ensuring ESAts are accurate. Refer to Section 5.3 for further discussion of ESAts.

Exhibit 14. 51 per cent of people with a disability who exit jobactive subsequently participate in DES, up from 42 per cent in 2017-18

Persons with a disability who exit jobactive and subsequently¹ participate in DES



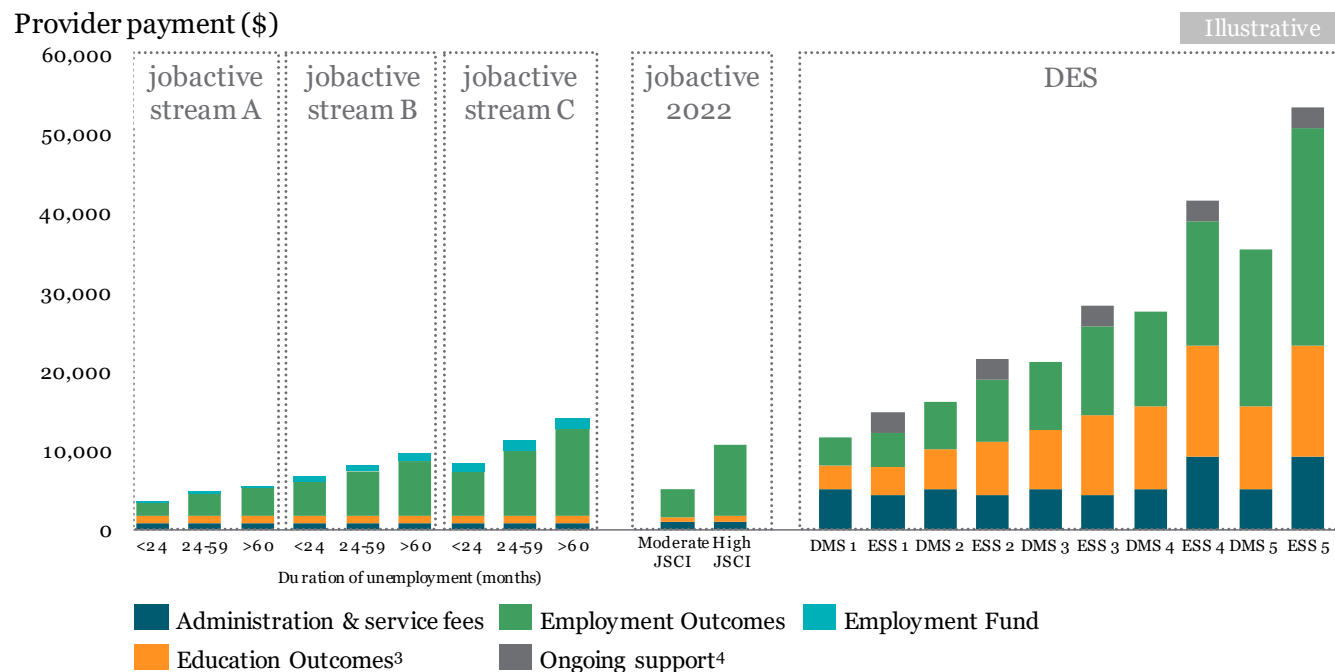
Exits from jobactive of people with a disability

■ Exits to (subsequent DES participation) (#) ■ Exits (other reasons) (#) — Exits to DES (%)

1. Includes participants who do not immediately participate in DES after exiting jobactive
Source: DESE Exit Data, BCG analysis

Exhibit 15. DES offers substantially higher provider fees for hard-to-place participants due to higher education and service payments

Fee payments resulting from an illustrative, simplified participant journey^{1,2}



Note

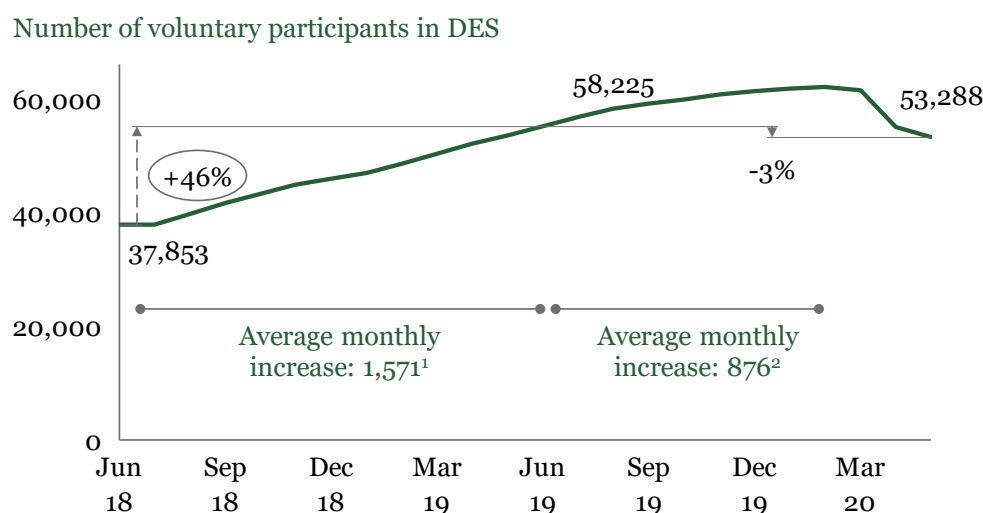
- jobactive and DES differ in funding structures: by stream and period of unemployment (jobactive), versus by DMS/EMS funding level (DES)
- Journey shown assumes:
 - Full outcome payments. In practice, payments would be a mix of full and pathway
 - Full eligibility for all payments. In practice, relatively few participants are eligible for education payments on jobactive

1. Assumes 18 months seeking employment prior to undertaking education and gaining an employment outcome 2. Excludes work for the dole fees for jobactive 3. Eligibility for education outcomes more restricted in jobactive vs DES 4. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 mths, ESS only), participants may also receive flexible or moderate support
 Note: Illustrative pathway for a 26-week outcome, does not include bonus payments, participant flows vary. jobactive figures for non-regional locations
 Source: DSS DES Grant Agreement 2018, DESE jobactive Deed 2015-2020

2.2. Growth in voluntary participation

In the two years since the July 2018 reforms, the number of voluntary participants in DES has increased 46 per cent, from 37,853 to 53,288 (Exhibit 16).

Exhibit 16. Voluntary participation increased 46 per cent in 2018-19 but has since flattened



1. Average increase from 30 June 2018 to 30 June 2019 2. Average increase from 30 June 2019 to 29 February 2020.
 Note: Includes participants who are commenced, suspended, and referred but not yet commenced.
 Source: DSS, BCG analysis

The accelerated growth in number of voluntary participants is a direct result of the 2018 reforms, which removed the market share caps for DES providers in anticipation of an increase in voluntary participation.

Prior to the reforms, providers faced market share caps that limited the number of participants they could serve. Since the reforms, the number of provider sites has tripled, and competition between providers to acquire participants has increased. The competitive nature of the market is demonstrated by provider investment in advertising and recruitment and an increase in sign-up incentives to participants (for example, free tablets). Provider interviewees confirmed investment in marketing has materially increased following the reforms.

Growth in number of voluntary participants fell 3 per cent in 2019-20. The cause is not certain, but two factors are likely to be significant:

1. A 'saturation' effect, with a diminishing pool of potential voluntary participants. This explains the slower growth in 2019-20 shown in Exhibit 16;
2. Multiple impacts of COVID, indicated by the increased decline in voluntary participants from March 2020. This could include:
 - a) Non-allowee voluntary participants becoming activity tested. For example, participants who were voluntary because their partner's income was above the jobseeker income threshold become activity tested when their partner loses their job;
 - b) Participants choosing not to enrol in DES due to COVID-related health concerns;
 - c) Provider sites closing temporarily, and so not enrolling new participants.

2.3. Other growth drivers

Four further factors that contribute the remaining 52 per cent of caseload growth are underlying trend growth, an increase to the eligibility age for the Age Pension, a definitional change following the introduction of 52-week outcome, and the one-off Centrelink activation program.

2.3.1. Underlying growth

The DES caseload grew by an annual average of 3.8 per cent between 30 June 2015 and 30 June 2018.⁴ A similar rate of growth could have been expected following the reforms, however there is a degree of uncertainty in this rate.

2.3.2. Increase in the qualifying age for the Age Pension

On 1 July 2019, the qualifying age for the Age Pension increased by six months to 66 years of age. This change increased caseload by approximately 3,300.

For reference, the number of participants over 65 years of age increased by 4,166 between 30 June 2019 and 31 March 2020, compared to trend growth of 852 in 2018-19.⁵

2.3.3. Definition change due to the introduction 52-week outcomes

The 2018 reforms introduced 52-week employment outcome payments. As a result, participants stay in the Post Placement Support phase after achieving a 26-week employment outcome, and are still counted in the DES caseload, rather than exiting the program or moving to Ongoing Support.

It is estimated that this change added approximately 13,785 participants to the DES caseload at 30 June 2019 compared to 30 June 2018.

2.3.4. One-off Centrelink activation program

Around July 2019, Centrelink began a program to re-activate approximately 66,000 non-active participants receiving the JobSeeker Payment or Youth Allowance with mutual obligations who had not been assigned to any employment service as a result of issues with the IT systems. Twenty-five thousand jobseekers were processed around July 2019, and approximately 5,000 entered the DES program as a result.⁶ Applying these ratios to the remaining 41,000, an additional 8,000 participants may have entered DES.

2.4. Implications of growth on future costs

Over 2020-21 and 2021-22, costs are expected to rise as caseload continues to grow. It is expected that, on balance, costs would have experienced this growth regardless of the impact of COVID-19.

While COVID-19 will increase the number of program participants, this effect is expected to be counteracted by an anticipated reduction in expenditure on employment outcome fees, as employment outcome rates reduce in a constrained employment landscape. While some

⁴ DES Monthly Data report, 31 May 2020

⁵ DES Monthly Data reports from 31 March 2020, 30 June 2019 and 30 June 2018

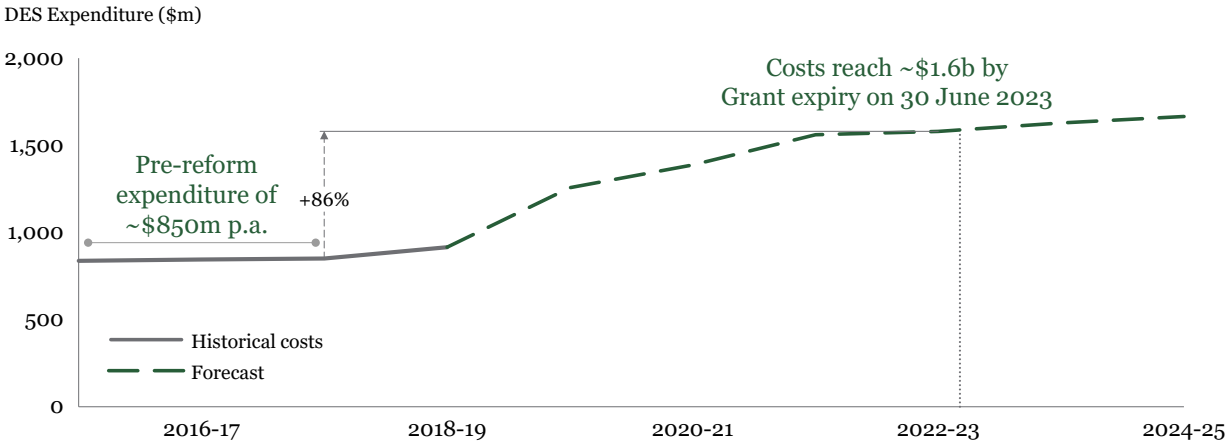
⁶ Ernst & Young report to DSS, 'Disability Employment Services: Caseload and Cost Analysis Key Insights Appendix', 31 October 2019

increase in expenditure on education outcomes is likely to offset this, the average cost per participant is expected to be lower. Note that there is a high degree of uncertainty in this forecast as the impact of COVID-19 on the DES program is not yet clear. In addition, beyond headline spend numbers, COVID-19 may significantly impact the spend per employment outcome achieved (with implications for provider business models).

From 2022-23 onwards, cost increases are expected to be driven primarily by higher expenditure on employment outcomes as outcome rates recover to pre-COVID levels, and by inflation, rather than by volume growth.

The base case expenditure forecast developed by BCG for this report is summarised in Exhibit 17. The projections assume the risk-adjusted funding tool is recalibrated at 1 July 2020 and continues to be recalibrated annually.

Exhibit 17. DES expenditure is expected to almost double to ~\$1.6 billion by 2022-23, compared to pre-reform levels










Note: Assumes Risk Adjusted Funding Model recalibration has occurred by 1 July 2020
Source: DSS DES data, BCG analysis, BCG COVID job loss forecast

Part II: Review findings

Part II details the performance of the DES program. This includes:

- Chapter 3: Overview of key performance and financial metrics, and discussion of employer and participant perspectives as relayed via research engagements;
- Chapter 4: Analysis of the impact of each of the major planks of the 2018 reforms;
- Chapter 5: Identification of other major challenges, including compliance management, the ESAt process, engagement with school-age participants, and interactions and integration with other flagship employment and disability programs (particularly jobactive and the NDIS).

DES has considerable potential to improve employment outcomes for people with a disability, given its focus on enabling individual participants, and its broader perspectives on pre-employment preparation and post-employment support. The 2018 reforms aimed to improve participant choice and control, and to substantially expand program coverage. In spite of these reforms, significant concerns remain regarding the program's efficacy and efficiency. Pain points discussed in the following chapters can be synthesised into seven high-level themes:

-  **1. Mixed service quality.** Participants and employers, particularly large corporates, expressed negative opinions of service quality, including around provider skill levels, industry knowledge, and professionalism, and the lack of a 'single front door' into the program.
-  **2. Insufficient flexibility.** Participants and employers felt their needs and context are not understood; providers considered they do not have scope to innovate.
-  **3. Excessive complexity.** Processes, information, and incentive structures were seen to lack transparency, and to be difficult to understand or to use as a basis for informed decision-making.
-  **4. Lack of clarity.** Both providers and participants expressed confusion around key features of program design, from star ratings to risk-adjusted funding tool updates.
-  **5. Ineffective competition.** Even after the 2018 reforms, market discipline has not forced outcome improvements, despite perceptions of intense competition.
-  **6. Cross-program misalignment.** Uncoordinated incentive design across jobactive and DES has encouraged uncontrolled outcomes, and NDIS and DES supports are not integrated.
-  **7. Increasing costs per outcome.** The number of employment outcomes achieved has remained steady while costs have risen, increasing spend per outcome and presenting challenges to program sustainability.

These themes are explored in detail Chapters 3, 4 and 5.

3. Overall assessment of DES program efficacy and efficiency

The DES program faces significant challenges. Performance across various metrics is mixed and, in some cases, deteriorating. Interviews with providers, employers, participants, and disability advocates revealed clear negative sentiment about the program (Exhibit 18). The absolute number of employment outcomes achieved has not kept pace with the rise in caseload, and rates at which employment outcome are achieved have declined since the 2018 reforms. With costs rising, the spend per employment outcome has risen substantially.

Exhibit 18. Many interviewees expressed strong negative sentiment about the program



Source: DES Review research engagements, BCG analysis

The decline in performance in terms of outcome rates and costs has three causes: increased emphasis on education outcomes (which has likely attracted harder-to-place participants from jobactive, discussed in Section 4.1); a rising, uncapped caseload; changes in how participants are distributed across funding levels. Additional impediments are discussed in Chapter 5.

A case exists for making substantial changes to the program to improve efficacy and efficiency. Change is made more urgent given the challenging post-COVID-19 labour market, in which people with a disability can be expected to struggle more than the general population.

3.1. Trends in outcome rates

This section examines indicators of outcome rates achieved by program participants, including absolute and relative measures of outcome achievement (Section 3.1.1), measures of employment duration and ‘churning’ (Section 3.1.2) and comparisons to jobactive (Section 3.1.3).

3.1.1. Headline outcome achievement rates

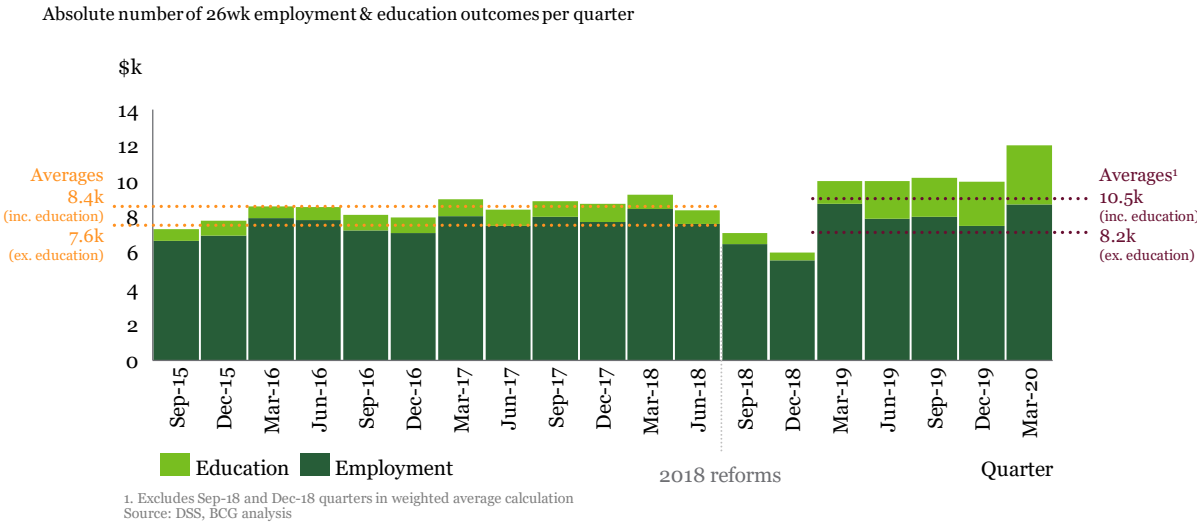
The number of employment outcomes achieved through the DES program has not shown a substantial increase since the 2018 reforms, compared to the increase in program participants. As a broad indicator, the number of quarterly 26-week employment outcomes

has risen 7.6 per cent, from an average of ~7,595 per quarter pre-reform to 8,171 post-reform. In contrast, the number of education outcomes has risen significantly, from 825 per quarter to 2,274 over the same period (an increase of ~176 per cent; Exhibit 19).

Consequently, the probability of a participant finding employment after any given period on the DES program has declined by around 12 - 14 per cent since the July 2018 reforms (Exhibit 20). Note that:

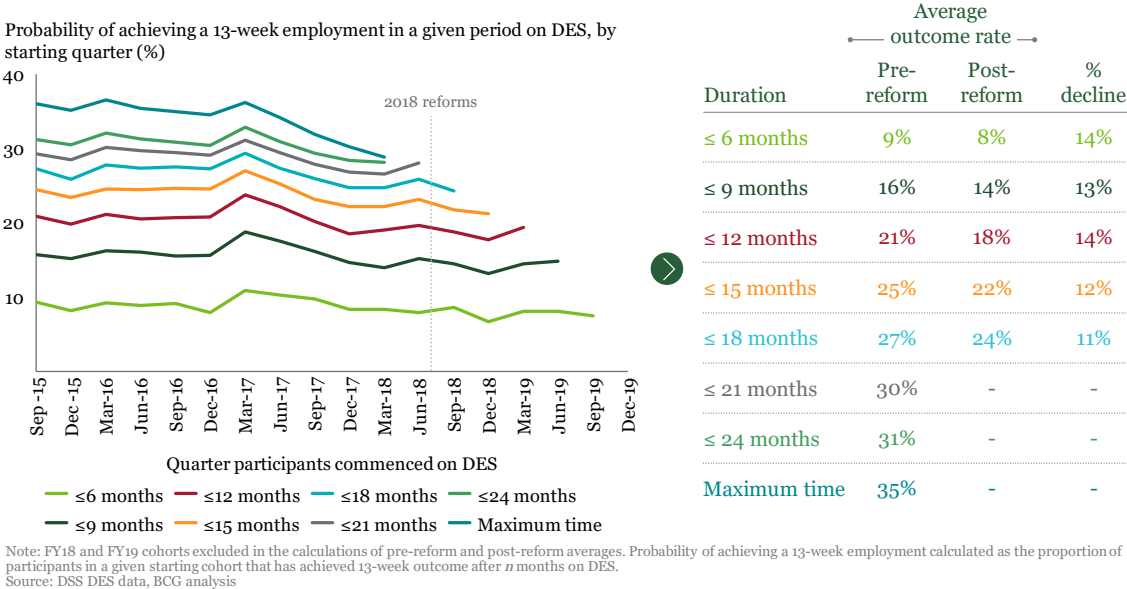
- A degree of deterioration in outcome rates is expected with a large increase in caseload: new participants need provider support before outcomes can be achieved. However, by examining outcome rates by DES commencement date, the analysis in Exhibit 20 mitigates the extent to which this may distort the results;
- The performance of the DES program is dependent on broader labour market conditions. Over the time period in question, the national unemployment rate was flat,⁷ and did not show any downward trend that could explain the decline in DES employment outcome rates.

Exhibit 19. The number of employment outcomes achieved per quarter has grown more slowly than total caseload



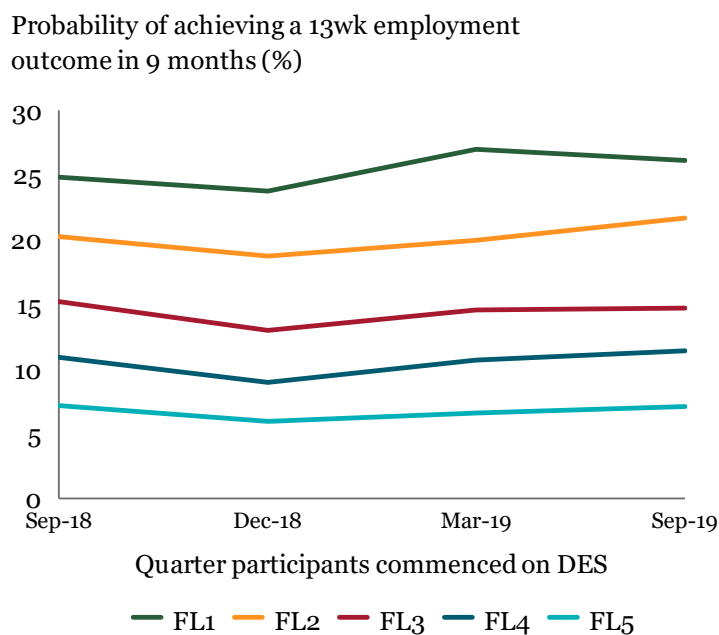
⁷ The seasonally-adjusted unemployment rate was 5.3 per cent in June 2018 and 5.2 per cent in March 2020.

Exhibit 20. Outcomes rates have fallen by between 12 per cent and 14 per cent post-reform



Outcome rates for the DES participant population overall show a downward trend (Exhibit 20). However, outcomes rates for each of the individual funding levels demonstrate a slight upward trend (Exhibit 21). This apparent contradiction is driven by changes in caseload distribution across funding levels (Exhibit 31). Slight improvements for funding level cohorts may reflect either genuine improvements in program performance, or a composition effect not reflected in classification algorithms (see Sections 3.3 and 4.4 for further commentary on funding level composition).

Exhibit 21. The likelihood of achieving a 13-week employment outcome within 9 months varies across funding levels



3.1.2. Employment duration and ‘churning’

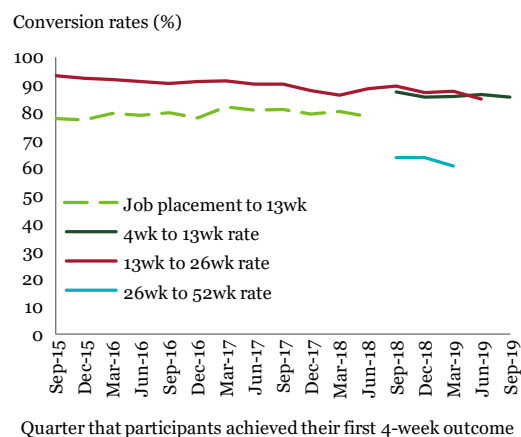
The length of a period of employment impacts how it benefits the participant. Employment duration is therefore relevant when assessing program performance. The duration of employment outcomes post-reform does not appear to have improved:

- The conversion rate from 13-week to 26-week employment outcomes declined from 89 per cent for participants starting employment in the June quarter 2018, to 85 per cent for those starting in the September quarter 2019;
- Conversion rates for 26-week to 52-week outcomes are around 60 per cent (Exhibit 22). Note, due to the timing of the reforms it is not possible to make a pre- and post-reform comparison.

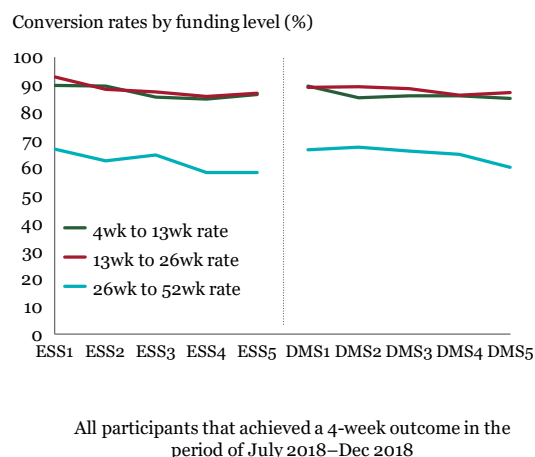
Participants do benefit from long-term and short-term employment outcomes: for example, short-term, seasonal placements can build skills and experience that lead to longer-term positions.

Exhibit 22. Conversion rates between employment outcome durations have either changed little or declined slightly over time

Conversion rate drops off over time



Conversions rates are similar across funding levels



'Churning' is the term used for repeated payments to providers for placing or servicing the same individuals. It is a common concern in market-based employment service programs globally. In the DES context, two behaviours could be considered churning:

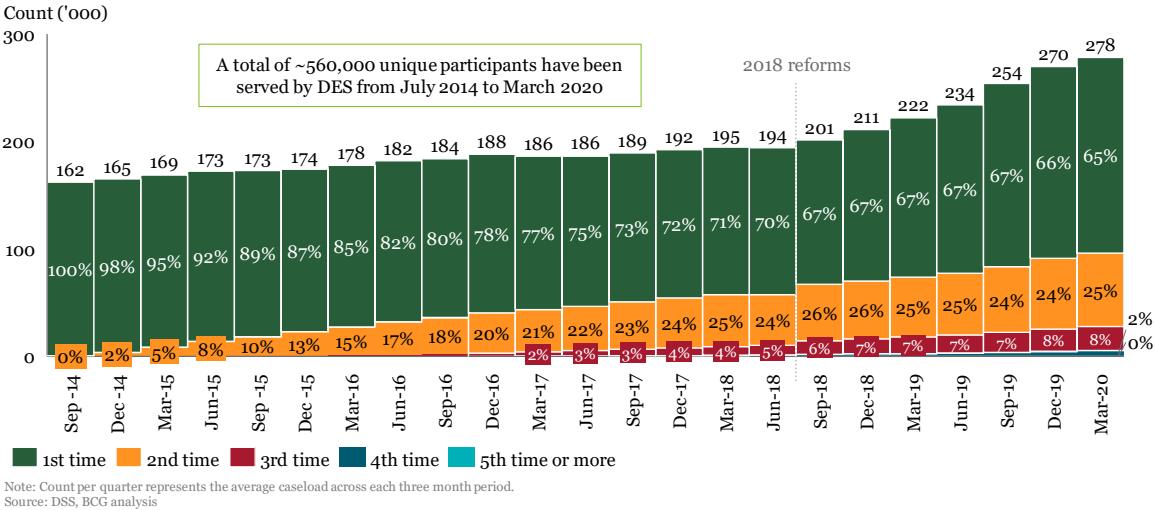
1. **Re-entry churn:** when participants re-enter DES after exiting the program;
2. **Outcome churn:** when service providers claim short-term outcome payments for the same individual within a single period of program participation. This is only possible for four-week outcome payments: providers may claim up to four 4-week outcomes for an individual between entry and exit, but no more than one payment for each of the longer outcomes.

The Review investigated these churn behaviours and found re-entry churn is likely to occur at a more relevant scale than outcome churn.

Since July 2014, DES has served a total of around 560,000 unique participants. However, in the period up to the March quarter 2020, around a third of participants have participated in the program multiple times, and eight per cent of current program participants are on their third (or more) cycle through DES (Exhibit 23). The bulk of re-entries into DES occur rapidly: 52 per cent take place in less than three months, and only 21 per cent occur after an interval longer than 12 months.

Exhibit 23. Around one-third of current program participants have cycled through DES multiple times

Majority of participants re-enter DES quickly after exiting
 Proportion of first-timers vs re-entries over time (counting from September quarter 2014)



There is some evidence of outcome churn, with repeated 4-week outcomes. As Exhibit 24 shows, around 20 per cent of 4-week outcomes in the March quarter 2020 were achieved by the same individual during the same period of program participation. However, it is not clear that this is a significant issue:

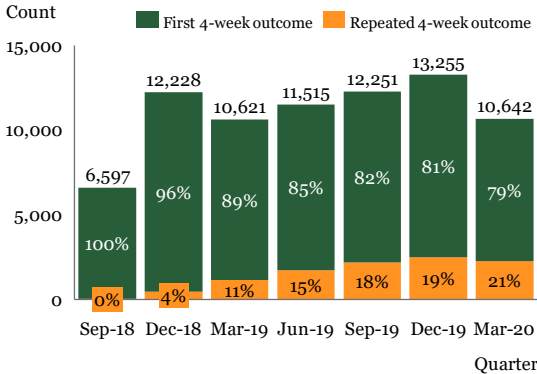
- Short-term employment outcomes are not necessarily undesirable, e.g. they may be due to seasonal work or other temporary employer need. Further, even short-term employment can significantly improve an individual’s future employment chances;
- The contribution of these repeated 4-week outcomes to total program spend is minimal: it is estimated that they totalled around 1 per cent of total costs in the March quarter 2020.

Further discussion of program efficiency follows.

Exhibit 24. Some degree of outcome churn (i.e. repeated 4-week placements) is observed

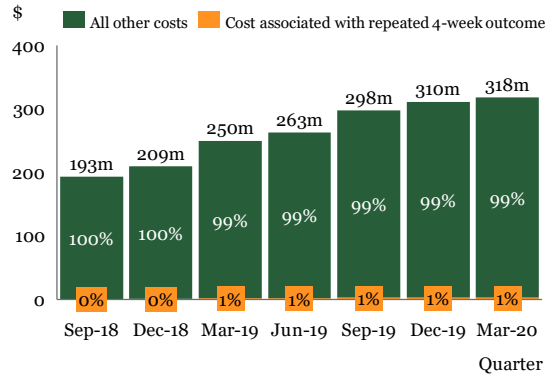
Proportion of repeated 4-week outcomes within each period on the program¹ has increased over time..

First-time 4-week outcome vs repeated 4-week outcomes in the same period of service (post-reform)



...but the impact on overall program cost is marginal

Program cost decomposition



1. Period of the program refers to the time that a participant spends on the program from when they enter to when they exit. If their contract referral end date and their next contract referral start date is the same date it is not considered an exit.
 2. Source: DSS, BCG analysis

3.1.3. Performance benchmarks

The population composition of different employment programs makes performance comparisons challenging. The DES population composition compares most directly to jobactive Stream C with some differences: DES participants typically find disability a greater barrier to employment; Stream C participants may face other, equally or greater, barriers to employment. Outcomes rates in DES are superior to those achieved in Stream C, at least on the metric shown in Exhibit 25.

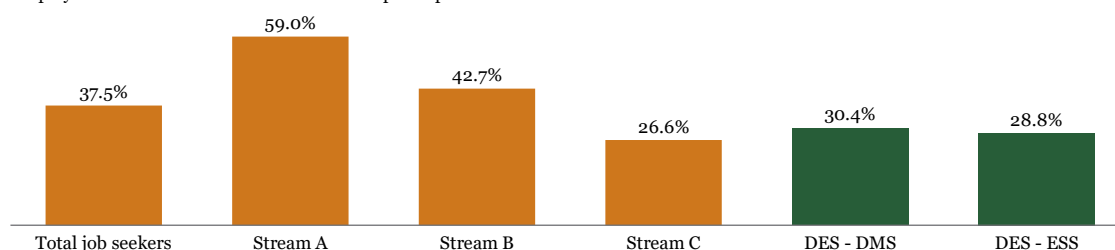
The value of comparisons to international programs, such as the UK’s Work and Health Programme, and the French Cap Emploi system, is limited due to variations in population and outcome definition. Appendix B presents a more detailed descriptions of relevant international approaches to employment support for people with a disability.

Exhibit 25. Approximate comparison of outcome rates across jobactive and DES

Comparison of jobactive and DES

	Stream A	Stream B	Stream C	DES
Caseload	258,111	268,840	104,127	280,000
% share of population	1.0%	1.1%	0.4%	1.1%

Employment outcome rate three months after participation



1. Stream A participants are generally the most "job ready". Stream B participants face some barriers to employment (e.g. language barriers), Stream C are the most disadvantaged (e.g. physical and/or mental health issues, or low capacity to work). A participant is considered employed if they indicate they work one or more hours, on average, per week.
Source: Employment Services Outcome reports December 2018, DES Data

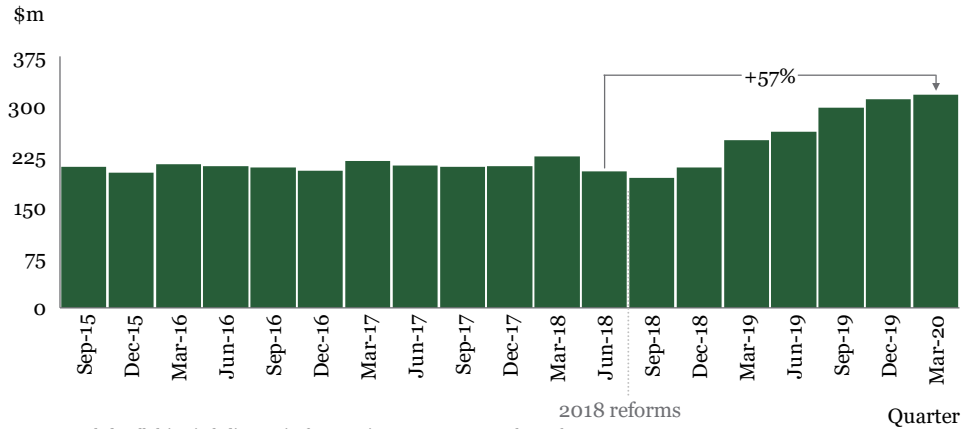
3.2. Trends in cost-per-outcome

Total program spend has risen in recent years from approximately \$850 million in 2017-18, to ~\$1.2 billion in 2019-20 (assuming the final quarter of the most recent financial year continues at trend) (Exhibit 26). Caseload has risen to a similar extent, while growth in employment outcomes has been relatively soft.

Consequently, the average total spend per 26-week employment outcome (i.e. total of provider fees paid, divided by the number of 26-week employment outcomes achieved) has increased by around 38 per cent, from an average of ~\$27,800 pre-reform to ~\$38,400 post-reform (including a high of ~\$41,000 in the December quarter 2019) (Exhibit 27). Over the same period, the average spend per participant has remained largely flat, with a slight recent upward trend (Exhibit 28).

Exhibit 26. Following the 2018 reforms, DES program spend has grown substantially

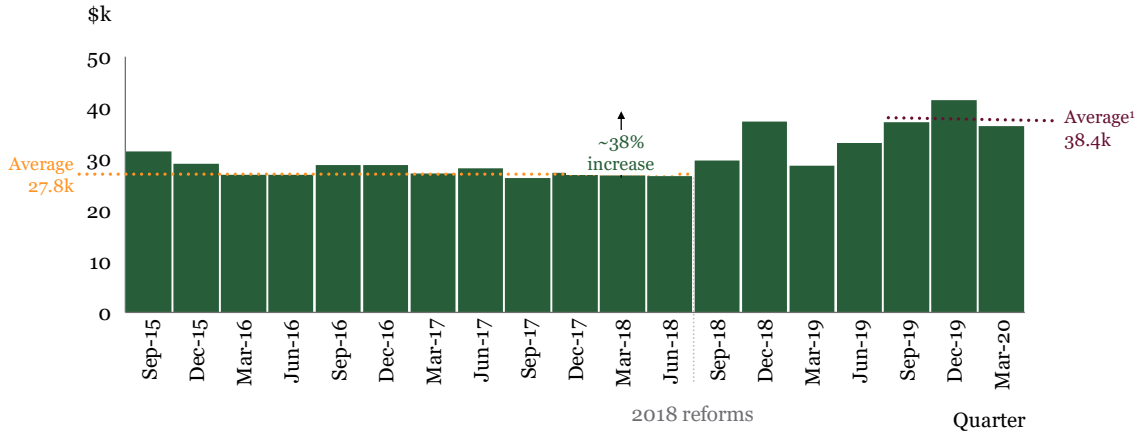
Total claim costs¹ per quarter (\$m)



1. Includes all claims including service fees, ongoing support, outcomes, bonus fees etc.
Source: DSS, BCG analysis

Exhibit 27. Average spend per 26-week employment outcome is ~38 per cent higher post-reforms

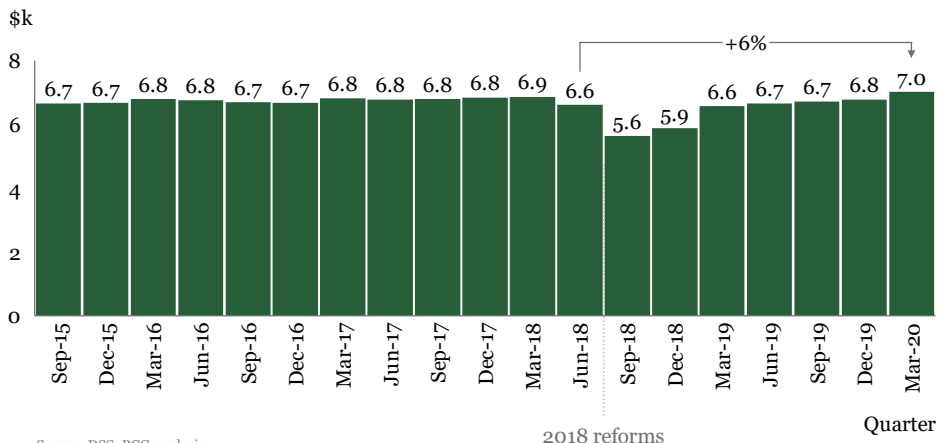
Average total cost per 26wk employment outcome per quarter



1. Excludes Sep-18 to Jun-19 quarters in average calculation due to understatement of total costs as a result of funding level issues, resulting in ~20M later refunded to providers with uncertain timing
Source: DSS, BCG analysis

Exhibit 28. Average cost per participant dipped and then grown slightly post-reform

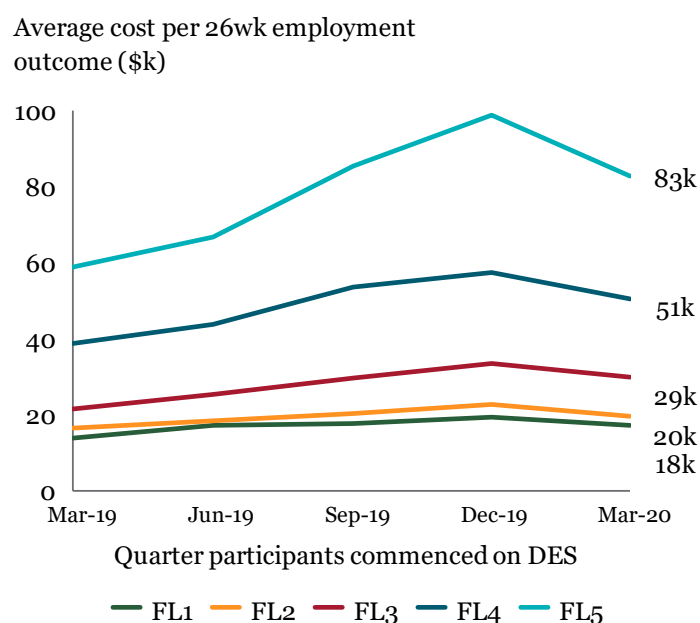
Annualised quarterly cost per participant over time



Source: DSS, BCG analysis

The average total spend per 26-week employment outcome varies across funding levels (Exhibit 29). For FL5, it was \$81,000 in the March quarter 2020 (down from \$100,000 in the December quarter 2019), compared \$17,000 for FL1 or FL2. This variation reflects the relative difficulty in obtaining employment outcomes across these cohorts. For example, 18 per cent of participants in FL1 typically obtain a 13-week employment outcome within nine months, compared to approximately six per cent for FL5 participants (Exhibit 21). These results are consistent with the risk-adjusted funding tool's classification approach, and highlight the variation in outcomes and spend across different profiles of program participants.

Exhibit 29. Average total spend per 26-week employment outcome varies across funding levels



Source: DSS; BCG analysis

Note that some participants achieve employment outcomes that cannot be attributed to the activities of DES providers. It is difficult to estimate what proportion this represents, but three lenses can be indicative:

- Among DES participants who obtain 13-week outcomes, around 27 per cent do so within six months of starting on the program, meaning the employment must have commenced within their first three months. This timeframe suggests that it is relatively likely that some form of employment placement would have been obtained without DES support;
- Overall, around 63 per cent of DES participants report that they are 'satisfied' with their experience in the program overall; 'unsatisfied' participants may, among other factors, feel they were insufficiently supported by their provider;⁸
- In survey responses, 70 per cent of DES providers suggested that over 70 per cent of employment outcomes were critically dependent on DES provider activity.

As an illustration, if one-quarter of employment outcomes occur regardless of provider intervention, the true average cost for a 26-week employment outcome rises to over

⁸ 2018 Employment Services Outcomes survey

\$50,000.⁹ Recommendation 19 suggests ongoing data collection to address the priority question of understanding the value added by DES.

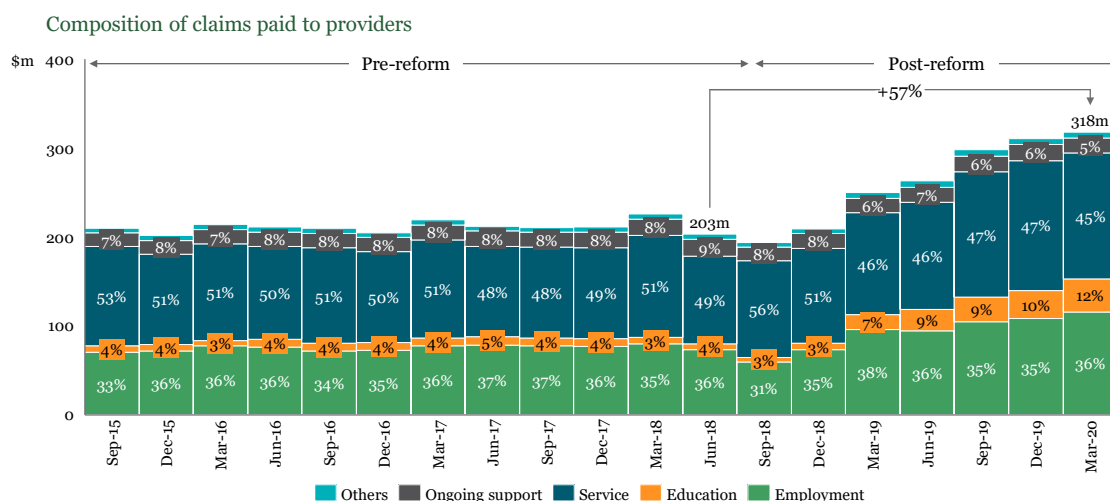
Further, evaluating program efficiency should take into account benefits that accrue when a DES participant obtains employment. These benefits are complex to quantify because they include subjective measures of wellbeing and society-wide benefits, and reductions in government spend from reduced outlay on income support. Nonetheless, at least an approximate quantification could be attempted, and would assist in better informing program targeting and assessing performance. The Department does not hold an estimate of these benefits; Recommendation 19 suggests that this shortcoming is addressed.

3.3. Breaking down the growth in spend

Increases in provider claims between June 2018 and March 2020 (Exhibit 30) break down as follows:

- Quarterly service fees (38 per cent);
- Education outcomes (26 per cent);
- Employment outcomes (36 per cent).

Exhibit 30. The value of claims paid to providers has risen substantially post-reform



Source: DSS, BCG analysis

The rise in quarterly service fees reflects the increased caseload and greater spend in the Employment Assistance phase. The increased spend on education outcomes is attributable to the increased number of education outcomes achieved since the 2018 reforms expanded eligibility and incentivised providers to pursue education outcomes).

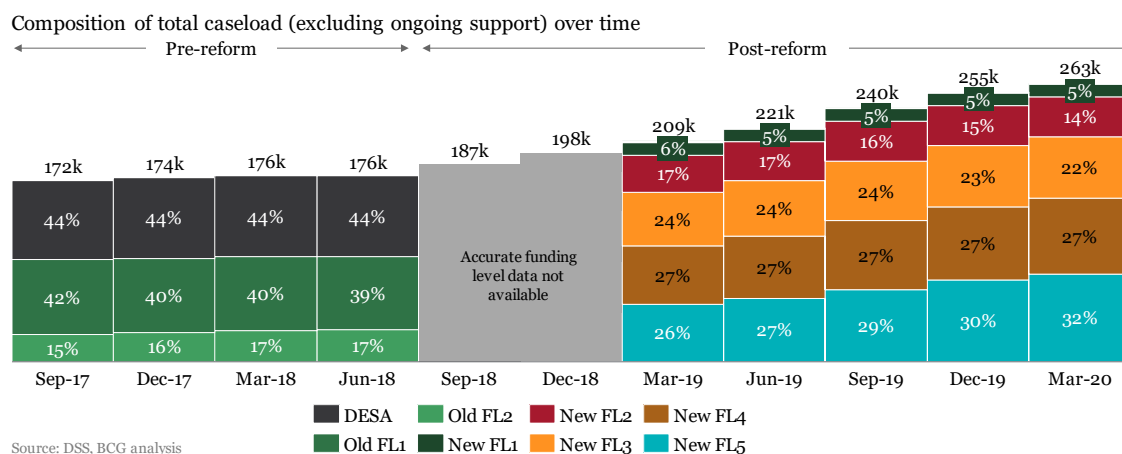
The increased spend on employment outcomes since the reforms has three drivers:

- A 7.6 per cent growth in average number of employment outcomes achieved (Exhibit 19);
- The shift to risk-adjusted funding levels (FLs), which are more expensive, on balance;

⁹ Specifically, ~\$38.4k divided by $\frac{3}{4}$ = ~\$51.2k

- A shift in the composition of the DES participant population towards higher funding levels (Exhibit 31); for example, the share of FL5s increased from 26 per cent in the March quarter 2019, to 32 per cent in the March quarter 2020.

Exhibit 31. The funding level profile of participants has skewed towards higher levels post-reform



The shift in composition of the DES population to higher funding levels has also impacted spending on education and quarterly service fees. However this impact likely accounts for less 10 per cent of the total cost increase since the reforms.¹⁰ The composition shift has been driven by:

- Reclassification of participants already on the program. Around 4,000 participants are reclassified each month, all of whom move to higher funding levels as funding downgrades are restricted. This is estimated to have contributed around two-thirds of the total composition change;
- Changes in the composition of new entrants to the program, which total 5,000 to 6,000 per month, and which have skewed towards higher funding levels over time. This is estimated to have contributed the remaining third of the composition change.

3.4. Employer and participant feedback

The success of the DES program is contingent on its ability to productively connect program participants with employers. Engagement with both groups for this Review uncovered pain points on both sides (Exhibit 33 and Exhibit 34). To bring these to life, we have created summary personas for participants and for large and small employers (Exhibit 35 to Exhibit 37). Detail on employer perspectives (Section 3.4.1) and participant perspectives (Section 3.4.2) follows below.

¹⁰ More precisely, it is estimated that 8 per cent of the increase in costs between March 2019 and March 2020 can be attributed to changes in Funding Level composition. Due to data issues regarding funding level classifications, it is not possible to decompose this composition effect from any earlier point in time.

3.4.1. Employers seek higher service standards, customisation, clear entry points, and simple processes

Overall, large employers (more than 500 employers) have a different experience of the DES program than small-to-medium employers (SMEs). Large employers identified four key pain points in their interactions with DES providers (Exhibit 33):

1. **Poor quality service and low levels of professionalism.** Employers complain of dealing with poorly-skilled staff who lack an understanding of the corporate environment, and of being flooded with inappropriate applications;
2. **Absence of specialist industry knowledge:** Employers seek recruiters who understand the needs and role profiles of their industry, DES providers are often generalists;
3. **No clear 'front door':** The large number of DES providers and the geographically-oriented provider model mean that large employers struggle to find a single 'front door' into the system. Employers do not want to manage multiple providers in different regions, nor to limit the size of the talent pool they have access to;
4. **Bureaucratic processes:** Employers find the employment process complex and bureaucratic. Participation in DES may require them to provide evidence for compliance and assurance checks, and to support provider claims for employment outcome payments.

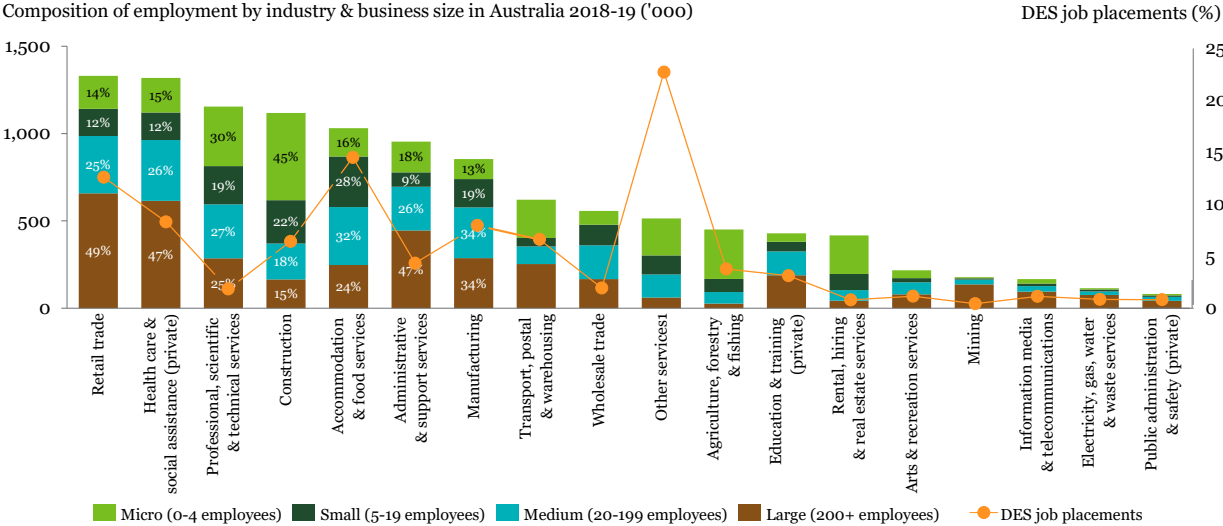
Note that large employers comprise around 34 per cent of the Australian workforce (Exhibit 32) and that some sectors where DES employment is over-represented have a disproportionate share of large employers (such as retail and healthcare & social assistance).

SMEs report a more positive experience with DES:

- They tend to have a **compressed regional footprint**, which is more likely to align with a small number of Employment Service Areas and, consequently, can be served by a single DES provider;
- They are **more likely to rely on local, interpersonal relationships**, including with provider employee consultants;
- They typically place **less emphasis on professionalism and formality**;
- They place **greater value on ancillary benefits** associated with DES employment, such as wage subsidies;
- **Bureaucratic processes** can present as a significant burden for SMEs (e.g. compliance and assurance checks).

DES service providers interviewed for the Review typically reported a preference to focus on employment placements with SMEs.

Exhibit 32. There is substantial variation across industries both in the share of DES job placements, and the employment share of large employers



1. Other Services includes a broad range of personal services, religious, civic, professional and other interest group services; selected repair and maintenance activities; and private households employing staff; Source: ABS, Australian Industry 2018-19, DSS DES job placements data; BCG analysis

Exhibit 33. Employer concerns span DES quality and professionalism, ease of engagement, levels of industry expertise, and quality of job matching

Despite high engagement, employers report lack of professionalism and service quality

“I have used half a dozen DES providers. They are useless. They are structured by region and I can’t cast my talent pool wide. Hiring with DES is a waste of our time.”

“I’ve been trying to hire through DES for 3 years and never had any success. I have 30 roles for people with a disability. I’m eager, but DES can’t deliver.”

Service providers seen with limited domain expertise to serve knowledge-based employers

“The employers are so frustrated by the paperwork they have to do... they just opt out. And once they are burnt, they’re gone forever.”

“I had a full day workshop with [a provider], and it became clear to me that they didn’t know anything about how to recruit.”

Large employers feel DES providers don’t understand the role requirements, limiting their ability to match roles

“They [employment consultants] don’t understand what it’s like to work in an environment like this, what skills are needed for a role, so it’s just guess work.”

“I appreciate that the market is hard, but to find out that basic skills were missing (when they were stated as being present), and that two weeks of dedicated training needed to be repeated... that was disappointing.”

Resulting in high employer turn over, organisational burn out, and mistrust in the DES brand

“We bring someone on. Invest in them. Time, training, onboarding, adjustments. Tens of thousands of dollars. And they just aren’t right for the job. It’s a huge waste of resources for our organisation, but I’m more concerned about the impact on people with a disability... everyone’s set up to fail.”

“DES providers fib about genuine skills. I’d rather know what training I have to put in upfront than find out a month later that they’re struggling.”

Service providers seen as not equipped with domain expertise to serve knowledge-based employers

“DES simply doesn’t work for the knowledge industry, they don’t know how to identify relevant strengths and prepare potential candidates.”

“They have no idea how to get them into domain specific careers. No networks.”

“DES need to be industry-focused, recognising the need to know the domain. You need expertise and strong networks. It’s about advocating for that person.”

Large employers have high expectations of mutual partnerships, supported by knowledge & expertise...

“The churn is ridiculous. I need to work with partners who understand our business... I don’t even think they want to be there.”

“I want to find providers who get our business. One contact. Build on a relationship. I’d rather pay.”

“Honestly, it’s clear no one at DES has ever mapped the service they offer against the corporate recruitment model. They need to solve it. The DES providers don’t work like that.”

...and seek access to a large talent pools across geographies with aligned skillsets

“Just some random branch in Brisbane looking for a random job. It’s really problematic. We need scale. We get hundreds of thousands of applications a year. We can’t manage fragmented relationships. Not feasible, not scalable, not efficient.”

“Every DES provider I work with has to go through our procurement process. I need one company. One recruiter for the whole country.”

Service provider Employment consultant Employer Disability advocate Participant

Source: DES Review research engagements, BCG analysis

3.4.2. Participants concerned by support levels, job matches, and sense of control and informed choice

Engagement with participants for this review uncovered four common themes (Exhibit 34; as discussed in Section 1.5, five participants were interviewed in total):

1. **Support is not individualised:** Participants interviewed felt that their provider does not understand the requirements of their disability or their preferences;
2. **Poor quality job matches:** Participants believed job matches poor quality, lead to high role turnover;
3. **Lack of control and understanding:** Participants often felt overwhelmed by the complexity of navigating the DES program in conjunction with government support programs;
4. **Not equipped to make informed choices** All participant interviewees believed they had access to little information to make informed decisions based around what matters most to them, and had no awareness of star ratings.

The Department tracks the number of employment outcomes, but has no clear data on employment quality (e.g. hours worked, salary rates, duration of employment, subjective assessments of extent to which jobs match skills and career goals, etc.), which impedes assessments of program performance. Recommendation 20 calls for more expansive data collection on the quality of employment outcomes in the future.

Exhibit 34. Participant concerns included the quality of service offered, and ensuring their individual needs are understood

Participants suggest employment consultants do not possess the expertise required...

"Eventually I hope to come across the right one [service provider]. It would be good if they could know me and cater for my [specific needs]."

"They look at us like we are a ticket. It annoys me. They shouldn't have those staff members who don't understand disability. Or even care to."

...and feel they are under-served, with a lack of attention to their individual needs

"As soon as I finished education they never returned my call. I don't know why. I just wanted them to help me"

"Honestly, they need to open up. Help people through life. They just think everything else is not their problem"

"I basically just want someone to listen to me, to work towards my goals, not just push me to the side."

Service provider

Employment consultant

Employer

Disability advocate

Participant

Source: DES Review research engagements, BCG analysis

Exhibit 35. Illustrative persona of a recruitment lead from a large employer

HR Lead at large employer
John



36 years old
Melbourne, VIC
Single
12 years as a HR recruitment lead

“To be a truly inclusive organisation, we need to transform our culture from within, and equip our leaders with the skills needed to be effective and supportive.”

About

John is a HR recruitment lead for a large bank. As part of their diversity and inclusion initiative, they are seeking to increase the number of individuals they hire with disability. The bank has hundreds of open roles nationally, spanning from retail branches, regional call centres, to digital and finance teams. Partnering with DES providers has been challenging. John feels they don't have a level of professionalism and accountability required to operate in a corporate environment, underpinned by the ability to provide well-matched candidates at pace and scale.

Motivators

- Building and supporting a more diverse and inclusive organisation
- Achieving diversity and inclusion hiring targets committed to in action plan
- Creating sustainable top-down change by hiring senior leaders with disability
- Finding exemplary candidates who are strong culture and skill matches

Needs

- A single professional and trusted recruitment partner with industry expertise and understanding of how the bank operates
- Ability to hire at scale with access to a large talent pool to fill national roles
- Access to training resources to equip team leaders with skills to better manage people with disability
- Premium and professional service, and is willing to pay for it

Painpoints

- Procurement and onboarding of prospective DES partners
- Inability for DES providers to fill roles across national sites, due to geographical model
- Frequent poor matching of candidates resulting in low retention rates
- DES provider does not understand how to operate in corporate industries, or identify the skills and strengths required to thrive in roles
- Finding suitable candidates for experienced and domain specific roles

A day in a life




Source: DES Review research engagements, BCG analysis

Exhibit 36. Illustrative persona of a small business owner

Small business owner

Kartik



56 years old
Warrnambool, VIC
Married with 2 children
Jewellery business

“I’m not concerned about qualifications. What’s most important is that they are dedicated, want to learn, and want to stay in the role long term.”

About

Kartik has been operating his small jewellery business for 12 years, hiring 6 employees and working from a retail and workshop space in town. When he moved to Australia, Kartik was given a shot by a local business. He feels it is his duty to pay it forward. He was introduced to a local DES provider by a friend who had a great experience.

After a visit from the employment consultant, Kartik decided to take on a new team member. His first employee through DES was not a good fit, but then he found Bianca. She has now been with the team for 4 months.

Motivators

- Doing the right thing by the community and giving back
- Providing employment opportunities to those who need it
- Building a team that is diverse and supportive of each other, and collaborates towards a shared goal
- Training exceptional people to be the next generation of local jewellers

Needs

- Long term assistance in the workplace to provide day-to-day support to Bianca
- Competitive wage subsidies to enable additional time to invest in Bianca’s onboarding and training
- The right candidate who is motivated, job ready, and reliable
- Close mentoring for Bianca to learn and grow in the business
- Ongoing support for Bianca to manage episodic needs long-term

Painpoints

- The admin and paperwork required by the DES provider is cumbersome and time consuming
- Investing adequate time into Bianca’s growth and training, while managing the demands of owning and operating a small business
- Managing risk of wanting to do the good thing, but not at the cost of my business
- Lack of support to better manage ongoing risks; such as OHS, performance management and workplace culture challenges

A day in a life

9am

Arrive at workshop and get to work on creating jewellery

11am

Open retail store front to customers

5pm

Close retail shop for the day, check in with team and tally the till


9pm

After dinner, completes bookwork, wages, tax, and other administrative requirements

Source: DES Review research engagements, BCG analysis

Exhibit 37. Illustrative persona of a DES participant

Job seeker
Kevin



26 years old
Brisbane, QLD
Lives with parents
11 months on DES

About

Kevin lives on the outskirts of Brisbane CBD with his parents. He has **autism and moderate intellectual disability**. He is currently completing a Certificate III in hospitality, but long-term would like to work in animal care. His hobbies include video games and playing soccer with his older brother. He has a love for animals, especially the family dog.

Kevin's goal is to become financially independent so that he can live alone. Despite completing six volunteer roles, he is yet to find paid work. He is dedicated to his search for a part-time job.

Motivators

- Living independently within the next two years
- Finding a fulfilling part-time job, ideally with sports or animals
- Finding a great provider who is dedicated, proactive and listens
- Building life skills to live a productive and independent life

Needs

- Learning about his strengths and exploring potential job matches
- Developing skills, such as interviewing, to improve employability
- Support tools to make an informed choice when changing service providers
- Hands-on support, training, and coaching when beginning a new role
- Support to turn volunteer work into a paid work

Painpoints

- Unable to find an employment consultant who understands autism
- High turnover of employment consultants impacting ability to form trusted relationships
- Lack of support to finish Certificate III as the classroom-based learning is too fast and difficult
- Limited public transport options for commute to work
- Unable to find a provider who is committed to helping achieve his full potential

“I want to work like everyone else. I’m searching for a provider who listens and cares. Sometimes I feel they just shove me in the corner.”

A day in a life

8am	11am	2pm	5pm
Wakes up, breakfast with family	Attends fortnightly appointment at service provider in town	Attends online course for Certificate III in hospitality	Plays soccer with friends

Source: DES Review research engagements, BCG analysis

4. Impact of the 2018 reforms

The 2018 DES program reforms were designed to improve the participant experience and make the provider market more efficient.

The reforms expanded eligibility criteria to participate in the program and gave participants greater choice in selecting and switching service provider. The reforms also increased competition in the provider market, and restructured provider incentives.

This chapter considers the impact of the major reform planks in terms of outcomes for participants, and cost to the program (for further details of the reforms see Section 1.3). In summary:

- **Expanded access to education outcomes:** DES providers have claimed a greater number of education outcome payments in response to the restructured incentives (Section 4.1). It is unclear that this is leading to greater rates of employment outcomes (courses do not need to be passed for education outcomes to be paid, for example), or that the benefits exceed the costs to the program, and the unanticipated cost increase has negatively impacted program sustainability;
- **Greater competition and contestability:** The provider market has become more competitive, and the number of providers in many ESAs has doubled (Section 4.2). Increased competition has been one driver of the unanticipated increase in caseload and spend. The market does not appear to be sufficiently rewarding 'good performance', or correcting 'bad performance', resulting in slow adjustment and contributing to issues with service quality (Section 4.2);
- **Increased participant choice:** Evidence suggests that participants are more satisfied with their increased level of choice (Section 4.3). However, among other factors, a lack of available and accessible information around provider performance continues to limit effective exercise of choice (despite the star rating system);
- The risk-adjusted funding model has allowed for **greater flexibility to meet individual needs** (Section 4.4), although a lack of regular updates are creating implementation issues;
- Among **various other changes** enacted in the reforms (Section 4.5) adjustments to employment outcome payment structures (i.e. the introduction of 4-week and 52-week outcomes) may need further adjustment to achieve the intended effect of lasting employment. Attempts to rebalance claims towards outcome payments have been successful, conditional on the classification of education as a type of outcome.

Two particular outcomes of the 2018 reforms have been: (1) the significant influence of incentive design on provider behaviour, including the increased emphasis on education outcomes; (2), partially as a consequence, the resulting differential in incentives across DES and jobactive, contributing to the rise in caseload discussed in Chapter 2.

The reforms are discussed in more detail below.

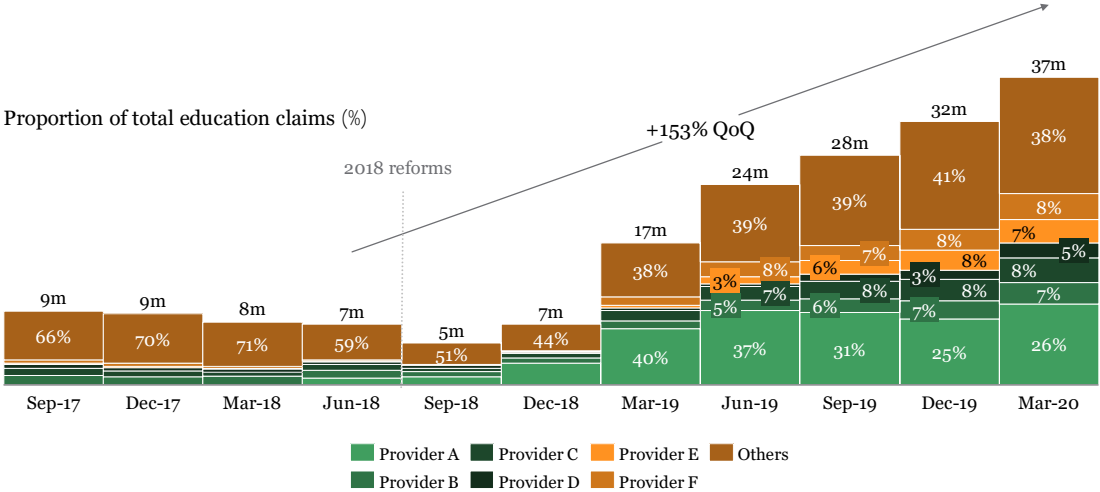
4.1. Expanded access to education outcomes

4.1.1. Education outcomes overview

The program reforms expanded participant eligibility for education outcomes (see Section 1.3). As a result, the number of education outcomes grew rapidly from 3 per cent of total provider payments in the September 2018 quarter immediately following the reforms (\$5 million quarterly, \$20 million annualised) to 12 per cent by the March quarter 2020 (\$37m quarterly, \$148m annualised). This represents close to a third of the total increase in claims value over that period (Exhibit 30).

While the total growth in education outcome payments has been concentrated among a small number of DES providers (Exhibit 38), the shift is evident across provider business models (Exhibit 39).

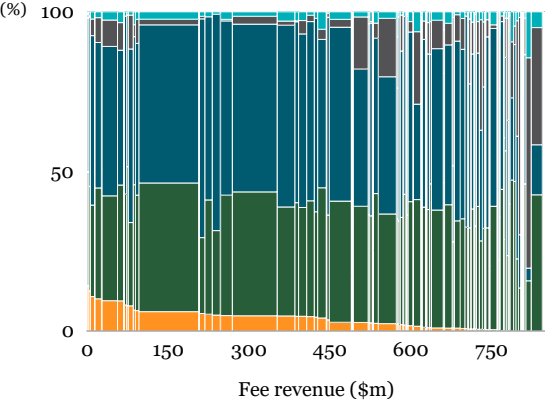
Exhibit 38. Growth in education outcome payments has concentrated among a small number of DES providers



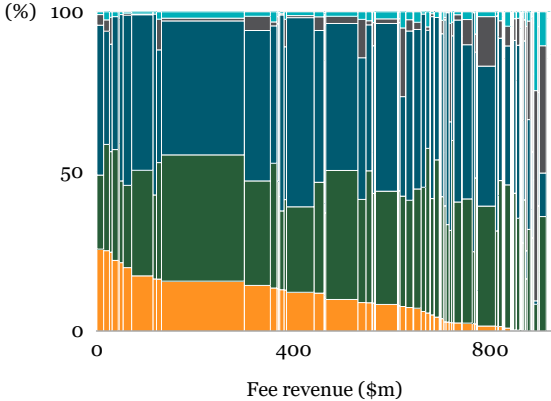
Source: DSS, BCG analysis

Exhibit 39. Most providers show some increased reliance on payments for education outcomes

Pre-reform, education accounted for a small proportion of total revenue
 Fee revenue by provider and fee type (FY18)



Following reforms, there has been a stark increase in education
 Fee revenue by provider and fee type (FY20¹)

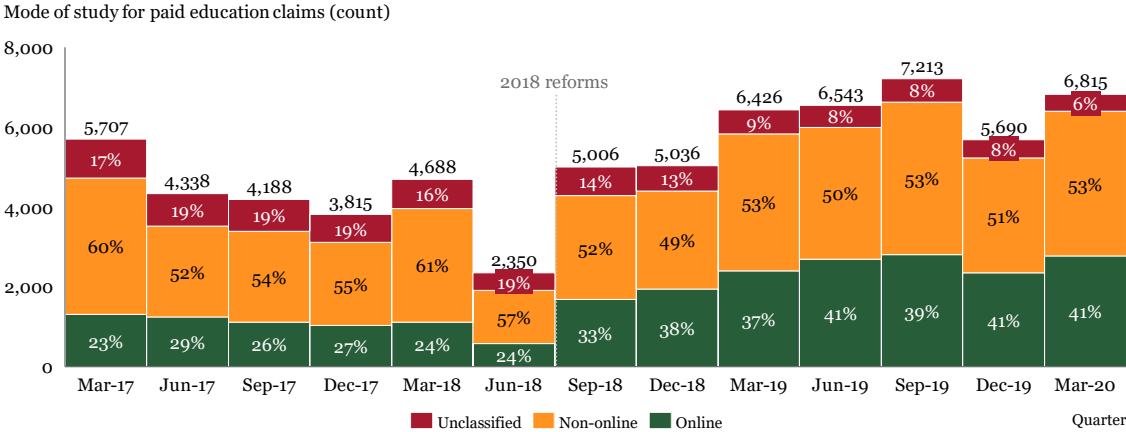


1. Q1-Q3 only
 Source: DSS, BCG analysis

Outcome Fees Education Outcome Fees Employment Service Fees Ongoing Support Other

Since the 2018 reforms were enacted, market for provision of education services to DES participants has grown substantially. Some education providers have tailored their offer to the needs of the DES market, integrating digital systems that assist in mutual obligation management (for DES providers and for participants) into their education services. The share of online courses has also increased since the reforms (Exhibit 40).

Exhibit 40. Online courses have increased their share of education outcomes post-reform



Source: DSS, BCG analysis

4.1.2. Assessment of education outcomes

Three questions are relevant when evaluating the desirability of the rise in education outcome activity:

1. Do education outcomes offer substantive **benefits** to DES participants?
2. Do benefits realised **exceed the costs**?
3. Does funding DES providers to support education outcomes offer the most favourable **cost/benefit trade-off** among available policy options?

A positive answer to each one of these questions would indicate that education outcomes are an unambiguous net positive. However there is significant doubt in each case. It is emphasised that, given the high and rapidly growing expenditure on education outcomes, substantive positive evidence in their favour should be required in order to continue the policy in its current form.

Benefits of education outcomes

Opinions on the **benefits** of education outcomes for DES participant jobseekers varied across interviewees. Multiple providers expressed scepticism (Exhibit 41), raising questions concerning:

- The relevance of the courses studied;
- The extent of assistance given to participants. Some providers described the typical level of assistance as insufficient, i.e. not justifying the fees paid, while others described it as excessive, with courses being partially completed on participant's behalf (note that assurance and oversight of education outcomes for online courses is a particular challenge for the Department);
- Whether there is any tangible relationship between achieving an education outcome and subsequently achieving employment outcomes.

Employer interviews and survey results indicated a more negative view of educational outcomes (Exhibit 42).

As DES stands today, participants do not need to complete a course before providers receive the education outcome payment. The 2018 reforms were intended, in part, to address this; however implementation challenges have meant that participants need only to be passing the course requirements at the time of the claim for a 13-week or 26-week outcome payment to be made. Participants may then not achieve the course qualification because they either:

- Failed subsequent course requirements, e.g. final exams;
- Did not complete the work placement hours required for certification (which many Certificate IIIs require).

Interviews with participants and providers suggested that the rate of failing to complete all course requirements is not negligible. The Department is considering options to require fully certified course completion prior to education outcome payment.

Exhibit 41. Stakeholder interviewees expressed scepticism about education outcomes

For employers, alignment of skills and a motivated candidate is more important than Certificates

“Certificates? For [large org] that was given zero consideration when choosing candidates. It says nothing. I trust the judgement of the recruiter, not what is written on a CV.”

“We are looking for raw talent. We do that through tests and interviews, not educational qualifications.”

“The only thing education outcomes lead to is more money for providers. There is no eye on how education transitions into employment. What a waste of tax payers’ money.”

Claims harder to place individuals are being parked in education, with job readiness not addressed

“Education is a carpark. Some providers are putting almost all their participants into education. How is that allowed? The end game needs to be employment.”

“They [the Department] told us that education was the same outcome payment as job placements, so that is what we pursued.”

“Participants don’t want to do education, but we have to force them.”

“There is no evidence that this type of education improves outcomes for people with an intellectual disability. What benefits people is on-the-job training.”

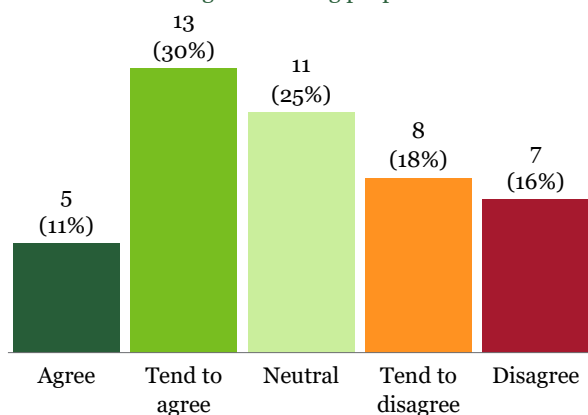
“The teachers don’t know how to teach us, so what’s the point? I can’t keep up. I hated it.”

Service provider Employment consultant Employer Disability advocate Participant

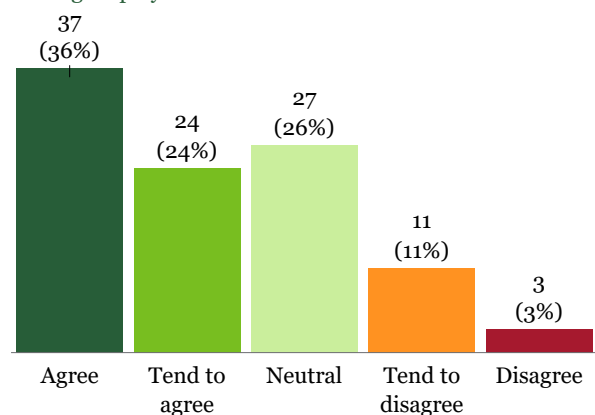
Source: DES Review research engagements, BCG analysis

Exhibit 42. Only 11 per cent of employers were unambiguously positive about the relationship between education outcomes and employment, compared to 36 per cent of service providers

Employers | "Completion of educational qualifications (such as Certificates III or IV) is an important factor in our decision-making when hiring people with disabilities"



Service providers | "Completion of education outcomes substantially increases DES participants’ chances of finding employment"



Source: DES Review research engagements, BCG analysis

Costs of education outcomes

To understand whether the benefits of education outcomes **exceed the costs**, both direct and indirect costs must be considered:

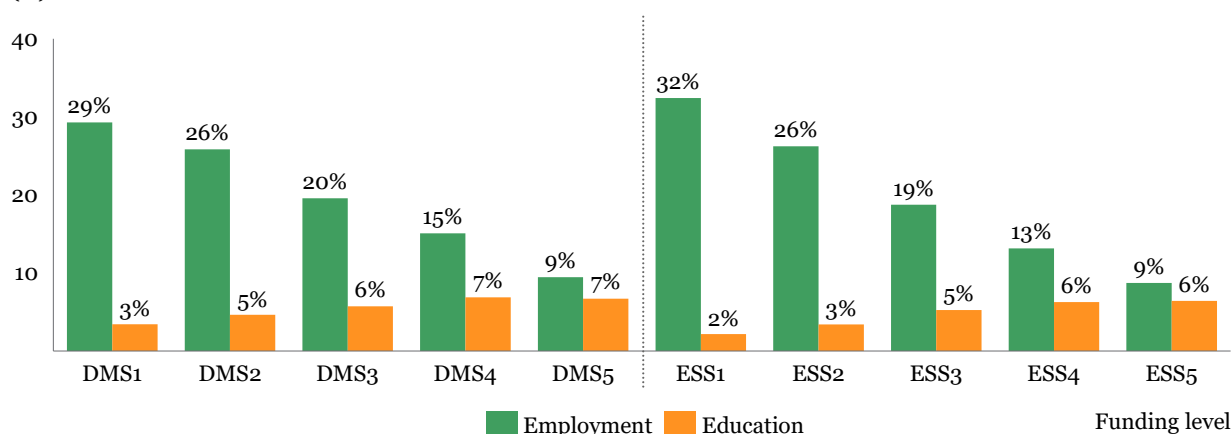
- **Direct costs:** financial expenditure on education outcomes for an individual participant is significant (Exhibit 6), generally similar to that for employment outcomes, and up to \$14,100 for 26 weeks of study at the ESS5 level;

- **Indirect costs:** Estimates indicate that it is substantially less effort for a provider to support an education outcome than to support an employment outcome. Provider profit margins for education outcomes therefore tend to be higher, an effect that analysis suggests is likely pronounced for higher funding levels (higher funding level cohorts are more likely to obtain an education outcome - Exhibit 43). Given the soft growth in employment outcomes overall, it seems reasonable to suspect that provider effort may be being diverted into education outcomes over employment outcomes.

Exhibit 43. More difficult-to-place funding levels have higher rates of achievement of education outcomes, and lower rates for employment outcomes

Probability of achieving a 13-week outcome 12 months after commencing in DES

(%)



Source: DSS, BCG analysis

Cost/benefit trade-offs among availability policy options

This Review has not explored policy alternatives that could offer a **more favourable cost/benefit trade-off**. It is noted, however, that payments to DES providers, as a form of attempting to incentivise third parties, are inevitably an indirect mechanism. Alternative policy levers may include:

- Funding education providers to support participants directly;
- Funding employers to support participants' training courses, either before or during employment;
- Subsidising participants directly for course costs or other expenses associated with study (including hiring support services, potentially via the NDIA if applicable);
- Incentivising course completion via, for example, bonus payments for participants, or releasing participants from mutual obligations for a period subsequent to completing studies.

Section 7.2 discusses recommendations regarding education outcomes.

4.2. Revised competition and contestability model

The removal of caps on provider market share increased competition between providers and boosted levels of provider activity across ESAs, as evidenced in measures of provider density and reported in provider interviews and surveys. As discussed in Chapter 2, this

competition has contributed to the increase in DES caseload since the July 2018 reforms. It is not clear that the direction of competition is being channelled as intended, however, and there is evidence of negative implications for overall program performance.

Employment services programs internationally have adopted alternative approaches to competition. For example, in the UK, the Work, and Work and Health programs assign monopolistic positions to providers in relatively large geographic areas, and use a process of competitive bidding to set payment schedules (Appendix B). Australia, conversely, fixes payment schedules and allows competition on the quality of service offered.

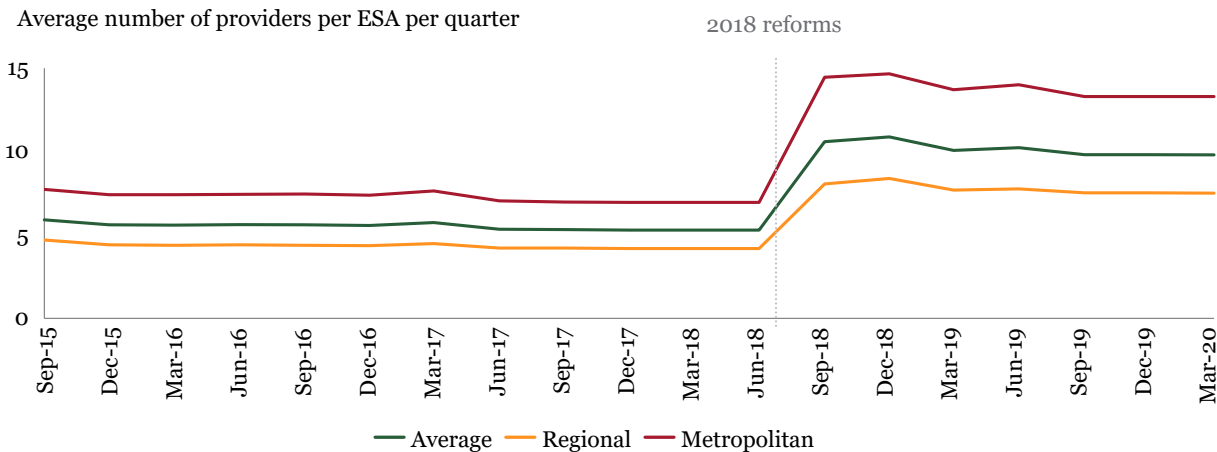
4.2.1. Providers feel the increased competition strongly

The number of providers across Australia has remained steady at around 110 pre- and post-reform, however, this headline number conceals the change in competitive landscape. An immediate and sharp increase in provider numbers per ESA in both regional and metro areas followed the reforms (Exhibit 44). Indeed, providers numbers more than doubled in almost a third of ESAs (Exhibit 45).

Commentary from service providers reflected on the impact of the more competitive market (Exhibit 46). Providers suggested that the intensity of competition and the pace of growth are having negative effects, including creating pressure to sign-up participants and ‘poach’ front-line staff, and an absence of collaboration and of sharing best-practice learnings.

Despite this, some providers have seen substantial revenue gains. Of providers in the market as of the September quarter 2018, 28 per cent have seen a revenue increase of more than 100 per cent, and the largest providers have increased their overall market share (Exhibit 47). At the same time, there has been some consolidation, and exits from ESAs and from the provider market.

Exhibit 44. The average number of providers per ESA increased substantially post-reforms



Source: DSS, BCG analysis

Exhibit 45. Post-reforms, provider numbers increased significantly across almost all ESAs.

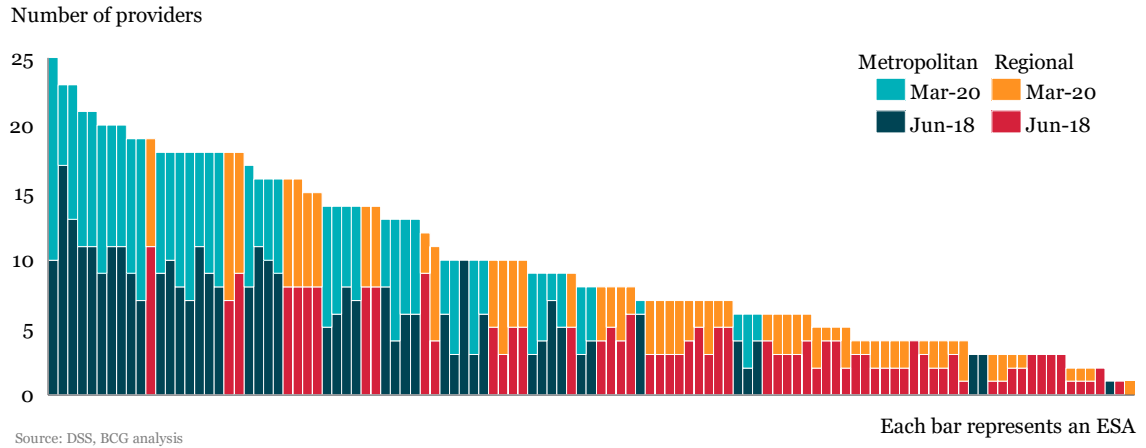


Exhibit 46. Providers emphasised the negative impacts of increased competition

Suggestions that crowded ESAs are leading to growth-orientated competition

“The bit they [the Department] got wrong is opening up to everyone. Let the market consolidate. We have people knocking on our door, asking to buy out our caseload.”

“Need to have some sense-checking of how many providers are in one geography. It’s ridiculous. It’s flooded.”

“We need fewer providers and larger case loads. Would be better for everyone.”

“They try to poach our well-trained staff, and get them to bring their caseloads with them.”

Competition for caseload claimed to distract from focus on the job seeker

“The battle for caseload is challenging. Bad behavior everywhere.”

“Cairns, Coffs Harbour, there are dozens of providers. It’s insane. There aren’t enough jobs there.”

“Everyone is focusing on growing a caseload, staying afloat, and somehow the client has been forgotten.”

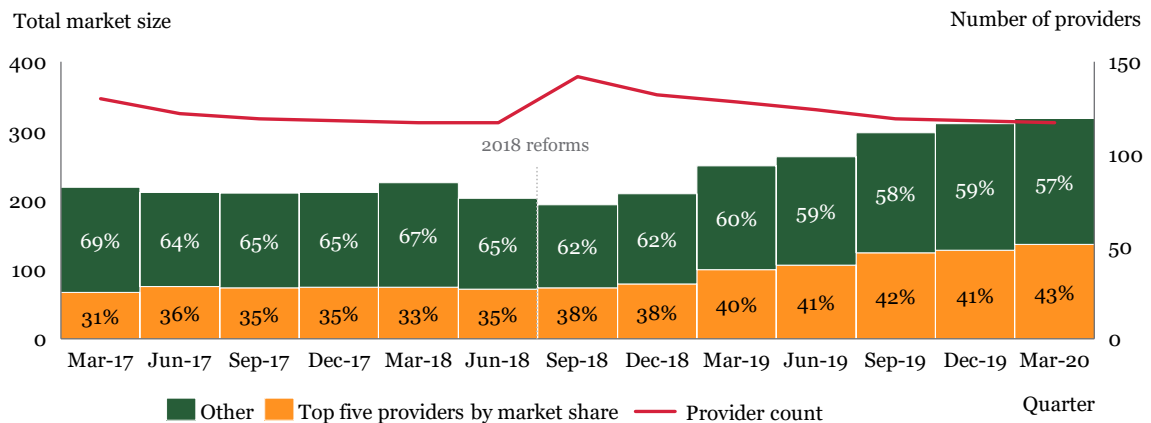
“The ones who can afford billboards are growing. Imagine if they spent the money on clients, not advertising?”

Service provider Employment consultant Employer Disability advocate Participant

Source: DES Review research engagements, BCG analysis

Exhibit 47. The total number of providers has returned, roughly, to pre-reform levels, while larger providers have consolidated their market share

Total number of providers and market share



Note: Top 5 providers changes over time, Top 5 refers to the top five provider's collective share for that particular quarter.
Source: DSS, BCG analysis

4.2.2. Competition and contestability driving post-2018 growth

The removal of restrictions on market share of referrals has been a key contributor to caseload growth since the 2018 reforms. This was partly intentional, to ensure that individuals who needed DES support were able to access it. Consequently, assessing whether the increase caseload is desirable in itself is a complex question: ultimately, the increased caseload reflects the application of rules regarding program access laid out by the Commonwealth (including in the JSCI, ESAts, and funding level assessments).

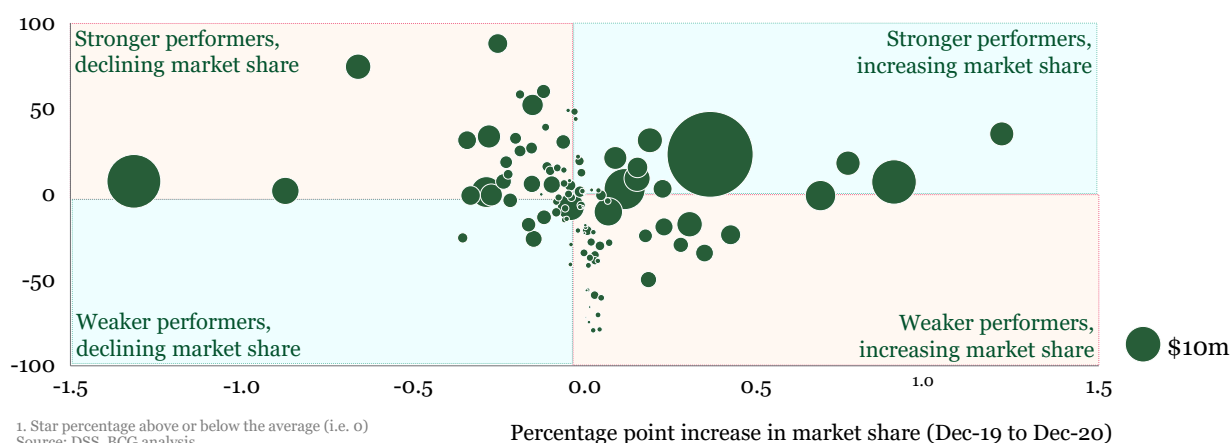
4.2.3. Unclear that market dynamics support policy goals

Market dynamics appear to be failing to adequately reward good performers, or to penalise poor performers:

- There is no clear link between provider star ratings and provider revenue or market share growth (Exhibit 48);
- Where participants initiate a transfer to a different provider, they are only slightly more likely to move from a lower-performing provider to a higher performing provider (Exhibit 49).

Exhibit 48. It is unclear whether high performing providers are rewarded by the market, on average

Simple average star percentage¹ (Dec-19)



Note that, from a policy perspective, star ratings do not necessarily map directly to desirable performance. However, the perception that good performance is unrewarded by the market is consistent with commentary from provider interviews. The failure to reward good performance may be caused by:

- Revenue from quarterly service fees and (relatively profitable) education outcomes allows providers with limited success in achieving employment outcomes to remain operational;
- Limitations on effective exercise of choice by participants;
- Difficulty in scaling good performance, due to the human capital-intensive nature of provider activity.

Before the reforms, the Department actively removed poor performing providers. It has not done so since the reforms even though the option is available within the current legal framework.

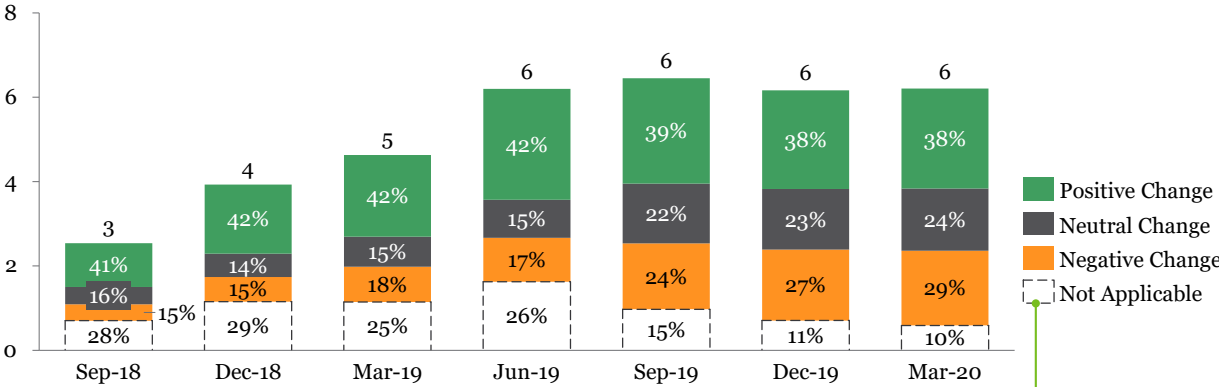
4.3. Enhanced participant choice

4.3.1. Participants making active use of transfer option

Based on the observed increase in transfer rates, some participants seem to have welcomed the increased flexibility in provider choice introduced in 2018. Participant-initiated provider transfers have shown continued growth since the reforms, up to a quarterly average of around 6,000 in recent quarters (around 2 to 3 per cent of the active caseload) (Exhibit 49 and Exhibit 50). Further, there has been a significant decrease in the rate of participant complaints since the reforms, which may be partially attributable to increased participant choice (Exhibit 51).

Exhibit 49. While DES participants are actively exercise choice, there is only a slight bias towards transferring towards providers with higher star ratings

Number of participant initiated transfers per quarter (k)

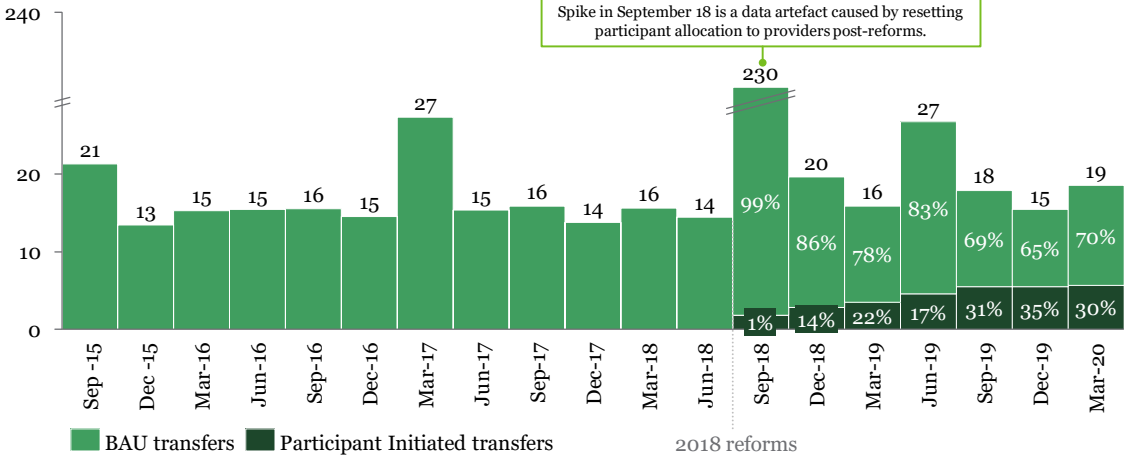


Note: 'Not applicable' refers to situations where the participant was transferring from or/and transferring to a site that did not have an assigned star ratings (and where it thus seems likely that star rating comparisons were not the main factor driving decision-making)

Note: Star ratings of sites represent the applicable published star ratings available at the time of transfer.
Source: DSS, BCG analysis

Exhibit 50. The share of participant-initiated transfers has increased over time, with more participants choosing to exercise choice

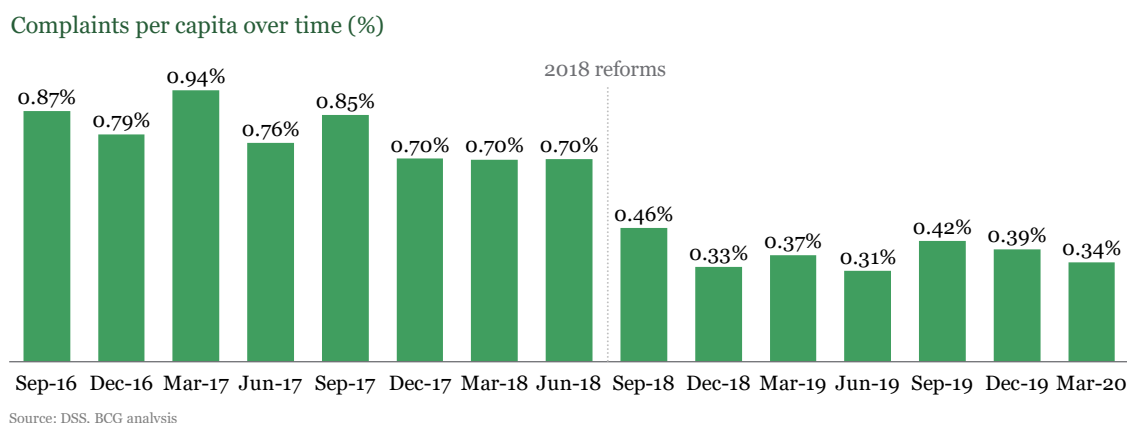
Total number of transfers per quarter (k)



Spike in September 18 is a data artefact caused by resetting participant allocation to providers post-reforms.

Note: Business as usual (BAU) transfer refer to all transfers not initiated by the participant such as business novation, eligibility change, relocation of provider site, relocation of participants etc.
Source: DSS, BCG analysis

Exhibit 51. Average complaint rates have fallen post-reform



4.3.2. Choice is constrained by multiple factors, including asymmetric information

Increased participant choice does not appear to translate into improved rates of employment outcomes, and, as noted in Exhibit 49, choice patterns correlate only weakly with star ratings.

Research suggested two reasons for this:

1. Choice of provider may be motivated by factors other than achieving employment outcomes, including: geography and accessibility of provider locations; personal relationships with provider consultants; support for education outcomes; or leniency in oversight of mutual obligations (Section 3.4). Given the large average number of providers in each ESA, some anecdotal suggestions were made that some participants may simply choose the first provider listed by Services Australia. Geographic constraints on choice may be caused by:
 - a) Restrictions on digital servicing in the Grant Agreement, that increase the reliance on face-to-face meetings and proximity to provider sites (Section 3.4);
 - b) The nature of participant disability;
 - c) The relatively limited coverage of specialist providers.
2. There may be no reliable way for participants to assess provider performance. Star ratings are often seen as uninformative, and participants may not be aware these ratings exist (none of the five participants interviewed for this Review was aware of the star rating system). Further, interviews suggested that many participants may be unaware that active choice is an option.

Section 7.3 discusses recommendations around participant choice. Star ratings are discussed in more detail below.

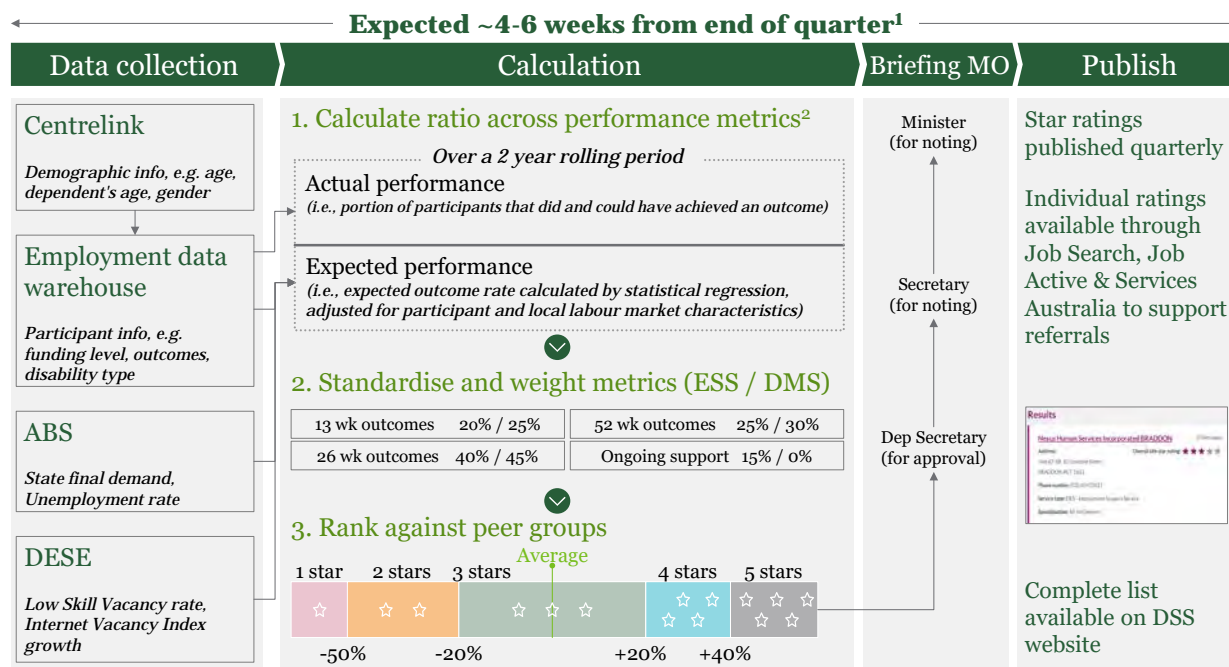
4.3.3. Pain points in star rating system

The star rating system is the principle metric designed to help participants to compare providers. Star ratings rank providers based on their performance in achieving employment and education outcomes compared with their expected performance, and accounting for

variations in participant characteristics and labour market conditions. Advantages of the star rating system include their relative objectivity since they are based on quantitative data, and their ability to normalise for changing circumstances, limiting the impact of extreme events.

Star ratings are calculated using a wide range of data sources and include an approvals and notification process that extends to the Minister (Exhibit 52).

Exhibit 52. Overview of the process for setting star ratings



1. Though actual duration can be longer; December 19 ratings only released in May due to bushfire and COVID delays; 2. Combines Education and Employment outcomes (if applicable)

The Review found several pain points in the star rating system:

- It is highly complex, with over 100 different variables, 500 pages of SAS code and a 30-plus page methodology document, making developing an intuitive grasp of the ratings difficult;
- Participants and providers are not well informed about how to interpret and use star ratings;
- Ratings do not incorporate participant or employer experiences of working with a given provider;
- The star rating system weights employment and education outcomes equally which does not reflect the overall program goal of increasing employment outcomes;
- Delays in the release of ratings reduce their usefulness for participants and for providers. Department guidelines require new ratings to be released within four to six weeks of the end of a quarter. This timeline is not always met.

Survey results suggest over 50 per cent of providers feel star ratings do not support participant decision making (Exhibit 53 and Exhibit 54). In addition to the issues above, some providers suggested that the ratings may be manipulated, e.g. by transferring hard-to-place caseload to temporarily unrated new sites

Section 7.3 discusses recommendations regarding the star ratings system.

Exhibit 53. Providers generally expressed negative opinions on star ratings

Providers suggest star ratings don't capture good performance and incentivise poor behaviour

"Star ratings are a joke. Consumers don't know what they are, let alone how to compare them... our 5-star rated sites are our worst at providing long term outcomes for participants in my opinion."

"Star ratings are nothing more than a measure of a providers' ability to game the algorithm."

"The star rating should be about how satisfied the client is with the service providers' service."

Some frustration with slow release schedule and lack of consequences for poor performance

"We have massive underperformers with bad ratings blowing out the spend. The government needs to reallocate or remove some providers... for people with a disability, for the program as a whole."

"How are we supposed to improve, to learn, if the ratings take months to be published?"

"What's the point of star ratings if you never shut anyone down?"

Participants may be unaware of star ratings or how to use them to make an informed choice

"I'll keep changing... I need to find one who treats me the right way and cares. And most importantly listens. Star ratings? I've never heard of them. I just use Google."

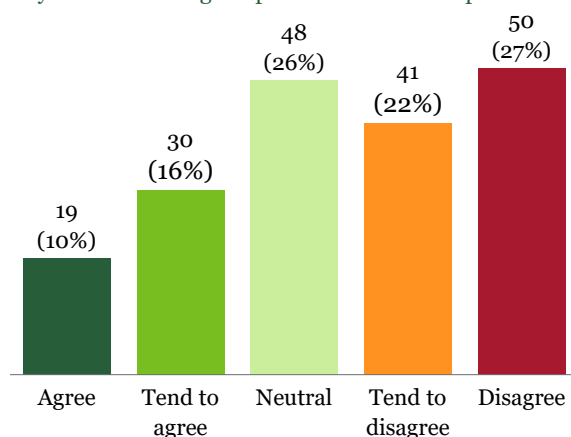
[when shown star ratings] "Whoa, that is too much. It overwhelms me."

Service provider Employment consultant Employer Disability advocate Participant

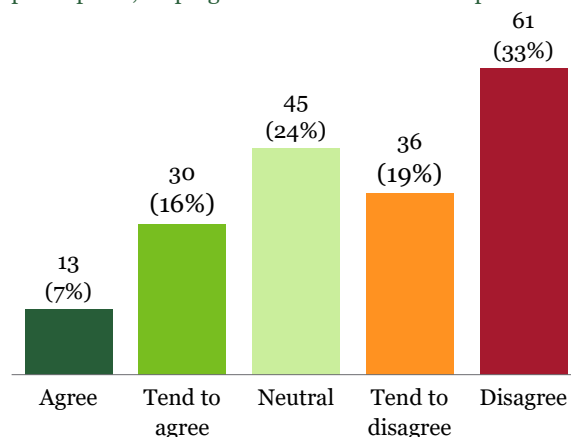
Source: DES Review research engagements, BCG analysis

Exhibit 54. Service providers do not feel star ratings support participants to make better decisions

"The DES star rating system is a reasonably effective way of summarising the performance of DES providers"



"The DES star rating system is useful to DES participants, helping to inform their choice of provider"



Source: DES Review research engagements, BCG analysis

4.4. The risk-adjusted funding model

The risk-adjusted funding model is generally viewed as an improvement over the pre-reform system, as it offers greater recognition of the variety of individual participant needs. However, some implementation challenges remain to be addressed, primarily because the risk-adjusted funding level categorisation algorithm (the risk-adjusted funding tool) has not been recalibrated based on post-reform data, as originally intended.

The risk-adjusted funding tool design intended for funding levels to be distributed in splits of approximately 5, 20, 25, 25, and 25 per cent across FL1 to FL5, respectively. However, due to the composition of new entrants and the reclassification of existing participants, the DES

cohort has drifted towards higher funding levels over time, with a current distribution of around 5, 14, 22, 27, and 32 per cent (Chapter 3 and Exhibit 31). If levels are not recalibrated annually, independent analytic and actuarial consultants Taylor Fry estimate DES expenditure will increase by \$69m in 2022-23.¹¹

Provider and disability advocate interviewees suggested that:

- The risk-adjusted funding tool overstates the ease of placing participants with an intellectual disability. Interviewees claimed that, due to the higher funding for these participants pre-reform, and the consequent higher rates of employment outcome achieved, the model's algorithm now allocates insufficient funding to this cohort. Note that any initial mis-weighting should theoretically be resolved by the planned ongoing recalibrations;
- 'Creaming' of easier-to-place cohorts within each funding level continues to some extent;
- Some concerns were expressed that the risk-adjusted funding tool potentially groups individuals with disparate conditions, needs and cost to serve (although this is at least partly deliberate).

Recommendations concerning the risk-adjusting funding model are discussed in Section 7.2.

4.5. Other elements of the 2018 reforms

4.5.1. Payments for longer-term employment outcomes

Rebalancing the employment outcomes payment structure by introducing the 52-week outcome payment, and replacing job placement payments with 4-week outcome payments, appears to have been a directionally appropriate move towards increasing the emphasis on longer-term employment placements, while still allowing for short-term work. However, there has not yet been an observed increase in conversion rates between 13-week to 26-week outcomes (Exhibit 22), as would be expected if longer-term outcomes were being pursued. This may be at least partly attributable to the relatively small financial incentive offered by the 52-week outcome payment (Exhibit 7).

4.5.2. Rebalancing towards outcome fees

The 2018 reforms explicitly targeted a 50:50 split of fees between service and outcome, away from the previous 60:40 ratio. While the desired split has been achieved, the bulk of change is attributable to growth in education outcomes, rather than employment outcomes (Exhibit 30).

¹¹ Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

5. Other challenges in program design and oversight

This Review has identified barriers to the DES program's efficacy and efficiency beyond impacts of 2018 reforms. These barriers span compliance, regulatory, process, and design issues that affect system functionality and provider behaviour, and include:

- Compliance and administrative burdens affecting provider effort and service flexibility, including:
 - Oversight of participant mutual obligations;
 - Ensuring consistency with Grant Agreement and guideline rules, including restrictions on face-to-face servicing (these restrictions are currently relaxed due to COVID-19);
 - Supporting assurance activities, and other administrative work.
- Restrictions on regional entry imposed by the ESA system design;
- Design limitations of the Eligible School Leaver scheme which reduce DES' ability to support school-aged participants into employment outcomes;
- Process constraints and accuracy challenges in ESATs, and associated unintended incentives in payment schedules related to rules around benchmark hours.

There is a tension in balancing a market-based system with the necessity for assurance and risk minimisation in a program that (as of FY19-20) is responsible for well over a billion dollars of spend. Exhibit 55 and Exhibit 56 summarise how these tensions are experienced by providers, from front-line staff to senior executive level.


Tensions and challenges also exist between DES and adjacent programs. At the Commonwealth level, Australia has a varied landscape of disability and employment support services, targeting a range of possible individual situations and contexts, operated in parallel by multiple agencies. Conceptually, DES sits at the intersection of the two flagship employment and disability support programs, jobactive and the National Disability Insurance Scheme (NDIS). There are significant integration issues with both these programs, including:

- Divergence in program design between jobactive and DES that has contributed to DES caseload growth, see Section 2.1. Tensions also exist across other aspects of system design, including complicated process flows for participants, and a duplicated overhead burden for providers;
- Lack of integration and clear pathways between the NDIS and the DES program, despite their common program goals.

Exhibit 53. Illustrative service provider CEO persona

CEO of Service Provider

Mary



56 years old
Manly, NSW
Married with 2 children
16 years tenure
Generalist provider
For profit

About

Mary is an experienced CEO with more than a decade of expertise in employment services. She leads a large, purpose-driven for-profit provider with more than 400 staff across 70 sites. Alongside both ESS and DMS DES contracts, they offer various services including jobactive, ParentsNext and online courses through their Registered Training Organisations (RTO). The biggest challenge for Mary is managing the viability of low performing sites, and maintaining and growing caseloads in a competitive environment

Motivators

- To be the country's leading service provider, achieving exemplary results for clients while maintaining a healthy bottom line
- Be known for great customer experience and innovative servicing models, including flexible and remote consultation
- Develop scale through nurturing relationships with large employers
- Building strong brand equity through advertising and word of mouth

Needs

- Greater real-time visibility on performance indicators, including star ratings, employment consultant targets, customer feedback and outcome placements
- Access to greater evidence-based practice and expertise to scale across organisation
- Consolidation of the market to reduce crowding
- Greater administrative efficiencies to enable staff to focus on achieving more outcomes for clients

Painpoints

- Running a viable business while managing change, competitive pressures, capital investment and aggressive growth
- Poaching of caseload and staff in highly competitive ESAs
- Making informed decisions on if and when to exit sites
- Managing cashflow with upfront client investment
- Rigid ESA model prohibiting national employer relationships

“We’ve grown 350 percent and made significant investments. We need to balance the viability of the business with the needs of our clients.”

A day in a life


8am	9am	3pm	4pm	7pm
Check and respond to emails, including performance dashboard	Back-to-back meetings with finance, procurement and regional leaders	Joins call with prospective national employer	Monthly site visit to check in with local area managers and team leaders	After dinner logs back on to continue emails and outstanding tasks for the day

Source: DES Review research engagements, BCG analysis

Exhibit 54. Illustrative employee consultant persona

Employment Consultant

Sarah



32 years old
Mildura, VIC
Married with 1 child
18 months tenure
Generalist provider

“The KPIs, high caseloads and complex client needs make my job stressful. Some days I spend 60 per cent of my time on administration.”

About

Sarah entered the industry because she has a desire to help. With limited training, and an understaffed team, she was thrown into the deep end on day one as an employment consultant.

For Sarah, the pressure of the KPIs, challenging clients and excessive admin are often overwhelming. She balances high stress with very little monetary or personal reward. The pressure of targets at times conflict with the needs of her clients. The best part of her role is when a long-term client calls and shares that they got the job; it makes it all worthwhile

Motivators

- Building relationships with clients on their journey to job readiness
- Changing the lives of people with disability through meaningful employment
- Leveraging local networks and community to reverse market potential candidates and create new job opportunities
- To provide long-term support to clients in their jobs through frequent site visits

Needs

- Better access to knowledge expertise to manage complex and varied client needs
- Increased pay and career progression opportunities
- Access to continued training and learning opportunities
- Greater flexibility on how to service clients
- Strong networks with local employers
- Insights into local labour market and future of work projections
- More time in the day to focus on job seekers

Painpoints

- High stress role managing many complex and conflicting priorities
- Overwhelmed by administration, including job plans and compliance
- A lot of KPI pressure to put job seekers into jobs, despite poor role candidate matching
- Enforcing mutual obligation payment suspensions
- Convincing clients to do education
- Lack of recruitment expertise expected by large corporate employers

A day in a life

<div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">8am</div> <p>Schedule and plan meetings with job seekers</p>	<div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">9am</div> <p>Meets clients, develops job plans, oversees mutual obligations</p>	<div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">2pm</div> <p>Weekly meeting with team leader to discuss KPI goals and development areas.</p>	<div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">3pm</div> <p>Follow up on administration, compliance, reporting</p>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Source: DES Review research engagements, BCG analysis

5.1. Provider management of compliance, assurance, and reporting

Assurance and oversight are essential to ensure program integrity and to provide confidence to government and taxpayers. Providers are required to support various forms of assurance activity. In interviews and via the survey, providers emphasised that they consider the current burden of these compliance and administrative activities to be excessive (Exhibit 57 and Exhibit 58). These activities include:

- Overseeing participant mutual obligations. The Grant Agreement specifies this as a provider responsibility, and quarterly service fees are partly intended to cover the associated costs. Providers raised concerns around the time and effort this requires, and about the impact this oversight role has on provider relationships with participants, particularly in a competitive market;
- Ensuring consistency with Grant Agreement rules around provider behaviour and service models;
- Supporting other assurance and other administrative activities, principally gathering and documenting evidence to support claims.

Providers suggest that these activities distract employee consultants from supporting outcomes for participants. The large proportion of time reported as spent to such activities in Exhibit 57 is at least directionally consistent with research by People with Disability Australia into the jobactive program, that found compliance activities accounted for close to 35 per cent of front-line staff time. The administrative burden falls particularly on smaller providers, as larger providers are more able to commit dedicated teams to process management, or to invest in digital solutions.

Given the overarching concerns around DES program productivity and service quality, the proportion of effort spent on compliance and administration should be considered a significant issue.

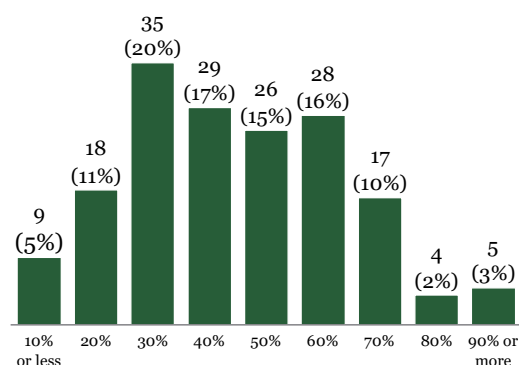
Front-line service provider consultant roles are relatively low paid (salaries span \$45,000 to \$65,000 per year,¹² compared to the Australian average of \$80,000¹³). Interviews with participants and employers frequently cite staff training and capabilities as a contributor to poor service experiences. Reducing the compliance burden could increase per-employee productivity by allowing provider consultants to service a larger caseload, and achieve better outcomes and higher productivity. Over time, in a competitive labour market this should translate to higher provider consultant salaries (and as a result attract more skilled individuals and justify greater investment in training by providers).

¹² Data from Seek and Payscale covering nine major providers.

¹³ ABS, February 2020.

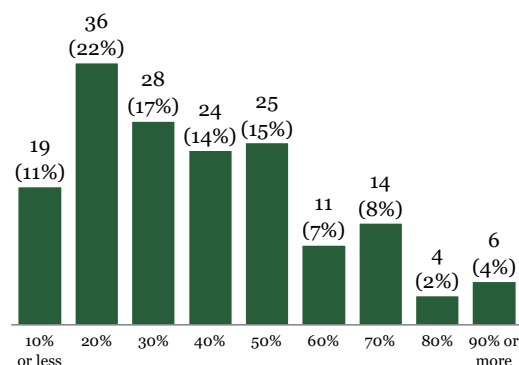
Exhibit 57. Providers see assurance, mutual obligations, and other compliance activities as requiring major investments of time and effort

Indicatively, how much of the time of your employee consultant workforce is spent on assurance and regulation (not counting mutual obligations)?



Source: DES Review research engagements, BCG analysis

Indicatively, how much of the time of your employee consultant workforce is spent on oversight of mutual obligations?



5.1.1. Requiring providers to oversee mutual obligations considered impractical in a competitive market

A participant's mutual obligations are defined in their job plan and agreed with their provider on joining the DES program. Job plans are expected to be customised to an individual's capacity and context. A job plan will typically require:

- Conducting job searches, and applying for up to 20 jobs each month;
- Attending appointments with the DES program provider;
- Acting on referrals to specific jobs made by the provider, and attending job interviews;
- Participating in approved activities, e.g. job search/interview skills, education, work experience, work for the dole.

Once the job plan and accompanying mutual obligations are established, the provider is responsible for:

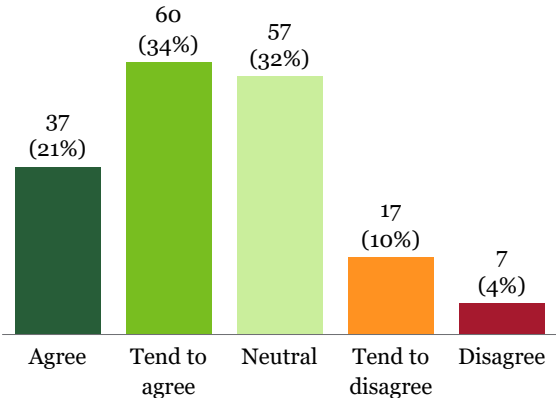
- Tracking participant compliance;
- Validating activities (e.g. confirming validity of job applications);
- Liaising with Services Australia (mainly via digital channels) to identify when a participant is non-compliant with their job plan. Services Australia applies and manages any penalties, including, for example, suspension of income support payments.

Providers identified three challenges with overseeing mutual obligations:

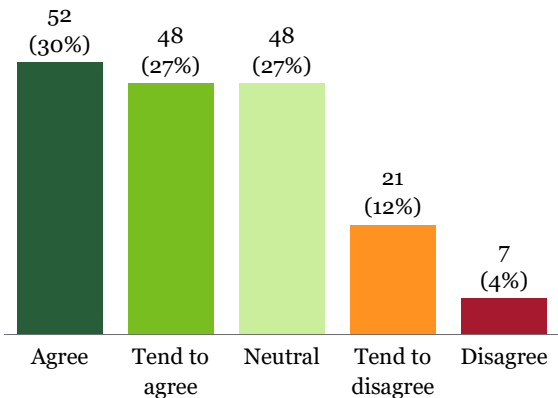
1. Mutual obligations oversight drains provider consultant time (Exhibit 58), impacting their capacity to work with participants towards employment and education outcomes;
2. There is a conflict between building a trusted relationship with participants, to understand their needs and to motivate activity, with the responsibility of monitoring compliance;
3. There is a tension between playing a compliance role and competing as a service provider in a market where participants have the option to transfer to a new provider for any reason.

Exhibit 58. Providers suggest that oversight of mutual obligations detracts from ability to assist participants achieve outcomes

Service providers | "Oversight of mutual obligations substantially diminishes staff ability to obtain employment outcomes for participants"



Service providers | "Regulatory overhead and compliance substantially detracts from the quality of service provided to DES participants"



Source: DES Review research engagements, BCG analysis

5.1.2. Micromanagement reduces service flexibility and adds to compliance burden

The Department manages a tension between allowing DES providers the flexibility to innovate and tailor service models to participant needs, at the same time minimising liability and risk, and ensuring expenditure is appropriate. The Grant Agreement includes multiple constraints to protect against risk and to manage spend closely. This Review suggests that the success of a market-based approach requires DES providers to have greater freedom in their service delivery choices – *conditional* on market mechanisms being deployed effectively to punish poor performance.

For example, Grant Agreement rules currently include multiple requirements for face-to-face servicing, including an in-person initial interview for new participants to the program, and in-person first contact following any change in circumstance, ESA_t reassessment or program review. These requirements have been relaxed during the COVID-19 pandemic, a change welcomed by providers who see minimal deterioration in service quality (Exhibit 59). Recommendations regarding rule design are discussed in Section 7.6.

Exhibit 55. Providers have welcomed the relaxation of restrictions associated with COVID-19

New ways of working seen as presenting an opportunity

“COVID presents a huge employment opportunity for people with a disability.”

“In the past, we only serviced people who lived in the ESA because we needed to have access to the local job market. But now, with remote working, we can rethink that. People can stay in their communities, with their families, and work in the city.”

Service provider

Employment consultant

Virtual servicing can increase access to specialist providers

“We are a very niche service provider, and if we can provide services virtually, we can increase who we offer our services to. Now, if it's just a handful of people in a region, it isn't viable to tender for that contract.”

“If I could find a specialised provider I would change in a heartbeat... but there are none in my area for me.”

Employer

Disability advocate

Providers report being better able to spread caseload demand

“COVID has been great, we can remotely service our clients and have more demand sharing across sites.”

“Since the pandemic they've been calling. I've had more contact than I did before. It's good, I don't need to drive all the way to town. It's still important to see people in person sometimes though.”

Participant

Source: DES Review research engagements, BCG analysis

5.1.3. Assurance requirements

Assurance activities provide certainty to government and to taxpayers. Currently, around one per cent of the 220,000 payment claims made by providers each quarter are subject to assurance checks. Typically when a claim is checked providers are required to provide records of contacts with participants and employers, documentation of hours worked, workplace pay slips, and records of education activities, etc., to demonstrate compliance with the Grant Agreement and to show that claimed activities did take place. The effort of complying with assurance falls on providers, and in some instances on employers, who may be asked to validate documentation.

This Review did not conduct a detailed assessment of the costs and benefits of assurance activities. Recommendations regarding assurance are discussed in Section 7.6.

5.2. Impact of Employment Service Area constraints

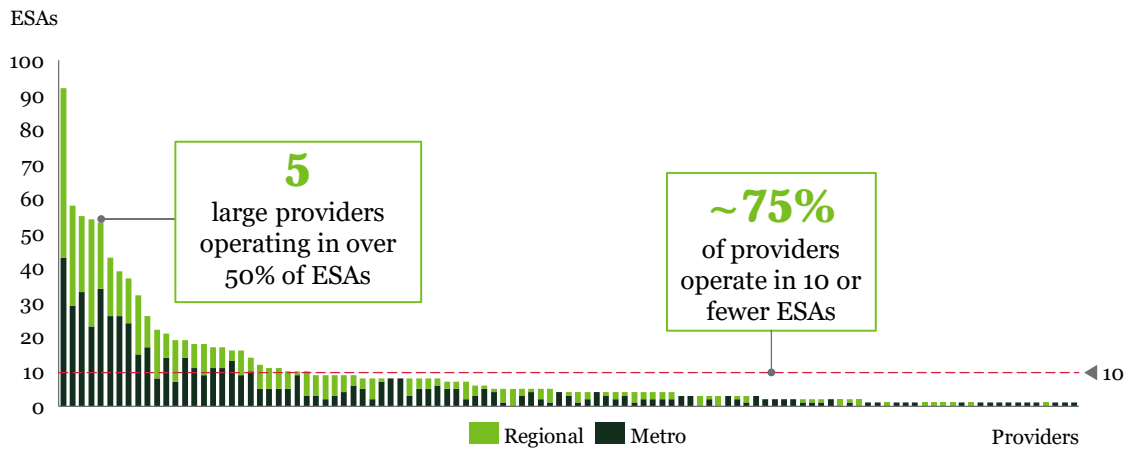
Australia's metropolitan and regional areas are divided into 111 Employment Services Areas (ESAs), to ensure all participants have access to DES service providers regardless of geography. During the DES Provider Panel application process, providers identified the ESAs they wished to operate in, with the requirement that they would service the entirety of each ESA in which they were active.

Providers are confined to offering services within their approved ESA boundaries; participants can choose providers from any ESA; providers can work with employers from any ESA. Providers can only enter a new ESA when the Department goes to market, or through the DES Panel Refresh process. Providers can exit an ESA by terminating their agreement with the Department (although Department is not obliged to accept), or by nominating another DES provider to take their place.

Research and analysis suggest that the current ESA design is creating unintended consequences and pain points:

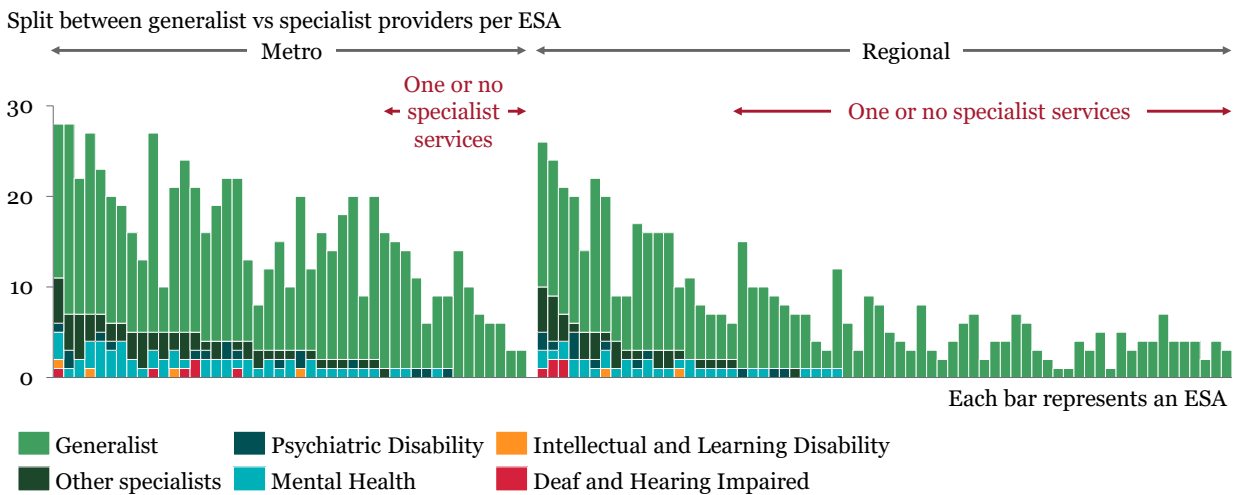
- Restrictions on provider movement encourage the orientation of business models by geography over other criteria, such as disability type or employer industry, as the limitations on ability to scale discourage specialisation. As shown in Exhibit 60, most providers serve only a fraction of all ESAs, and, per Exhibit 61, the predominance of generalist service models suggests that in most ESAs participants have limited access to specialist services;
- Opportunities to expand into new ESAs are limited, inhibiting competition;
- Regulatory requirement to fully service ESAs are likely avoided at least sometimes. Anecdotal suggestions were made by interviewees that the challenging economics of servicing remote areas result in some providers fulfilling such requirements via low-investment ‘satellite sites’.

Exhibit 60. The bulk of providers serve only a small share of all ESAs



Note: DES divides Australia into around 110 Employment Service Areas (ESAs); Source: DES Star Ratings March 20

Exhibit 61. Approximately half of all ESAs have limited access to specialist services



Source: DSS, BCG analysis

5.3. Efficacy of Employment Service Assessments

All new and returning DES participants undergo an Employment Service Assessments (ESAts). Specifically, assessments occur when:

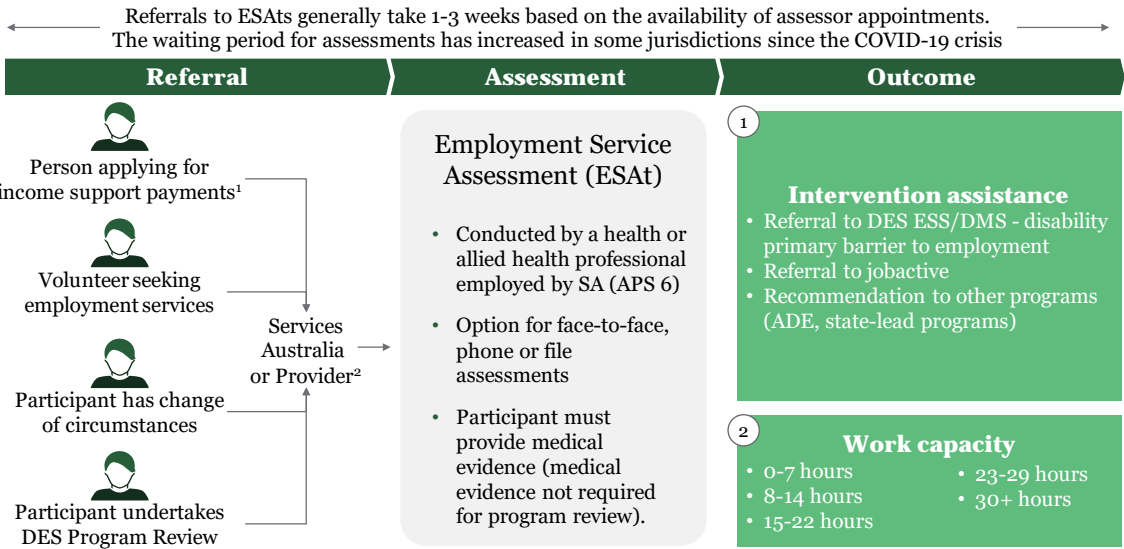
- A participant is new to the program (whether through income support obligations or voluntarily);
- An existing participant’s circumstances change, requiring reassessment; or
- An existing participant reaches 78 weeks of employment assistance, triggering a DES Program Review.

ESAts are used to:

- Determine who should be streamed into the DES program, rather than into jobactive;
- Establish a participant’s work capacity, which in turn influences their funding level classification;
- Gather information on participant needs and motivations, which can assist in job planning.

Services Australia or the DES provider will refer a participant to an ESAt assessor. The assessor is a trained health or allied health professional contracted or employed by Services Australia. Assessments are usually face-to-face, although phone and video assessments have increased in response to volumes, and in accordance with COVID-19 social distancing measures. The assessor recommends the relevant intervention assistance (if applicable), and identifies the participant’s current work capacity, and expected work capacity with employment support. Exhibit 62 summarises the ESAt process.

Exhibit 56. Summary of ESAt process across referral, assessment, and outcome stages



1. Includes DSP application 2. Providers refers all DES program reviews. Other refers occur in limited circumstances. These include but not limited to volunteer direct registration, DES participant change of circumstances
Source: ESAt and JSCI Instrument Overview; ESAt referral information; ANAO 'Qualifying for the Disability Support Pension'; BCG analysis

Research conducted as part of this Review identified three main issues with ESAts (see Exhibit 63):

1. Concerns regarding assessment reliability and accuracy;
2. Operational and process pain points;
3. Misaligned incentives due to the dependence of funding on benchmark hours.

These issues are consistent with research conducted by Ernst & Young in 2019, and with concerns raised by providers around ESAt quality and consistency during consultations prior to the 2018 reforms. Further detail follows below.

Exhibit 63. Providers feel ESAts do not accurately assess the capacity of participants, creating challenges downstream

Suggestions ESAts not accurately assessing potential

“We had a client, deaf, three other disabilities. He went to do his ESAt, no translator was provided. He came out with at Funding Level 1, with 20 hours of capacity. How on earth did they arrive at that?”

“A 30+ hours capacity benchmark is substantially more difficult in regional areas. I don't feel that location and regional issues are considered when ESAts are completed.”

Service provider

Employment consultant

Limited assessor resources stretched to meet demands

“Having to send clients for new ESAt at 78 weeks is a bit pointless in most cases. That can be a complicated process especially for the client who has to run around obtaining updated medical evidence.”

“No availability of ESAts, waiting weeks to get appointments, even prior to COVID-19. ESAts not taking into account years of medical evidence showing zero ability to work, forcing participants to participate where they physically don't have the ability.”

Employer

Disability advocate

Benchmark hours may lead to misaligned incentives

“Once someone comes out with 8 [benchmark hours], even if they are capable of 20, there is no incentive in it for the provider.”

“Sometimes an ESAt says 8 [benchmark] hours, but they want, and can, work 20. But some providers would just put them in the first 8 hour role, collect the outcome [payment].”

Participant

Source: DES Review research engagements, BCG analysis

5.3.1. Concerns over assessment reliability and accuracy

Some provider interviewees suggested that the assessment process can inflate work capacity hours to unrealistic levels; in other cases suggestions were made that work capacity tends to be under-estimated. No detailed investigation of this point was made as part of this review. However, it is noted that either over- or under-estimating work capacity can affect the provider's or participant's motivation to find employment, and create stress for participants, as well as affecting the composition of payments to providers. Since participants' work hours are not tracked in detail, it is difficult to quantify the accuracy of ESAts, although there may be scope to give assessors more precise guidelines around the preferred approach.

5.3.2. Operational and process pain points

Providers outlined pain points with the end-to-end ESAt process, including ESAt availability, frequency and usability. Key issues include:

- Limited ESAt availability delays participant access to the support services they need. Prior to COVID-19, participants were waiting up to three weeks for an assessment, depending on their location (availability is higher in metro areas). Since COVID-19, new JobSeeker claimants have been prioritised, meaning voluntary participants (i.e. direct registrants) may wait between six and eight weeks. Note that Services Australia has increased ESAt capacity by employing additional assessors to meet COVID-19 related demand, and by allowing phone and video interviews as an alternative to face-to-face meetings;
- The mandatory 78-week review of participant status increases pressure on stretched resources and creates stress for participants. The bulk of participants do not change work capacity hours on re-evaluation;

- Provider interviewees suggested that often the only aspects of the ESAt referred to in job planning are program and work capacity recommendations. They find ESAt recommendations can be vague and poorly written, making them ineffective for job planning purposes.

5.3.3. Misaligned incentives due to the dependence of funding on benchmark hours

Under the current funding model, provider outcome payments are tied to participants reaching the ESAt assessed benchmark hours. As a result, providers are disincentivised to support participants into employment that is below two-thirds of their benchmark hours (the trigger for partial payment), or above benchmark hours. Examples include:

- If a participant is assessed as 15 benchmark hours, a provider might avoid placing them in an eight-hour role because (1) it does not attract a full outcome payment for the provider; and (2) it prevents an outcome for another participant with an eight-hour employment benchmark;
- Similarly, if a participant is assessed as 15 benchmark hours work capacity, a provider is disincentivised to support them to work above 15 hours, even if the participant is willing and able;
- If a full-time opportunity becomes available, a provider may be incentivised to split the role into eight-hour benchmark portions to attract more outcome payments (known as 'job carving'). This distributes the employment experience among a greater number of people but limits opportunities for people with higher benchmark hours.

5.4. Engagement with school-aged participants

Successfully managing the transition from school to work for people with a disability can reduce the risk of future unemployment, dependence on income support, and mental health issues, among other possible benefits.

DES currently engages school leavers via the Eligible School Leaver (ESL) program, which provides streamlined entry for students in their final school year.¹⁴ The ESL program enables people with significant disabilities to enter DES without undergoing an ESAt or JCA (Job Capacity Assessment). ESL participants are assigned a default work capacity of eight hours.

Research interviews indicated pain points around the current support for school leavers (Exhibit 64), including:

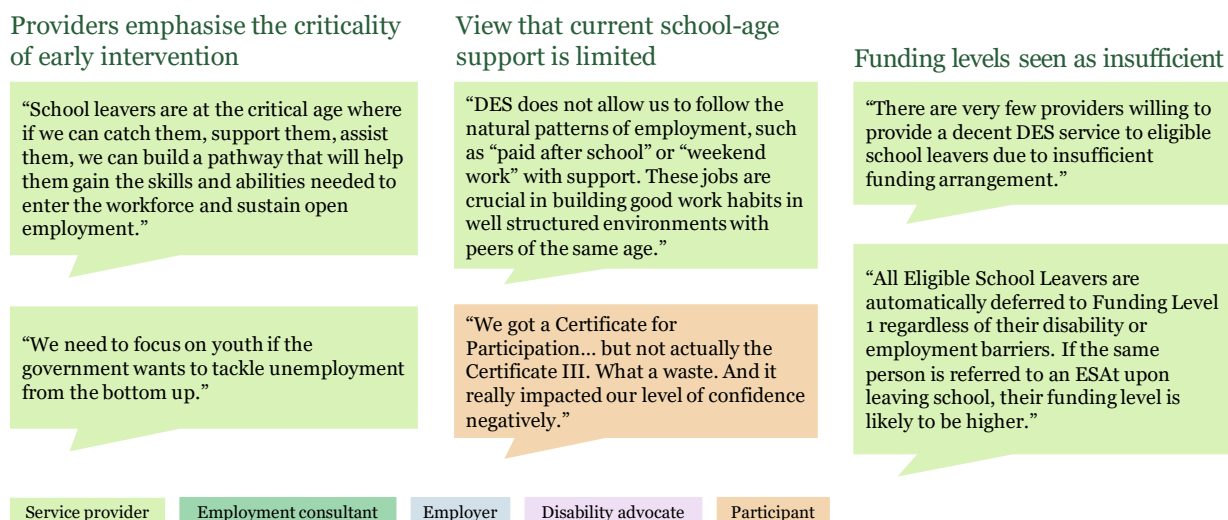
- Eligibility is limited to:
 - Final year students, preventing other school aged participants from building work capacity and skills,
 - People with severe disabilities, preventing people with other disabilities from benefitting from early intervention;
- Lack of coordination and collaboration between DES providers and stakeholders, including school councillors, teachers, and NDIS' School Leaver Employment Support (SLES) program;

¹⁴ ESL eligibility includes full-time students in their final year of school or earlier if undertaking an Australian School Based Apprenticeship and Traineeship (ASBAT)

- The risk-adjusted funding tool defaults to lower funding levels for ESL participants (due to age and short time unemployed), some providers suggest this is inconsistent with the severity of disability of this cohort.

A two-year School Leaver Trial to support students with less severe disabilities who are ineligible under the existing scheme has not proceeded as it did not receive ethics approval.

Exhibit 57. Providers expressed concerns around the current form of support for school leavers



Source: DES Review research engagements, BCG analysis

5.5. Interactions with other disability & employment programs

Australia has a complex landscape of disability and employment support programs that target a wide range of possible individual situations and contexts and are operated in parallel by multiple agencies. DES shares a focus on achieving employment outcomes with jobactive, and on supporting people with a disability with the National Disability Insurance Scheme (NDIS). Significant integration issues exist with both these programs, including:

- Lack of coordinated design between jobactive and DES, leading to the step-changes in incentives across both programs that have driven volume flows in recent years (see Chapter 2). In addition, tensions exist across other aspects of system design, including complicated process flows for participants and duplicated overhead burden for providers;
- Lack of clear pathways, information sharing, and integration of services with the NDIS, and (again) duplicated overhead burdens.

5.5.1. Commonwealth disability and employment supports

Exhibit 65 presents an overview of employment and disability support services provided by the Commonwealth, including programs offered by the Department of Social Services (DES and the NDIS), the Department of Education, Skills, and Employment (jobactive), and the National Indigenous Australians Agency (NIAA) (the Community Development Program, which replaces DES in remote regions). In addition to these flagship programs, a suite of supplements, subsidies, and other supports are available. The full complexity of the support landscape extends beyond the Commonwealth, to include State and Territory and non-government programs.

Jobactive, as the mainstream employment services program, and the NDIS, as the principal support for people with a permanent and significant disability, are of particular relevance to DES. There is substantial variation in design, goals, and management approach across these programs, and a lack of integration and clear pathways for participants.

Exhibit 58. The landscape of Commonwealth employment and disability supports spans DSS, DESE, and other programs (listing shown is not comprehensive)

	DSS portfolio			DESE ¹⁵					Other	
	DES	Employment Assistance Fund	NDIS	Wage Subsidy programs	Various DESE youth programs	National Disability Coordination Officer Program	Higher Ed Disability Support	jobactive	Community Development Program	Social enterprises including ADEs
Summary	Provides employment support where disability the main barrier to work	Provides financial support for people with a disability & employers to buy work related modifications, equipment, Auslan services & workplace assistance	Supports people with a disability live an ordinary life by funding reasonable & necessary supports. Focuses on early intervention	Wage subsidy programs for target cohorts including mature age, young person, Indigenous, Parent, Long-term unemployed, Apprentice, disability	Provides youth targeted programs including PaTH Internships, Transition to Work & National Work Experience Programme	Officers work strategically to assist people with a disability transition & link across education, employment services & disability program providers	Provides funding to higher ed providers to removing barriers to access for people with a disability	Mainstream employment service with limited support in the workplace. Includes programs such as Work for the Dole	Employment services for remote areas are covered by CDP, administered by NIAA	ADEs provide sheltered employment for those with moderate to severe disability to develop training & experience
Scope	Support to help find & keep a job	Financial support for mod, equipment & services	Funding for individual plans; ILC grants for organisations	Financial incentive for employers	Support to enter workforce	Improve linkages & transitions	Funding to higher ed providers	Support to help find & keep a job	Support to help find & keep a job	Sheltered employment opportunities
Eligibility	>8 hours/ week work capacity	In a job for >8hours/week for >13 weeks	Permanent & significant disability	Various	Australians aged 15-24	Working age people with a disability	Higher ed students with disability	On income support or volunteer	Live in remote area	Moderate to severe disability
Cost (2019-20)	\$1.2b	\$11.7m	\$1.79b (ILC)	\$377.5m		\$4.4m	\$7.7m	\$1.4b	\$360m	ADEs: \$220m, (\$96m to NDIS)

Deep dive in Exhibit 67

Employment
Disability
Both

¹⁵ Other DESE employment programs include ParentsNext, TimeToWork and Transition to Work.

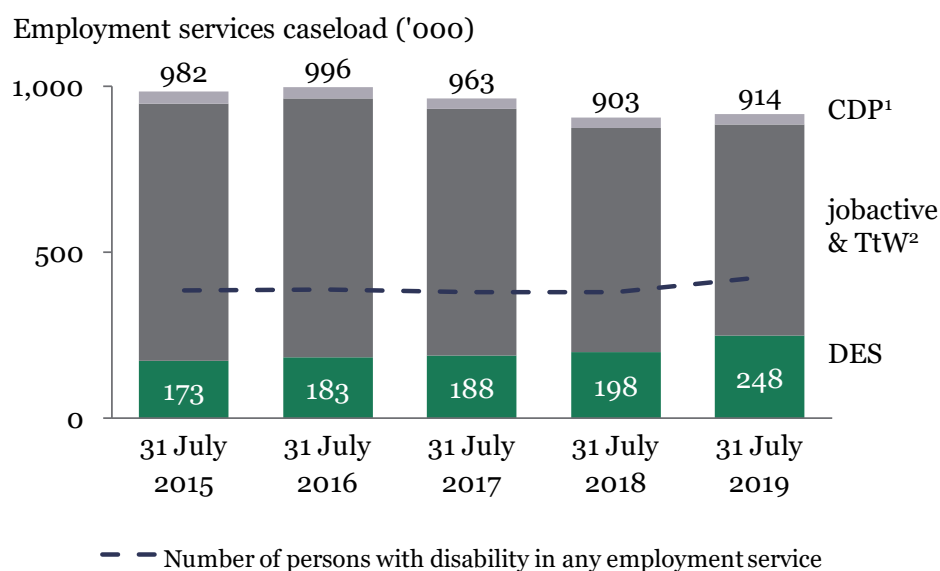
5.5.2. Challenges across jobactive and DES

DES and jobactive operate with similar policy goals (improving individual employment outcomes), and with a similar fundamental design (incentivising a network of third-party providers that liaise between participants and employers). In some aspects there is explicit overlap:

- Around 30 per cent of DES providers are also jobactive providers;
- Individuals with a disability are present in large numbers within DES (all participants) and jobactive (almost a quarter of participants describe themselves as having a disability, see Appendix A) (Exhibit 66).

Participation in DES requires disability to be the primary barrier to employment. However, jobactive participants may face multiple other, potentially more severe non-vocational barriers (e.g. homelessness).

Exhibit 66. Individuals with a disability are present in large numbers in both DES and jobactive



1. Community Development Programme 2. Transition to Work
Source: DESE analysis for DES

There are also substantial variations across the programs, both in their current form and in expected changes in the near-to-medium term, including:

- **Structure.** The DES market is less restricted, jobactive continues to impose referral market caps, restrict participant choice, and typically has more onerous mutual obligations. In addition, legal structures differ across the programs: DES operates under a Grant Agreement which terminates in mid-2023, and jobactive under contracts applied under the jobactive Deed (expiring in 2022);
- **Service model.** Under the New Employment Services Model, jobactive is shifting to a predominantly digital service model for Stream A participants, among other changes;

- **Segmentation.** In jobactive, length of unemployment is a key driver of the variation in funding available for participants, while DES applies risk-adjusted funding levels. Other variations include a greater eligibility for education outcomes in DES.

Appendix A summarises the differences between the programs in more detail. The absence of a shared decision-making function across the programs is a notable issue and a contributor to several points of tension identified in this Review, including:

- **Failure to coordinate incentive design.** As discussed in Chapter 2, differences in incentive design – including funding level structures, service fee levels, and eligibility for education outcomes – are likely contributors to the unanticipated increase in caseload and volume following the 2018 reforms, particularly in 2019-20. Unexpected outcomes of a similar magnitude can be expected as long as the existing separate management approach remains.
- **Inconsistency in program access.** Eligibility for programs affiliated with DES or jobactive varies widely. An overview of this variation across wage subsidy programs is shown in Exhibit 67.
- **Duplicated compliance burden.** In addition to the compliance burden discussed in Section 5.1, providers active in both jobactive and DES must comply with dual sets of compliance requirements (note that, depending on their activities, providers may also need to comply with the NDIS, Registered Training Organisation, and other requirements).
- **Lack of clear boundaries.** There is significant overlap in participant profiles across the programs, including the extent and nature of barriers to employment, creating confusion for participants and providers.
- **Diminished brand.** While the jobactive caseload is typically two-to-three times larger than the DES caseload, the effect of dividing the programs is to reduce the visibility of both programs to employers.
- **Inconsistent approach.** An oddity of the cross-program design is that the nominally more vulnerable cohort in the DES program is subject to a less constrained market than jobactive (including more active participant recruitment, advertising, etc.).

These tensions are problematic, particularly at a time when employment and job creation is a priority concern. Chapter 7 discusses change opportunities.

Exhibit 59. Employment program support is not consistently available for DES participants

	Wage Subsidies ¹⁶						Various youth programs	Tailored Assistance Employment Grants
	Wage subsidy scheme	Wage start subsidy	Restart	Youth/Youth Bonus	Parents	Long-term unemployed & Indigenous	Youth Jobs PaTH	
Summary	Give eligible jobseekers an opportunity to demonstrate their suitability for ongoing employment	Incentivise hiring of DES participants who are LT unemployed or offered ongoing employment after a Youth PaTH internship	Incentivise employment of jobseekers over 50 years old	Incentivise hiring of young people	Incentivise hiring Parents	Incentivise hiring long-term unemployed jobseekers	Support businesses to trial a young person in an internship, to see if they are the right fit	Connect Aboriginal & Torres Strait Islander peoples with sustainable jobs through funding employment, school based traineeships & cadetships
Eligibility	DES participant; other eligibility requirements depending on circumstance	DES participant not older than 50 years	50 years of age and over, VOEST, ¹⁷ DES and CDP participants also eligible	Youth Bonus—15 to 24 years of age Youth—25 to 29 years of age	Principal carer parent of any age commenced with a jobactive or Transition to Work provider	jobactive/Transition to Work participant receiving employment services > 12 months (6 months for Aboriginal & Torres Strait Islander peoples)	Young person aged 15–24	Unemployed Aboriginal & Torres Strait Islander jobseekers in jobactive, CDP or DES; youth
Subsidy available	Up to \$1,650	Up to \$6,000	Up to \$10,000	Up to \$10,000 or \$6,500	Up to \$6,500	Up to \$6,500	\$1,000	
Department	DSS (DES)	DSS (DES)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	NIAA
DES participants eligible?	✓	✓	✓				✓	✓

¹⁶ Participants can only attract one wage subsidy at any given time

¹⁷ Volunteer Online employment Services Trial

Source: JobAccess; DESE; Managing Wage Subsidies Guideline

5.5.3. Challenges across the NDIS and DES

While the NDIS is not, in general, intended to function as an employment service, one of the founding goals was to improve the economic participation of people with a disability. The NDIS does provide enabling supports for employment, such as:

- Personal care for those who need help at work due to their disability;
- Workplace aids and equipment such as wheelchairs and hearing aids;
- Transition-to-work support, including travel training and basic work skills.

The NDIS operates at a substantially larger scale than DES, with responsibility for over \$20b in spend annually. There is a small overlap of participants between the NDIS and DES: in 2018 5,800 participants were on both programs (3 per cent DES participants at the time), partly because as a population, NDIS participants are younger and have more severe disabilities. Research and stakeholder engagement identified several cross-program coordination challenges (Exhibit 68), including:

- For participants:
 - No defined pathway between the two programs: DES participants are referred via Services Australia or directly from a service provider, and similarly no pathway exists for DES participants to access NDIS funding, if eligible;
 - Limited data-sharing: NDIS participants are subject to the same full ESAt process and requirements to provide evidence of disability;
 - Lack of coordination between NDIS and DES initiatives: such as the NDIS SLES and DES Eligible School Leaver programs, both of which target young people in the transition from school to work.
- For employers and providers:
 - Many providers are unclear whether they can participate in both schemes, and how the two funding arrangements work together (e.g. funding for workplace supports);
 - Providers who are active in both schemes face a dual compliance burden, with parallel service delivery standards;
 - Employers find dealing with multiple programs confusing and unwieldy.

Exhibit 68. The limited integration between NDIS and DES can cause confusion

Perceived lack of clarity regarding how DES and the NDIS work together...

"A client can have NDIS and DES services, and both never actually have to talk with one another. There is no requirement for an NDIS company to link in with a DES service. [There is only cross over] when it is the company's goal to increase market share or the NDIS service wants to get more clients on their books."

"In a lot of instances participants are not eligible for NDIS funding. NDIS don't understand what DES is, and I have found it close to impossible to assist job seekers to gain information on how to access the NDIS. "

...and perceived points of confusion across the programs

"There is still confusion and misunderstanding between DES and the NDIS... the failure to see employment in NDIS plans is still shameful. The lack of support between LACs and DES providers and unwillingness of certain LACs to even enter into discussions with DES providers is unwarranted. "

"Having more than one service in a workplace implementing support is not always viable and employers/participants do not understand that DES funding is not the same as NDIS funding."

"There is overlap with NDIS and not a great understanding of how both areas of funding could work together to support PWD into and sustain quality employment outcomes. "

Service provider Employment consultant Employer Disability advocate Participant









Source: DES Review research engagements, BCG analysis

Part III: Review recommendations

Part III presents the Review's recommendations for addressing the pain points and challenges identified in Part II:

- Chapter 6: ^{s42} [REDACTED] This is a critical consideration in any proposed timeline of change;
- Chapter 7: Recommendations and change opportunities that can be enacted at government's discretion, and are therefore possible in the short-to-medium term;
- Chapter 8: Opportunities that require a longer timeline to enact;
- Chapter 9: Proposed implementation plan.

To guide and prioritise the identification and assessment of change and reform opportunities, a set of eight overarching principles for change have been identified:

-  **1. Create meaningful employment for job seekers.** DES must focus on overcoming barriers to employment for people with a disability, supporting employment outcomes that take full advantage of each individual's skills and capabilities.
-  **2. Build a valuable service for employers.** DES must be able to work effectively with employers, focusing on their needs, and flexibly adapting to their contexts.
-  **3. Create an effective provider market.** So long as DES takes a market-based approach, that market must be viable, effective, and efficient. There must be a fundamental expectation that providers take on business risk, in exchange for reward for good performance.
-  **4. Drive simplicity.** Any further program changes must represent a net reduction in complexity for jobseekers, providers, employers, and government.
-  **5. Allow both control and flexibility.** In overseeing the market, the Government must be equipped and able to continue to optimise program design and avoid the risk of 'regulatory micro-management'.
-  **6. Increase coherence and integration.** The design of the DES program must account for the context of the broader disability and employment support ecosystem.
-  **7. Deliver value for money.** Program outcomes must be delivered on a sustainable and efficient cost base, with a reasonable return on investment in terms of outcomes achieved for the given amount of spend.
-  **8. Ensure an achievable spectrum of options.** Reform and change options should span the spectrum from evolutionary to revolutionary.

6. Constraints on program change

The DES Grant Agreement nominally gives the Department powers to vary payment and incentive structures, and to exercise various other controls over program activity. s42

s42



The Review's recommendations assume the Department does not wish to undertake any of the above actions. Rather, the Review assumes that:

- Changes in Category 1 will be undertaken before the expiry of the current Grant Agreement on 30 June 2023. Such changes are discussed in Chapter 7 (along with options that would sit in Category 2 above, but where provider agreement can be expected);
- Changes in Category 2 and 3 may be made upon termination of the current Grant Agreement, requiring a reform process that commences consultation well in advance of mid-2023. Such changes are discussed in Chapter 8.

s42



Table 2. Changes to DES program design can be grouped into three legal categories.

1. Possible at Department or Government's discretion	2. DSS entitled within Grant, but the Act necessitates provider consent	3. DSS not entitled within the Grant
<ul style="list-style-type: none"> • Updates fee rates for inflation • Minor rule adjustments • Changes to DES eligibility and referral volumes • Changes to the type of education course funded • Changes to compliance and administrative processes • Changes to operational rules, provided these changes to not contravene the Grant Agreement. For example, changes to star ratings design, Department systems and process (including analytics), ESA entry/exit • Recalibration of the risk- adjusted funding tool 	<ul style="list-style-type: none"> • Changes to fee rates (excluding inflation) • Removal of payment categories (e.g. education outcomes) • Removing scope from the agreement 	<ul style="list-style-type: none"> • Fundamental changes to funding structure (e.g. education as a bonus payment) • Fundamental changes to the services provided by providers • Change to ESA structure

7. Opportunities within the current legislative arrangements

Chapter 7 identifies opportunities for change that are judged to be within the Department's discretion given the constraints imposed by the current Grant Agreement and legislation, and that consequently could be achieved within the short-to-medium term.

DES currently operates on a market-based model, where third-party providers are incentivised to provide services and deliver outcomes for participants. For this approach to succeed, key aspects of the way the market is designed must change. These spans:

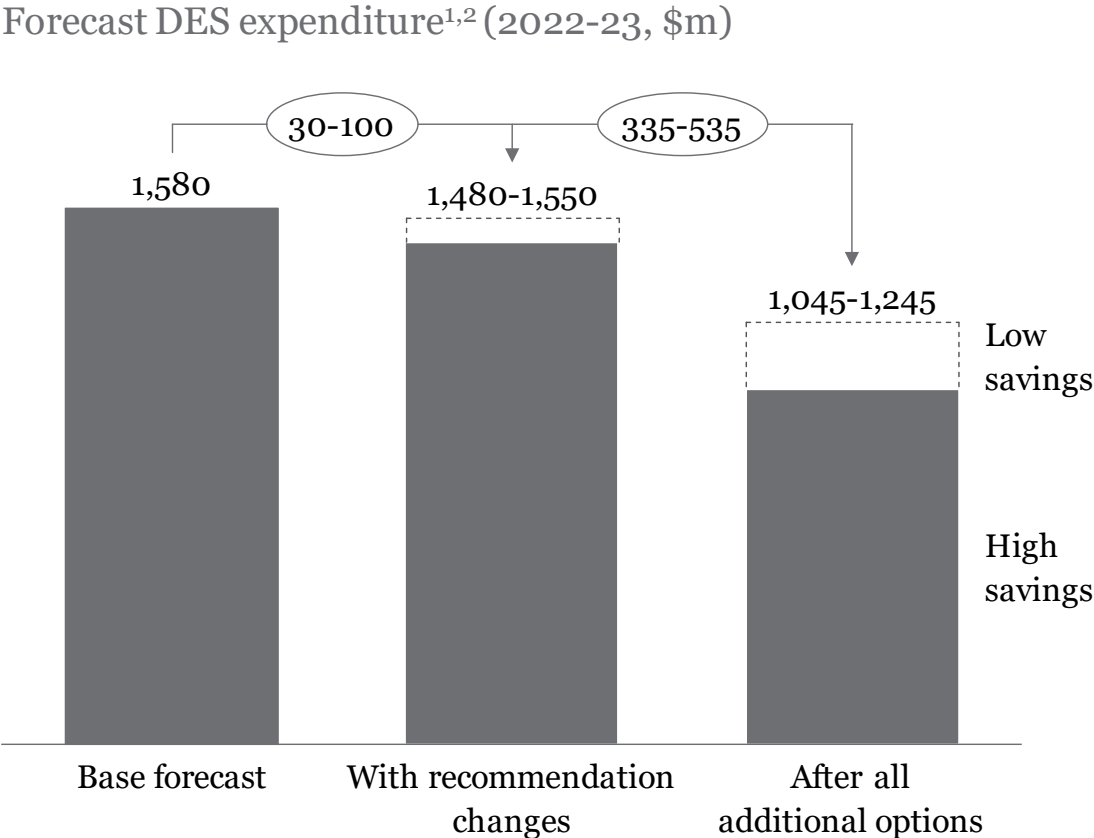
1. **Improving cohort targeting.** The DES program should focus support on cohorts where it will have the most impact compared to baseline employment outcome rates. It is recommended that the Department restrict volunteer eligibility to recipients of income support and to NDIS participants. A range of additional eligibility changes for the Government to consider include changes to eligibility based on age, ESA results (e.g. work capacity) or JSCI score, and prior DES experience.
2. **Re-aligning incentives to enhance employment outcomes.** The capacity of the DES market to respond to incentives has been demonstrated in the post-reform period. Incentive redesign needs to consider three dimensions: re-balancing towards employment outcomes by requiring participants pass a course with a work placement component to realise an education outcome payment, and changing processes so that participants remain in the DES program after achieving an education outcome. The Department should also commit to a regular rhythm for updating the risk-adjusted funding tool.
3. **Improving program management with better-informed decision-making and oversight.** Participants, providers, and the Department need access to better information to make effective decisions. This starts with developing a performance management framework for providers and using this to actively remove underperforming providers (per relevant provisions in the Grant Agreement). Further, for participants to meaningfully exercise choice, the Department should change how star ratings are calculated, and how information on performance is communicated to participants. The Department should expand its data collection, reporting, and analytics capabilities.
4. **Smoothing provider ability to enter and exit the market.** Increase the effectiveness of competition by easing provider entry and exit from ESAs in between DES Panel Refresh processes.
5. **Encouraging flexibility and innovation in support models.** The restrictions on face-to-face servicing, which were relaxed as a result of COVID-19, should be relaxed to allow for greater digital innovation in service models and remove barriers to participant choice.
6. **Enhancing provider productivity.** Optimising compliance and reducing the administrative burden to increase the time providers can dedicated to directly assisting program participants.
7. **Unlocking employer demand.** Currently the program focuses on participants and providers. However, this is only one part of the supply and demand picture. There is opportunity to unlock additional demand from employers.

Chapter 8 considers these market design pre-requisites in more detail and their impact over the longer term. Chapter 9 details the proposed implementation approach and timeline.

These recommended changes to the design of the DES market are interconnected and cumulative in their effects (e.g. changes to performance management will impact providers' ability to enter and exit). These changes will support the program to function more effectively, where providers are incentivised to achieve employment outcomes for participants, and provide a quality service.

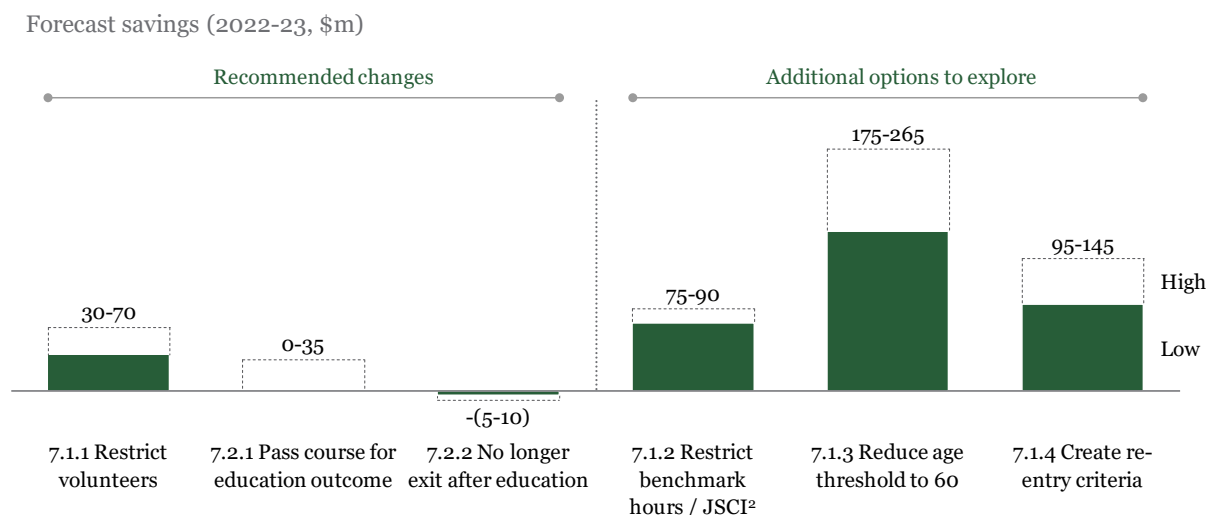
Analysis estimates that improving cohort targeting and re-aligning provider incentives could reduce program spend by an estimated \$30m-\$100m to \$1,480m-\$1,550m. Implementing additional change options explored in Section 7.1 would reduce expenditure further to \$1,045m-\$1,245m, however these changes involve significant trade-offs and require policy decisions by Government (Exhibit 69). The savings for each recommendation and for additional change options are summarised in Exhibit 70. Note that measures are not interdependent, and do not require implementation as a combined package.

Exhibit 60. Recommended changes reduce costs by \$30m-\$100m in 2022-23, options are available for further savings



1. Calculated based on forecast spend in 2022-23 2. Savings accounts for overlap between changes (as per footnote 1); Note: Estimates rounded to nearest \$5m; Source: DSS, BCG analysis

Exhibit 61. Summary of savings from recommendations and potential change options



1. Savings calculated for each savings opportunity independently 2. Calculated based on forecast spend in 2022-23
 Note: Estimates rounded to nearest \$5m
 Source: DSS, BCG analysis

7.1. Improve cohort targeting

As outlined in Chapter 2, DES program caseload has increased by 46 per cent since the 2018 reforms, and this has been the primary cause of the subsequent cost increases. The deterioration in outcome rates (Exhibit 20) indicates that the additional participants may not be benefiting from the program. As such, the Department should consider whether there are opportunities to improve cohort targeting in the DES program.

The Review recommends that DES focuses on providing support where it will have the greatest impact, in terms of increasing in employment outcomes for people with a disability relative to 'baseline', and the society-wide benefits created by employment.

The Review has identified four options to explore further, to improve cohort targeting:

- 1. Restrict eligibility for voluntary participants to recipients on income support and NDIS participants**, in order to focus on the most vulnerable participants. This would save approximately \$40m-\$70m for DES in 2022-23, depending on the overlap between voluntary participants not receiving income support and NDIS participants (Section 7.1.1).
- 2. Review whether DES is suitable for high-capacity-to-work participants**, and focus resources on participants who benefit most from specialist disability employment services. For example, participants with a high capacity to work (e.g. benchmark hours above 30, or a lower JSCI) may be better served by providers with connections to a broader range of employers. For reference, setting a maximum of 30 benchmark hours or a maximum JSCI score **\$47E** would also result in approximately \$75m-\$90m savings for DES in 2022-23 (Section 7.1.2).
- 3. Consider adjusting service model for different age groups to focus on cohorts most likely to benefit from DES**, including increasing engagement with school-aged participants, and potentially limiting eligibility to under 60s. Lowering the age limit would result in approximately \$175m-\$265m savings for DES, which could be repurposed to

provide more proactive support for young people where early intervention can reduce risk of long-term unemployment and reliance on income support (Section 7.1.3). However, such a change would require careful consideration of how DES eligibility interacts with other policies, including DSP and other income supports.

4. **Consider introducing stricter criteria for re-entry into DES** to confirm that DES is the most appropriate support model for the participant when the first period of service does not result in a long-term employment outcome. For example, reducing re-entries into DES by 20 per cent would result in approximately \$95m-\$145m in savings for DES in 2022-23 (Section 7.1.4).

Each of these options can be implemented within the existing Grant Agreement. However, they all represent significant trade-offs in terms of achieving the appropriate balance of program access. In addition, there is an expectation from Government that participants with mutual obligations or compulsory participation requirements are actively looking for work, and are being supported to do so.

Note that participants who lose eligibility to participate in DES would most likely move into jobactive. DES cost savings would be offset, in part, by a higher jobactive spend, although jobactive has a substantially lower cost to Government per participant).

It is also noted that all of these changes in aggregate could substantially impact market dynamics given the large decrease in overall DES expenditure.

The Review considered but rejected options to restrict eligibility by disability type, and by length of unemployment because clear policy justification to support either of these options did not emerge.

Further information on Recommendation 1 to Recommendation 6 is included in the following sections. Refer to Chapter 9 for the implementation roadmap.

Recommendation 1. As a general principle, DES should target cohorts where the impact of assistance (compared to baseline outcomes) will be greatest, and seek maximum possible benefit for every dollar spent. Recommendation 18 to Recommendation 22 will help guide the application of this principle.

Recommendation 2. The Department should restrict DES eligibility for voluntary participants to income support recipients and NDIS participants.

Recommendation 3. The Department should explore whether there are high-capacity-to-work cohorts within DES who would be better served by jobactive (e.g. participants with more than 30 benchmark hours, or a lower JSCI score).

Recommendation 4. The Department should explore reducing the DES age cut-off to 60, and improving alignment with participation requirements for this segment. Alternatively, the Department could explore an alternative service model for this segment.

Recommendation 5. The Department should explore ways to increase the engagement of DES with school-aged participants.

Recommendation 6. The Department should consider introducing additional criteria for re-entry into DES (beyond the ESAt) to ensure DES is the best program to support participants who do not achieve an outcome through DES initially.

7.1.1. Volunteers

Voluntary participants were a major contributor to the volume increase following the 2018 reforms, as per Chapter 2, and constituted approximately 19 per cent of the DES caseload as at 31 May 2020.²¹

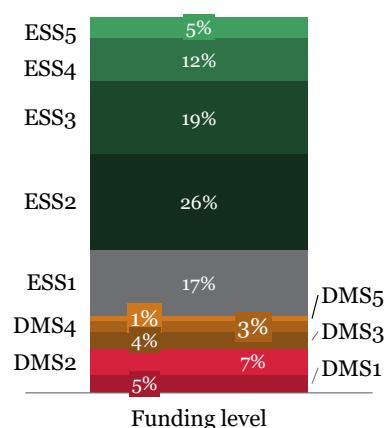
As shown in Exhibit 71, volunteers are far more likely to:

- Be placed into lower funding levels;
- Receive DSP;
- Not receive any income support. For example, participants who do not qualify for income support due to their partners' income.

Exhibit 62. Volunteers are likely to be classified into lower funding levels, to not receive income support, and to receive DSP

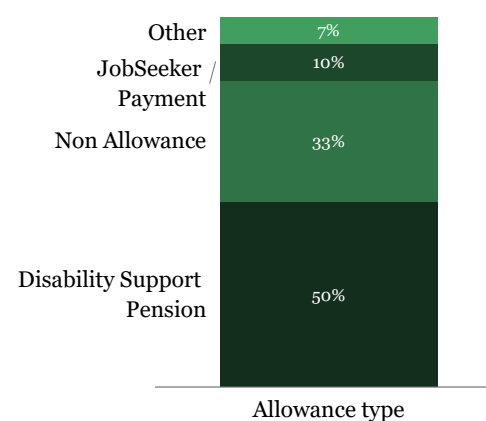
Volunteers are skewed to lower funding levels

Volunteers in caseload (%)



Volunteers most likely to receive DSP or not receive income support

Volunteers in caseload (%)



Source: DSS, BCG analysis

Restricting volunteer eligibility would allow DES to focus resources on activity tested participants who are receiving income support, and on NDIS participants.

This Review considered three options:

1. Removing DES eligibility for all volunteers;
2. Limiting volunteer eligibility to DSP recipients and other priority allowees (e.g. recipients of parenting payments);
3. Limiting volunteer eligibility as per Option 2, and allowing NDIS participants with a job component to their plan to volunteer for DES.

Option 3 is recommended because it:

²¹ DES Monthly Report – May 2020

- Focusses DES on achieving employment outcomes for income support recipients, which creates greater value for government;
- Enables the NDIS program to realise the employment benefits underpinning the NDIS aims.

Potential savings from Option 3 are estimated at \$40m-\$70m in 2022-23. These estimates are uncertain because the number of NDIS participants who participant in DES as non-allowees is unknown. This estimate assumes that between zero and 15 per cent of volunteers are NDIS participants not receiving an allowance.

The latter assumption is based on:

- Approximately 5 per cent of NDIS participants also participate in the DES program;²²
- Approximately 60 per cent of these participants receive the DSP;²³
- All NDIS participants not receiving DSP are non-allowee voluntary participants (this assumption is likely to be conservative);
- 364,879 participants in the NDIS as at 31 March 2020.²⁴

7.1.2. High capacity to work

As discussed in Section 5.3, the ESAt process is important in deciding who is eligible for DES based on whether a disability is their primary barrier to employment. The ESAt also determines their recommended potential work capacity. However, ESAt assessment does not inherently decide whether a participant is best served by DES or by jobactive. For example, participants with a high capacity to work (e.g. benchmark hours above 30) or with a lower JSCI, may be better served by a mainstream employment service with greater focus on mainstream employers looking for full-time employees.

The Department should explore whether there are cohorts within DES who would be better served by jobactive.

For reference, participants with benchmark hours over 30 represent 5 per cent of caseload. They achieve marginally better outcome rates than most other cohorts (Exhibit 72). The fact that outcome rates are not substantially higher may indicate this cohort is not well served by DES.

It is noted that while participants with eight benchmark hours have the highest outcome rate, interviews with providers suggests this is because it is comparatively easier to find a role for eight hours per week than it is to find a role for over 30 hours per week. Furthermore, participants with eight benchmark hours typically have a higher funding level, creating an incentive for providers to put more effort into this cohort.

Similarly, participants with a JSCI score s47E represent 7 per cent of caseload (Exhibit 73).

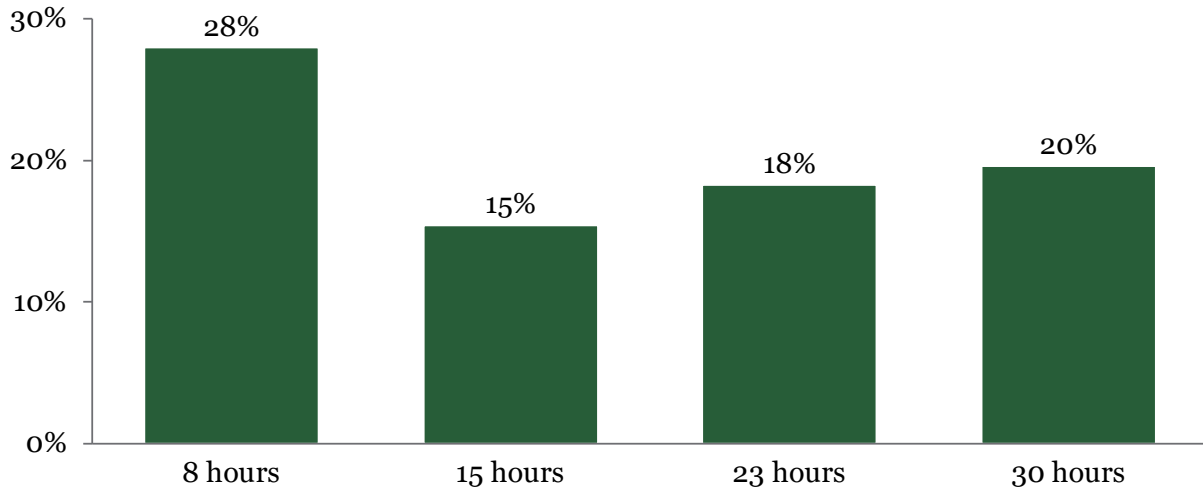
²² Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

²³ Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

²⁴ NDIS data downloads 'NDIS_PB Active Plan Participant Mar 2020'

Exhibit 63. Probability of achieving a 4-week outcome within 12 months is highest for participants with a benchmark of 8 hours/week

Probability of achieving a 4 week outcome within 12 months



Source: DSS, BCG analysis

s47E



Further investigation is needed to determine whether such a change is appropriate, or whether more nuanced restrictions should be applied. This is particularly important given

restricting eligibility simply by lowering benchmark hours will involve a trade-off in who can access DES. The segments impacted most by limiting benchmark hours to 30 are:²⁵

- Participants with a psychological or physical disability, who each make up over 40 per cent of participants in this cohort;
- JobSeeker recipients or non-allowees, who make up 69 per cent, and 23 per cent of this cohort respectively;
- Participants with a hearing, vision or speech impediment, who are overrepresented in this cohort by 40 to 100 per cent compared to their presence in the general DES caseload.

The least impacted segments are DSP recipients and participants with autism, intellectual disability or an acquired brain injury. There are low numbers of each of these segments with benchmark hours above 30.

For reference, placing participants into jobactive with either an assessed capacity of over 30 hours or participants with a JSCI score s47E or less would reduce DES expenditure by \$75m-\$90m in 2022-23. This saving would be offset to a degree by an increase in jobactive expenditure.

7.1.3. Age

Participants over 60 years of age make up over 17 per cent of the DES caseload (Exhibit 3). However, their outcome rates are far below those of other cohorts at 11 per cent for those aged 60-64 and 3 per cent for those aged over 65 (Exhibit 74). Expenditure on participants over 60 years of age is expected to total \$175m-\$265m in 2022-23.²⁶

By comparison, participants under 24 constitute 15 per cent of DES caseload and have higher outcome rates. For example, the probability of achieving a 4-week employment outcome within 12 months is 23 per cent for participants under 21 years of age and 21 per cent for participants 21-24 years of age. So far, COVID-19 has particularly impacted youth unemployment rates, due to the disproportionate effect on industries such as hospitality.²⁷

With the data currently available to the Department, it is not possible to observe the extent to which outcomes for participants at either end of the age spectrum represent an improvement over baseline. However, as discussed in Section 5.4, early employment experiences for people with a disability are likely to produce disproportionate benefits, such as reduced risk of ongoing long-term unemployment, reduced mental health issues, and lower dependence on income support.

However, the option of eliminating eligibility for job seekers over 60 years of age would need to be very carefully considered. Sensitivities include:

- JobSeeker recipients over 60 continue to have participation requirements, although these are less onerous than for other cohorts: the activity test requirement is only 10 hours per fortnight for over 60s, compared to 30 hours per fortnight for over 50s, and 50 hours per fortnight for under 50s. Furthermore, for over 60s this requirement can be met in full by approved voluntary work. Nonetheless, a reduction in support for finding employment (and in meeting participation requirements) may be considered unjust

²⁵ DSS DES Data, BCG analysis

²⁶ DSS DES Data, BCG analysis

²⁷ ABS unemployment rate 15-24 year olds (seasonally adjusted) May 2020

without, for example, offsetting increases in income support or further reductions in participation requirements;

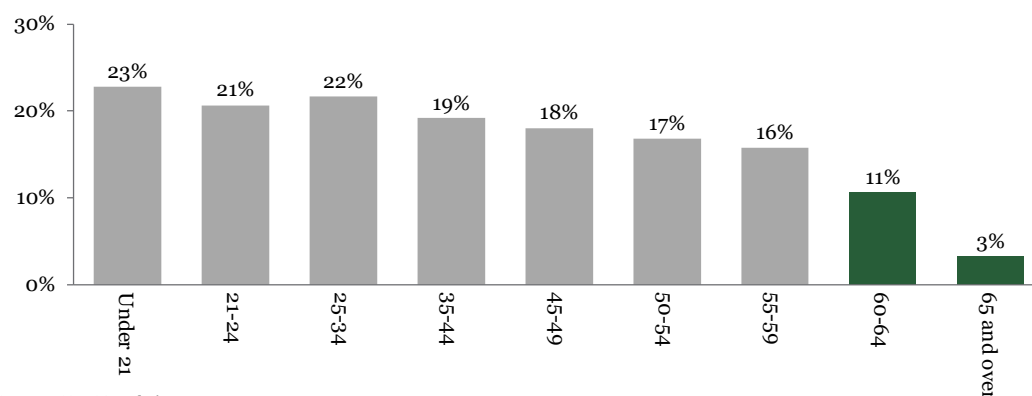
- Eligibility for DSP in some cases has a pre-condition of undertaking a Program of Support, such as DES. Consequently, removing eligibility for DES may increase the barrier for DSP access;
- Legal advice should be sought on whether such a change would contravene the Age Discrimination Act (noting that Section 41A of the Act includes specific exemptions for employment programs).

With these sensitivities in mind, it is recommended that the Department explore reducing the DES age threshold to 60 and improving alignment with participation requirements for this segment. Alternatively, the Department could explore an alternative service model for this segment, which may include, for example, further reductions in participation requirements, or alterations to the provider incentive payment structure.

It is also recommended that the Department explore options to increase engagement with school-age participants, particularly to support the transition from school to unemployment. This intervention should be designed to complement the efforts of the NDIS.

Exhibit 65. Over 60s make up 17 per cent of DES caseload. However, they have far lower outcome rates than other cohorts

Probability of achieving a 4 week outcome within 12 months



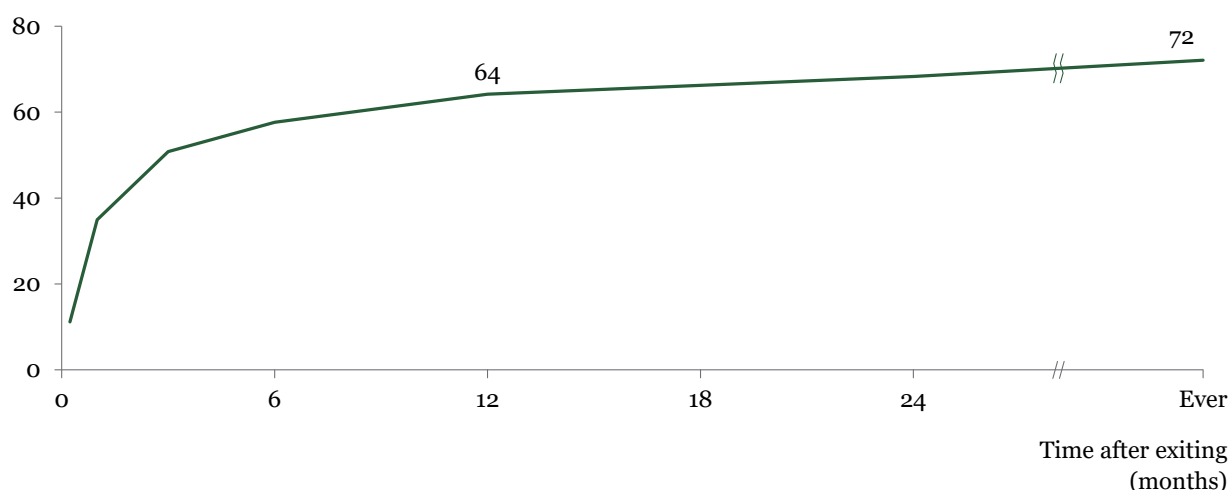
Source: DSS, BCG analysis

7.1.4. Re-entry criteria

Over 72 per cent of participants who complete 24 months in the DES Employment Assistance Phase return to the DES program at some point for an additional period of service, of which 64 per cent occur within 12 months (Exhibit 75).

Exhibit 66. 72 per cent of participants who exit DES after 24 months in Employment Assistance return to DES

Re-entries to DES after 24 months in Employment Assistance (%)



Source: Analysis by DSS DES Branch in 2019

The Department should ensure that participants who re-enter the DES program will benefit from a second period of service and that the DES program is the best support available for the participant.

Where the participant's first period of service did not result in a long-term employment outcome, the DES program may not be the most appropriate support model. The Department should have confidence that a subsequent period of service is the best support for the participant and will provide value for money to government.

The Department should consider introducing additional criteria for re-entry into the DES program to confirm that the participant will benefit from a second period of service.

This approach could reduce program expenditure and potentially improve the quality of service DES provides in other areas. For example, reducing re-entries into the DES program by 15-25 per cent by participants who exited after 24 months in Employment Assistance would result in savings for DES in 2022 of \$95m-\$145m.

7.2. Re-align incentives to enhance employment outcomes

For the DES program to succeed, incentives offered to DES providers must align with policy goals. The following sections discuss near-term options for:

- Increasing the efficacy and efficiency of education outcomes by restructuring incentives (Section 7.2.1);
- Recalibrating the risk-adjusted funding tool (Section 7.2.2).

7.2.1. Improving the approach to education outcomes

The 2018 reforms significantly expanded access to education payments. Providers responded strongly to this incentive, with a resulting increase in expenditure on education outcomes of over \$100m. However, the extent of encouragement of education outcomes is not aligned with the DES policy objective of improving employment for people with a disability.

As discussed in Section 4.1, there is limited evidence that:

- Participants are attaining the certification for the courses they complete;
- Participants are being enrolled in courses which relate to their employment prospects;
- The benefits of education outcome payments exceed their costs, or that alternative policy mechanisms would not be more effective.

In the short term, it is recommended that the Department:

- Require participants to complete their course for the provider to obtain a 26-week outcome;
- Restrict the course types funded by DES to those with a work placement component.

These changes could potentially represent between very low (depending on market responses) to up to \$35m in savings annually by 2022-23 (note there would be some impact on provider business models; see Exhibit 76). However, this amount is uncertain and will depend on:

- The proportion of participants not achieving their course outcome but receiving an education payment;
- The degree of course substitution, where education outcome volumes shift from ineligible courses to eligible courses.

Alternatives such as restricting course eligibility to specific industries based on skills shortages were also considered, for example, restricting courses to in-person, or restricting courses in retail, tourism or hospitality during the COVID-19 period.

However, the Review does not recommend these alternatives. Select reasons for this include:

- General skills shortages are unlikely to correlate with most likely areas for participants to gain employment;
- Restrictions based on a list of courses will create a high administrative burden;
- Online courses may improve accessibility for participants;
- Savings are unlikely to materialise because providers may shift enrolments to other courses. While this could be addressed by creating a restrictive list of courses, there is limited policy rationale for this.

Simultaneously, other elements of program design – such as participants exiting the program by default on completion of an education outcome, rather than continuing to be supported into employment outcomes – seem to counter-act the intended effect of education outcomes.

It is recommended that the Grant Agreement is changed so that:

- Participants remain within the DES program, with their existing provider and do not require an additional ESA after achieving an education outcome;
- Participants can achieve a 13-week employment outcome and 26-week employment in the service period after completing an education outcome;
- The time taken to achieve a 26-week education outcome is counted as time in the Employment Assistance phase.

These changes should be made in combination. Providers may support these changes, as they remove some pain points.

Opportunities to further improve the treatment of education outcomes in the next DES Grant Agreement are discussed in Section 8.1.

Recommendation 7. The Department should require participants to complete all course requirements, including any work placement component, and receive the relevant certification before education outcome payments are made to the provider.

Recommendation 8. The Department should restrict the course types funded by DES to those that include a work placement component.

Recommendation 9. The Department should change the Grant Agreement so that participants remain on the DES program and attached to their provider immediately following completion of an education outcome. Time taken to achieve a 26-week outcome should be counted as time in the Employment Assistance phase.

7.2.2. Recalibrating the risk-adjusted funding tool

As discussed in Section 4.4, the intent reflected in the DES Grant Agreement was to recalibrate the risk-adjusted funding tool annually based on actual outcomes earned under the post-reform program and the DES caseload mix at the time. This was intended to address stakeholder concerns raised in Section 4.4, and to better manage costs for the Department. This was committed to publicly in the DES Reform 2018 Industry Information Paper.

The Review recommends that the Department complete the recalibration that is currently underway and recommits publicly to adhere to an annual recalibration cycle.

Recommendation 10. The Department should complete the recalibration of the risk-adjusted funding tool that is currently underway.

Recommendation 11. The Department should recommit, publicly, to a fixed minimum frequency schedule for updates to the risk-adjusted funding tool, with no more than 12 months between updates, and to ensure it is appropriately resourced to carry out such updates on time.

7.2.3. Managing reclassifications

As discussed in Section 3.2, the tendency for participants to be reclassified into higher funding levels over time has made a minor contribution to the overall increase in program spend since the reforms. Currently, the Department applies a 'no downgrade of funding' rule, so that any reassessment cannot result in participants being moved to a lower funding level. This rule may inadvertently incentivise providers to seek funding level reassessments, since there is no financial downside. Some anecdotal suggestions were made in interviews that providers may attempt to deliberately 'game' funding level assessments by manipulating information participant information, but it is unknown whether any such practices occur at non-negligible rates.

The continued drift in funding level composition is contradictory to the intent of the risk-adjusted funding tool, and unsustainable in the long-term. However, optimising the approach to reclassifications is not straightforward. Multiple approaches could be employed, including:

- Removing the ‘no downgrade of funding’ rule. This may have some positive impact, but carries a risk of disincentivising providers from driving for genuine improvements in individual’s circumstances;
- ‘Freezing’ funding levels to where they are assessed at after an initial period of time with a service (for example, six months). This would reduce uncertainty and unintended incentives for providers, but would disadvantage participants who, for reasons beyond their control, experience a deterioration in life circumstances that would otherwise result in their reclassification into a higher funding level;
- In anticipation that funding level classifications tend to drift upwards, deliberately skewing initial classification levels towards lower levels. This may achieve the intended balance, but introduces arbitrariness and uncertainty in the classification of any particular individual.

The Department is currently exploring how best to manage funding levels in an equitable and sustainable fashion going forward. The Review recommends that the work on this topic continue.

Recommendation 12. The Department should continue exploring options for mitigating the tendency of funding level reclassifications to result in an upwards drift in program spend over time.

7.3. Improve program management with informed decision making and oversight

Driving effective program performance is a key goal for the Department. It is recommended that a combination of initiatives be used to ensure market competition is channelled towards effective ends, including:

1. **Managing provider performance.** The Department should actively remove underperforming providers, as per the provisions of the Grant Agreement, through a rigorous performance management framework. This will require the Department to establish an appropriate performance management framework that complements the operations of a competitive market (Section 7.3.1).
2. **Informing participants to meaningfully exercise choice.** For participants to feel they can make an informed decision on their choice of provider, they must have access to information that they understand and find useful. Alongside the new provider performance management framework, this may require changes to how star ratings are calculated, and how information is presented to participants. These measures will provide the right signals on provider performance to the market (Section 7.3.2).
3. **Ensuring effective, informed oversight by the Department.** To manage the DES market effectively, the Department needs sufficient capabilities, data and analytics capabilities, and decision-making speed. This should include expanding data collection and reporting activities, and potentially some increase in resourcing (Recommendation 17).

4. **Delivering accurate and efficient assessments.** ESAts are a critical touchpoint in ensuring DES participants are set up for success, with realistic benchmark hours. To support smooth entry and ongoing participation in the DES program, ESAts should be undertaken by skilled assessors, consider the unique circumstances of each participant, and leverage the full suite of available channels so that appointments are timely and accessible (Section 7.3.4).

7.3.1. Managing performance to increase service quality

Prior to the 2018 reforms, business could be reallocated away from poor performing providers with star ratings consistently below two stars. The assumption was that following the reforms, poor performing providers would be subject to market discipline, reducing the need for active management.

The intended effect of other recommended reforms in this Section is to increase the effectiveness of the market's disciplining function. It is recommended that these measures be supplemented by ongoing active performance management, and that providers who consistently underperform are actively removed, to establish a firm commitment to quality and continuous improvement. Managed carefully, this will ensure:

- Effective market turnover and the expansion of high-performing providers;
- Greater incentives to achieve outcomes.

The performance management framework would support decision making about whether to exit poor performing providers and create incentives to for strong performing, compliant providers. Additional incentives that could be offered to providers include:

- Reduced assurance requirements via Earned Autonomy;
- In-advance agreement of contract extensions (similar to mechanisms used in jobactive);
- Access to 'national licenses' or other more flexible geographic servicing models.

Note, implementation of a new performance management approach should be handled with care. While Section 156 of the Grant Agreement gives DES authority to discontinue providers based on performance, appropriate metrics must be employed, and expectations should be clearly communicated to providers. Overall, however, the Review considers that the benefits of having an effective capability to manage performance would outweigh the effort required to establish that capability (Recommendation 13).

Recommendation 13. The Department should develop a defined performance management framework, with clearly defined KPIs and metrics, and processes for discontinuing poor performance.

7.3.2. Informing participants to meaningfully exercise choice

As discussed in Section 4.3, the star rating system is the primary mechanism for informing participants and providers of performance levels, yet it is not trusted by the very people it intends to support. While the star rating system may be an effective way for the Department to monitor provider performance, alternative approaches are needed to better inform participant and employer choice.

In the near term, it is recommended that the Department make small changes to the current ratings system, updating how it is calculated and communicated. This includes:

- Removing education outcomes from star ratings to align performance metrics with the program's primary goal of getting people with a disability into employment (note that the Department is currently exploring this option);
- Simplifying star rating processing time to under a month, either by streamlining data collection, or by simplifying the briefing and approval process;
- Developing more participant-focused communications on what star ratings are, and how they can be used, including explaining at the point of referral what a 5-star rating means, and sorting recommended providers based on the participant's unique needs (i.e. disability type, location) as well as by star rating.

Long term, the Department may consider conducting a detailed review of the performance management approach to ensure the right metrics are in place. It is noted that this is not an easy task:

- The current complexity of the star ratings system reflects the difficulty of developing an appropriate metric that can be applied across the country, and that allows for variations in local labour market conditions, the profiles and capabilities of participants, etc;
- Testing and engagement is needed, both with providers and participants. Indeed, if the purpose of performance reporting is to better support participant choice, the Department must work with participants to ensure that the metrics tracked are understood and valued by participants.

Once metrics are established, the Department could use a customer journey lens to understand how participants 'find a provider' online or offline, reimagining all the touchpoints that participants have with DES, including how they research the program, compare providers and make contact with their chosen provider.

Recommendation 14. The Department should remove Education Outcomes from the current star rating calculation.

Recommendation 15. The Department should simplify the star ratings calculation process, streamline approvals, and commit necessary resources to ensure ratings are published within a month of the end of each quarter.

Recommendation 16. The Department should gather data on participant and employer perspectives on provider performance, and either: incorporate it into star ratings; offer it as complement to star ratings; or use it as a replacement for star ratings.

Recommendation 17. The Department should develop more participant-focused communications to explain the star rating system, that are non-technical, easy-to-read, and readily available at points of search and during interactions with Services Australia.

7.3.3. Ensuring effective, informed Department oversight

The DES provider market serves around one per cent of the Australian population. It is critical that the Department is equipped to usefully oversee activity in this market, with

access to relevant data and insights, streamlined processes, and appropriate oversight powers in place.

As noted in Chapter 3, the Department does not have full visibility of several metrics, including around participant and employer experience with the program. Recommendation 18 to 23 seek to ensure that decision-makers are able to understand the full program benefits and operational costs. Further, the Department should explore opportunities to simplify processes and delegate decision making for elements of normal program operations, particularly elements that are assessed algorithmically, such as the risk-adjusted funding tool recalibration and star ratings updates (see Recommendation 10, Recommendation 11 and Recommendation 15). It may also be necessary to reconsider the amount of resourcing dedicated to program oversight (with oversight resourcing for jobactive as a possible reference point).

The Department monitors the financial viability of providers annually. The constrained employment landscape due to the COVID-19-induced recession is likely to lower employment outcome rates and impact provider financial viability, given employment outcome fees constitute 36 per cent of provider revenues (Exhibit 30). It is recommended that the Department continue to actively monitor the impact of the COVID-19-induced recession on the DES market and provider economics.

Recommendation 18. The Department should regularly survey program participants to assess the extent to which they consider DES participation improves their ability to obtain employment outcomes, and the quality of these outcomes (e.g. duration of employment, and whether jobs match participant skill levels).

Recommendation 19. The Department should regularly produce estimates of the extent to which program outcomes represent an improvement above baseline. This may involve, for example, surveys of participants who find employment, to understand whether they attribute their job to the interventions of their DES provider.

Recommendation 20. The Department should include additional efficacy and efficiency metrics in its regular public reporting, including measures of the total average costs per employment outcome.

Recommendation 21. To further aid assessment of program performance, the Department should examine ways to rigorously assess the quality of education and employment outcomes, potentially including participant surveys and/or data gathering on job characteristics. This may include measures of hours worked, duration of employment beyond periods measured by provider outcome payments, and subjective assessments of the extent to which jobs are a fit with participant skill levels and goals.

Recommendation 22. To further aid assessment of program performance, the Department should perform a quantitative assessment of the benefits of employment outcome achievement as a function of individual characteristics (age, experience, location, etc). This may capture, for example, improvements in wellbeing, avoidance of future health problems, and avoidance of future income support expenditure.

Recommendation 23. The Department should re-assess the total resourcing required to ensure effective program oversight.

Recommendation 24. The Department should continue to monitor the impact of the COVID-19 induced recession on the DES market and provider financial viability.

7.3.4. Delivering accurate and effective assessments

As discussed in Section 5.3, the ESAt process is used to decide who is eligible for DES and their recommended potential work capacity. However, providers have expressed concerns about the accuracy, availability and efficiency of these assessments, and with misaligned incentives when payments are tied to achieving benchmark hours in employment outcomes.

Ernst & Young's 2019 review of Disability Employment Services Assessments proposed a number of recommendations to the ESAt model, including:

- Developing education materials to inform participants on the purpose and process of ESAts;
- Developing a pre-screening survey to understand participant preferences and challenges in advance of an assessment;
- Offering participants choice over the location and mode of assessment;
- Modifying the ESAt questionnaire to put greater emphasis on an individual's strengths and goals;
- Conducting more ESAts by phone, where the participant prefers and it is appropriate to do so;
- Critically evaluating the purpose of the 18-month participant review to determine whether it is necessary.

Since July 2019, the only review recommendation adopted has been to increase the proportion of phone assessments, partially in response to COVID-19-related demand. Yet, as ESAts remain the primary method of entry into the DES program, the Department must ensure assessments are conducted with the necessary accuracy and rigour. Further work is needed to understand the extent of ESAt inaccuracy.

Recommendation 25. The Department should conduct a detailed review of Employment Service Assessments, assessing their accuracy, identifying opportunities for process improvement, and identifying options for reduce incentive misalignment.

7.4. Smooth provider ability to enter and exit the market

As discussed in Section 5.2, besides membership of the DES Provider Panel, the primary mechanism governing market entry and exit for providers is the ESA system.

In the near term, it is recommended that the Department establish a clear process for providers to apply for a new ESA in between DES Panel Refresh processes.

Further options to improve the ESA system are discussed in Section 8.3.2.

Recommendation 26. The Department should establish a mechanism for providers to apply for a new ESA outside the DES Panel Refresh processes.

7.5. Encourage flexibility and innovation in support models

As discussed in Section 5.1, compliance with DES rules and guidelines can, in some cases, present as a burden for providers, and limit service flexibility.

The Review suggests that the relaxed restrictions on face-to-face servicing that have eventuated with COVID-19, be made permanent. This will reduce barriers to choice that participants face, and allow greater digital innovation in service models. This change would be consistent with the trend to change ESA delivery to an increasingly digital model.

Recommendation 27. The Department should eliminate all requirements for face-to-face servicing, allowing providers to service by phone or digital channels. However, face-to-face meetings must still be provided on participant request.

7.6. Enhance provider productivity

The Department aims to create an assurance system that:

- Minimises payment leakage;
- Optimises oversight effort;
- Minimises the compliance burden on providers.

The review recommends that the Department continue reviewing and adjusting assurance processes to deliver on these three goals.

Multiple assurance models are available, ranging from randomised selection of claims for investigation, to assignment of risk scores based on characteristics such as providers, claim type, ESA, etc. At the extreme, assurance could be conducted based on highly detailed statistical modelling that assigns a risk score to each individual claim.

The Department currently employs a somewhat randomised model that investigates approximately 2,500 claims from an average total of 220,000 each quarter. A more targeted compliance model would allow investigative efforts to be concentrated on more risky claims, reducing payment leakage.

The Department is currently considering an earned autonomy model, where providers identified as lower-risk based on past behaviour, face lower assurance burdens. Such a model could integrate with the performance management approach, by rewarding providers with high payment integrity.

There is also value in exploring further options for automation and simplification of assurance activities, such as integration with the Australian Taxation Office's Single Touch Payroll to replace payslips. This is under consideration by the Department.

Recommendation 28 and Recommendation 29 summarise these options. Broader-reaching options to reduce the effort spent by providers in mutual obligations oversight are discussed in Section 8.3.

Recommendation 28. The Department should review current assurance procedures, seeking opportunities to use analytics and other tools to maximise the impact on payment accuracy, optimise resourcing effort, and reduce provider burden.

Recommendation 29. The Department should prioritise plans to integrate assurance activities with Single Touch Payroll, to reduce burden of demonstrating employment. Any such assessment may usefully be conducted with the involvement of DESE, to assess value of rolling out across DES and jobactive.

7.7. Unlock employer demand

There is opportunity to unlock additional demand from employers to employ people with a disability, complementing the current DES approach. Engagements with employers as part of this Review identified various concerns regarding hiring people with a disability, including:

- Occupational Health & Safety and risk management: what liabilities is an employer exposed to when a person with a disability shares the workspace?
- Additional costs: how much additional management time will be needed to support someone with a disability? What change to the workspace might be needed? What additional administrative and bureaucratic burdens might be encountered?
- Reputational and management risks: will the employer be able to effectively performance manage someone with a disability?

Ensuring that the Department has a clear understanding of employers' perspective on these issues can inform future regulatory change agendas. In addition, the Department can tailor specific communication initiatives to encourage attitudinal change, and emphasise workplace advantages and broader social benefits of employing a person with a disability.

It is recommended the Department review its strategy for engaging with employers around disability employment with a focus on removing barriers for employing people with a disability. This may include considering additional incentives outside of the DES program.

Recommendation 30. The Department should investigate opportunities to increase employer demand by addressing common employer concerns associated with hiring someone with a disability (such as risk, ability to access support, liability concerns, etc.).

Recommendation 31. Once targeted messages are identified, the Department should design specific communication campaigns that target employers and promote the hiring of people with a disability.

Recommendation 32. The Department should conduct an end-to-end review of its employer engagement strategy.

8. Longer-term opportunities for reform

The challenge of supporting people where disability is the primary barrier to employment is heightened by the current uptick in Australia's unemployment rate due to COVID-19 and the emerging recession. In this context, and given the issues in system design and market operations described in Part II, this Review recommends that the Department implement major reform of the DES program on expiry of the current Grant Agreement on 30 June 2023, with broad-ranging redesign and planning prior to that date.

Chapter 9 outlines the proposed reform process in further detail.

Reform options that merit consideration as part of such redesign include:

1. **Improving cohort targeting.** A range of lenses can be applied to determine who should participate in the DES program, and how supports should vary participant to participant:
 - a. It is suggested that the DES program focus on supporting those people who struggle the most to find work, and on those people for whom employment outcomes will have the most benefit (for the individual and in terms of social benefits). This targeted approach could significantly reduce the program's scale.
 - b. There is also opportunity to improve how participants are segmented within DES. Currently, participants are largely segmented by probability of achieving an outcome, and one service model is applied for all. Alternative segmentations (such as, needs based, type of disability etc.) will allow for more customised services and differentiated provider models.
2. **Re-aligning incentives to enhance employment outcomes.** The Department should conduct an end-to-end redesign of the service delivery model and provider incentive structure. This redesign should re-focus outcomes on employment over education, and how outcome fees are structured and paid.
3. **Improving program management with better-informed decision-making and oversight.** The Department should revisit the improvements recommended in Section 7.3, and continue to build enabling capability. Furthermore, the legal framework for the future DES agreement should allow the Department to exercise controls and variations on an ongoing basis, rather than requiring consent from all providers for even minor changes.
4. **Smoothing provider ability to enter and exit the market.** The Department should explore reforms and alternatives to the ESA system to simplify provider entry and exit across geographic areas, improving the effectiveness of market-based competition.
5. **Encouraging flexible and innovative participant support models.** The Department should conduct a top-to-bottom assessment of the rules that unnecessarily restrict provider behaviour and limit innovation, to encouraging the delivery of tailored support that reflects participant and employer contexts and needs.
6. **Enhancing provider productivity.** DES providers currently perform all three of the employment, disability support, and mutual obligations oversight roles. The Department should consider alternative models which move oversight of mutual obligations to either Services Australia or to third parties, would reduce the administrative burden placed on providers and increase the time available to service participants.

7. **Unlocking employer demand.** Increasing demand from employers to give jobs to people with a disability will substantially improve employment outcomes. The Department should ensure that the Government's disability employment strategy focuses on employers as part of the solution to low employment rates for many people with a disability. Furthermore, substantial funding could be liberated to support policy approaches which engage employers directly. For example, consideration should be given to the benefits and costs of alternative such as wage subsidies or other supports provided directly to employers.

In addition, the Department should review how DES can be better integrated within the employment services and disability support ecosystem:

8. **Exploring integration of DES with jobactive design and operations.** DES and jobactive are currently operated by separate Departments with largely separate processes. It is strongly recommended that the two programs are consolidated under a single Department, in order to:
- a. Reduce the risk of unintended consequences arising from uncoordinated program design;
 - b. Enable a whole-of-Government approach to managing outcomes, volumes and costs;
 - c. Improve end-to-end control over program design and delivery; and
 - d. Reduce complexity for participants.

Further, a decision should be made around the appropriate degree of alignment between the programs, ranging from continued separate operation, to a merged single program.

9. **Improving the integration of DES with the NDIS and broader program strategy.** Adopting a broader strategic lens on how the two programs work together, including reviewing operational integration, is needed to maximise the impact of both DES and NDIS. This may include elements such as the embedding disability services into mainstream support, expanding stakeholder representation, better empowering individual participants, and taking a whole-of-life perspective across disability support services.

These dimensions are discussed in more detail in the following sections. Note that while these recommendations are intended to highlight the need for broad-ranging reform and to identify avenues for change, they should not be interpreted as attempting to pre-empt the scope of any redesign effort.

Recommendation 33. The Department should undertake a major reform of the DES program to be implemented on the expiry of the DES Grant Agreement on 30 June 2023.

8.1. Improve cohort targeting

DES program reform should start by answer the fundamental questions around who the program will serve (and consequently, how large the program will be) (Section 8.1.1), and how to segment participants and tailor their support once they are in the program (Section 8.1.2). In addition, an appropriate length of time for participants to spend in the DES

program should be determined, with an appropriate understanding of the benefits and costs involved (Section 8.1.3).

8.1.1. Overall program size and eligibility

All income support recipients with participation requirements are required to participate in an employment service. Participants are currently directed to the DES program, rather than to jobactive, when a disability is assessed as their primary barrier to employment.

Program re-design should consider eligibility criteria and expected program size. This may span, for example:

- Smaller than the current size, servicing people whose participation in DES creates the most value;
- Smaller than the current size, servicing participants most in need of specialised support;
- Similar to the current size, servicing participants whose primary barrier to employment is a disability;
- Larger than the current size, including all people with a disability currently in an employment service program;
- Larger than the current size, increasing the number of people with a disability in employment services.

Determining the appropriate size for DES, should consider the following questions:

- How does including a particular participant cohort in the DES program support Government's policy objectives?
- How effectively and efficiently do other employment services (i.e. jobactive) serve participants with a disability?
- Are there marginal benefits from moving jobactive participants with a disability into DES instead?
- Are there participants in DES who could be equally well or better served by jobactive?
- Are there people with a disability who require an entirely different service model to DES or jobactive?
- What are the appropriate participation requirements for people with a disability?
- Are there participants in employment services who are not likely to benefit from the support of such services?
- Are there people with a disability not currently participating in an employment service who would benefit from doing so?

This assessment must be data driven, and include analysis of how participants with different characteristics (e.g. age, employment experience, disability type, etc.) benefit from DES as individuals, as well as benefits generated to society more broadly. This analysis should quantify benefits of employment, include cost per outcome, and estimates of the extent to which program outcomes are an improvement above baseline outcomes they would have achieved not in an employment service.

When designing the reforms, the Department should ensure that any changes to overall program eligibility are reflected in the ESAt.

Recommendation 34. The Department should review the target size of the DES program, informed by its policy objectives and whether particular cohorts are more appropriately served by other programs.

8.1.2. Segmentation

Future design of the DES program should consider two aspects of how participants are segmented:

1. Which participant characteristics are used to segment the DES caseload?
2. Which aspects of the DES service delivery model and incentives structure are different for these segments?

The current DES model is segmented along four main dimensions that impact provider funding (Table 3). Beyond this, the current DES model largely assumes providers provide differentiated service based on individual participant needs.

Table 3. Segmentation within the current DES model

	Segmentation description	Implication
1. ESS/DMS	<ul style="list-style-type: none"> • ESS Participants have a permanent or lifelong disability or health condition (see Section 1.1) • ESS participants usually require regular, Ongoing Support to stay in work 	<ul style="list-style-type: none"> • Different fee rates in each stream • Only participants on ESS are eligible for Ongoing Support
2. Risk-adjusted funding level	<ul style="list-style-type: none"> • Based on the probability of achieving an employment outcome 	<ul style="list-style-type: none"> • Different fee rates for each funding level
3. Moderate Intellectual Disability Payments	<ul style="list-style-type: none"> • Participants assessed as having an IQ less than 60 or classified by a registered psychologist as having moderate intellectual disability 	<ul style="list-style-type: none"> • Providers receive additional payment when a participant with MID achieves an outcome
4. Provider specialisation	<ul style="list-style-type: none"> • Providers may choose for a site to specialise in servicing participants within particular characteristics e.g. disability type (most common), age, Indigenous, etc. 	<ul style="list-style-type: none"> • Participants may choose to be served by a specialist provider, they benefit from providers having deeper expertise in serving caseload with similar needs to theirs • Providers only serve caseload with the specific characteristic at the site

When designing the new DES model, the Department should consider alternative approaches to segmentation to reflect different participant needs, cost to serve, and alignment with Government policy objectives.

In particular, the Department may wish to consider alternatives, or complementary mechanisms, to the current segmentation based on the risk-adjusted funding level tool. This segmentation assumes that higher fee rates alone are sufficient to improve outcomes for particular segments. For example, a 23-year old participant with a physical disability and a 48-year old with an acquired brain injury may both sit in funding level three. However, their support needs, barriers to employment, benefits of participating in the DES program, and cost to serve may be differ significantly.

Future segmentation could be performed along dimensions such as disability type, age, time unemployed, work capacity, JSCI, likelihood of attaining employment or expected benefits of participating in DES.

The Department should then decide which mechanisms to use to best enact this segmentation. These mechanisms could include:

- **Service model:** Different services models for particular segments, e.g. long-term unemployed compared to participants under 25;
- **Funding structure:** Different fee levels or fundamentally different funding structures. Different fee levels can be considered based on and lifetime benefits to the individual, society and government and the cost to service;
- **Provider specialisation:** Greater or different provider specialisation, e.g. national specialists in serving participants with autism.

Decisions should be informed by research into best practice services models, ethnographic research on the needs of different segments, data-driven assessment of outcomes, expected cost to serve, and benefits to government.

Recommendation 35. The Department should consider alternative segmentation approaches based on best practice service models, ethnographic research on the needs of different segments, data-driven assessment of outcomes, expected cost to serve, and benefits to Government.

8.1.3. Program length

Currently, the base program length for the DES program is 18 months in the Employment Assistance phase. A participant may continue in the program for an additional six months in Extended Employment Assistance (EEA) if a program review determines the participant will benefit. This is determined by conducting an ESA²⁸ or, in some cases, by the provider.

72 per cent of participants who exit the DES program after 24 months in Employment Assistance re-enter the program at a later date.²⁸ In this context, the Department should review whether Extended Employment Assistance provides incremental benefits compared to exiting participants after 18 months, and whether the assessment approach is effective.

More broadly, any DES redesign effort must consider the appropriate length of time for a participant to spend on the program. Considerations include:

- **Benefits of additional time in the program.** For example, during the EEA phase, 13-week employment outcome rates improve by 4-5 per cent;²⁹

²⁸ Analysis by DSS DES Branch

²⁹ DSS, BCG analysis

- **Cost of incremental program length.** For example, removing EEA would reduce forecast spend by \$135m-\$175m in 2022-23, contingent on the impact on program re-entry rates;
- **Alternative pathways if a participant exits the DES program.** For example, re-entering shortly after, applying for DSP, etc.

Recommendation 36. The Department should review whether the length of participant participation on the DES program is appropriate.

Recommendation 37. The Department should review the need for Extended Employment Assistance, and consider whether the assessment approach for Extended Employment Assistance is appropriate.

8.2. Re-align incentives to enhance employment outcomes

A number of changes to the incentive model are required ensure the program delivers the desired outcomes for people with a disability.

Designing the future DES model requires a fundamental re-design of the:

- Service delivery model: the activities performed by providers to support participants (Section 8.2.1);
- Incentive structure: the mechanism for compensating providers for the services they perform (Section 8.2.2).

In addition, specific topics within the current incentive structure have been highlighted by the Review: the need for a greater focus on employment over education (Section 8.2.3); and re-design of employment outcomes within the current structure (Section 8.2.4).

8.2.1. Re-imagine the service delivery model

Rather than revert by default to the existing service model, the design process of the future DES model should start from first principles based on desired policy outcomes, participant needs, best practice, expected service costs, and the role of the DES program within the broader employment and disability support ecosystem.

Considerations could include what services are to be performed, by who: for example, who should be responsible for administering mutual obligations (Section 8.6) and integrating services from other support services (such as housing, counselling) or from other employment programs.

Recommendation 38. The Department should design a new service delivery model based on desired policy outcomes, participant needs, best practice, expected service costs, and the role of the DES program within the broader employment and disability support ecosystem.

8.2.2. Re-design the incentive structure

The service model, in combination with the participant model (Section 8.1), will influence how incentives are designed.

Incentive design could span a spectrum of options:

- Entirely service fees: Providers periodically receive a fixed fee per participant, as long as they are adhering to agreed service requirements;
- 50/50 split between service fees and all outcome fees (including education outcomes), as per the current model;
- 50/50 split between service fees and employment outcome fees;
- A combination of progress fees (i.e. service fees paid when participants achieve agreed milestones in their journey from welfare to work);
- Entirely outcome fees: Providers are paid solely when the participant achieves an outcome.

Other supplementary structures could also be considered:

- Employment fund: Flexible pool of funds accessible to providers to pay for goods and services which support participants in obtaining and keeping a job (used in jobactive);
- Participant accounts: Providing funding linked to a participant, where the participant has decision rights over the use of these funds within set boundaries.

We note that there is also likely benefit in exploring alternative metrics for outcome payment fees, given the issues with benchmark hours outlined in Section 5.3.3. This could occur in a number of ways:

- Fixed fee when participant works more than a minimum total number of hours over a set period;
- Fixed fee if participant works more than a minimum average number of hours per week over a set period (as per the current DES approach using benchmark hours);
- Variable fee per hour worked by the participant;
- Variable fee proportional to a participant's earnings.

As an example, linking outcome compensation to hours worked by the participant could simplify the ESA process (by removing the need to assess benchmark hours), and better align provider incentives with participant needs and with the budgetary goal of reducing income support spend. Of course, there will be challenges if this approach is poorly implemented, such as accidentally encouraging a focus only on participants with higher work capacity.

This Review does not attempt a detailed assessment of all possible models, although some suggestions are explored in the sections below. However, it is noted that design of the program incentive structure should consider whether the structure:

- Enables the desired service delivery model;
- Increases simplicity or creates complexity;
- Ensures fee levels are proportion to value or cost to service;
- Impacts market dynamics and provider profitability positively or negatively;
- Creates misaligned incentives within the program or across the employment services system;
- Creates an undue administrative burden.

Furthermore, the re-design process should assess justification for current fee levels for education outcomes, employment outcomes and service fees.

Given the potential consequences of a poorly designed system, the Department should trial and test shortlisted models prior to implementation following the expiry of the current Grant Agreement.

Recommendation 39. The Department should design a new incentive structure for the DES program.

Recommendation 40. The Department should consider trialling and testing shortlisted service models and incentive structures prior to implementation.

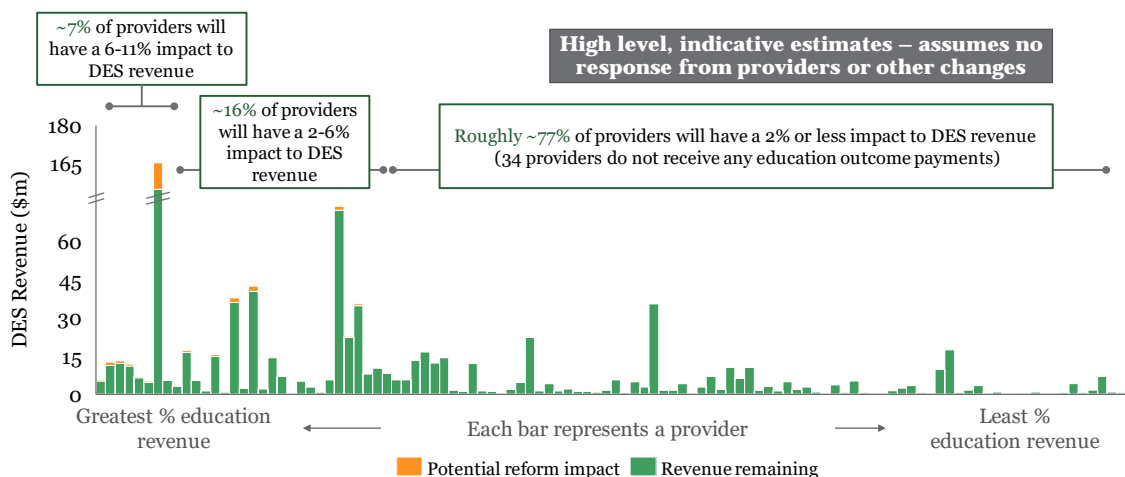
8.2.3. Re-focus outcomes on employment, rather than education

Education may offer various individual and social benefit. However, to retain focus and to manage performance, it is necessary that the DES program consider education as instrumental for obtaining employment rather than as a goal itself. Given the objectives of the DES program, the Review recommends that education outcomes be classified as a service payment rather than an outcome payment (Recommendation 41).

Further, to appropriately incentivise providers, payments for education outcomes should be tightened by capping outcome fee payments (such as at funding level 2 rates). This would help reinforce that education outcomes are a means of achieving future employment outcomes, and not the end goal of the DES program.

The changes to education outcomes suggested here and in Chapter 7 will affect provider revenue: it is estimated that capping education at funding level 2 rates, for example, would reduce program spend by \$50m-\$70m in 2024-25. As shown in Exhibit 76, it is estimated that the combination of reforms to education outcomes would reduce revenue by less than 2 per cent for almost 80 per cent of providers; in reality, the impact would be somewhat less, as providers can be expected to redirect effort into obtaining other payment types, and so offset the impact.

Exhibit 76. Reforms to education payments will likely have a relatively small impact on total revenue for most providers



Note: Assumes no other changes to the DES program. Based on FY19 provider payments, filtered for the 109 providers still operating as of March 20. Source: DSS, BCG analysis

In addition, it is recommended that the Department consider further options for change to the treatment of education outcomes:

- Reverting to pre-reform participant eligibility, or a similar set of eligibility criteria, to focus funding on those who are most likely to benefit from education. This would reduce program expenditure by approximately \$65m-\$95m in 2024-25;
- Aligning to employment outcomes by paying education outcomes only as a bonus payment upon achievement of an employment outcome;
- Reviewing whether participants should need to opt-in to education courses rather than being required to participate in education under mutual obligations.

Further, it is noted that some possible model designs – such as placing a substantially greater reliance on outcome payments – may eliminate the need for education outcome payments altogether: providers could remain free to support participants in education, in anticipation of the possibility of being rewarded in the event the participant obtains an employment outcome. To aid in assessing whether payments should be made for education outcomes at all, it is recommended that the Department conduct a more detailed cost-benefit analysis of education outcome payments, with particular consideration of their effectiveness compared to alternative policy mechanisms.

Recommendation 41. Education outcome payments should be reclassified as a type of service payment.

Recommendation 42. The Department should reduce outcome fees for education to a materially lower level (e.g. capping at funding level 2 rates) in the next DES program.

Recommendation 43. The Department should revert to stricter eligibility criteria for participants able to achieve a full outcome for education, targeted at segments who benefit the most. For example, reverting to the pre-2018 reform criteria.

Recommendation 44. The Department should consider explicitly linking payment for an education outcome to achieving an employment outcome, and re-assess the justification of the required fee levels for education outcomes, employment outcomes and service fees.

Recommendation 45. The Department should conduct a detailed cost-benefit analysis of the payment of education outcomes, to consider whether they are a justified approach in comparison to other possible policy mechanisms.

8.2.4. Increase focus on employment outcomes within current incentive structure

Given the expenditure on education outcomes, and recognising the recent growth in provider revenues, there is scope to increase the relative reliance on employment outcome payments versus fees-for-service (Recommendation 46). In addition, there is likely scope to reconsider the profile of payments over the duration of employment outcomes, to rebalance towards encouraging longer-term placement (Recommendation 47).

Recommendation 46. The Department should consider rebalancing the overall structure of payment types so that payments for employment outcomes constitute at least 50 per cent of the total value of claims paid.

Recommendation 47. The Department should consider rebalancing the employment outcome fee structure towards 52-week payments. It should be expected that 52-week outcomes, which require the largest increment in employment duration to earn, should be the highest of the current four employment outcome payments.

It was also noted that under the current Grant Agreement providers can only claim of one 13-, 26-, or 52-week outcome payments for every 2-year period a participant is in the DES program, but up to four 4-week payments. This creates some odd incentives: for example, if an individual completes a 13-week employment outcome then returns to the Employment Assistance phase, the provider's financial incentive to assist the participant to find a job that will last beyond four weeks is diminished. It is recommended that this rule be reconsidered (Recommendation 48).

Recommendation 48. The Department should rebalance the frequency caps on employment outcome claims, for example by limiting to two of each duration per period of service.

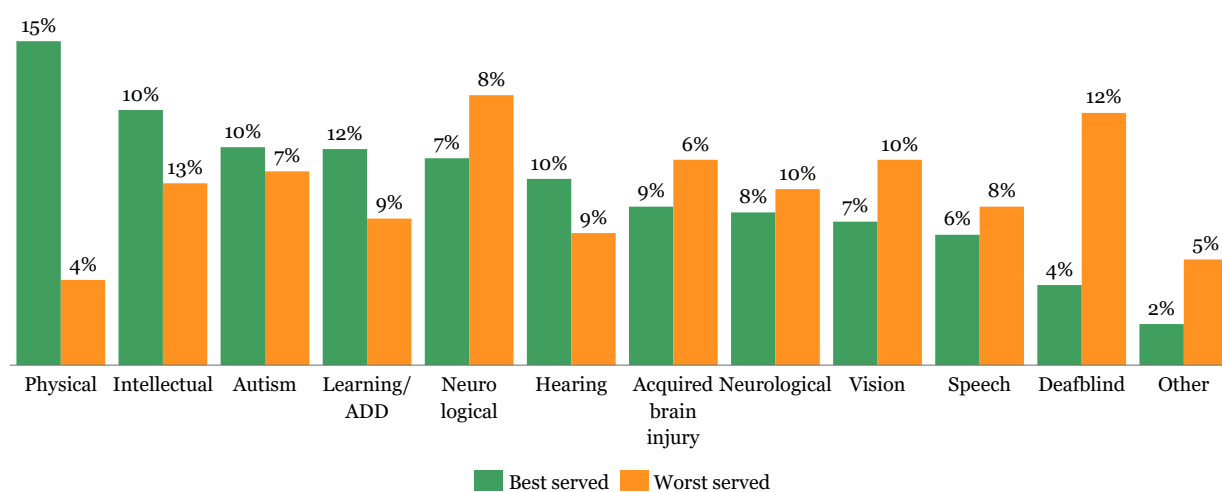
More broadly, a recurrent theme in participant and disability advocate was the failure of the DES system to account for individual needs. For example:

- Individuals with episodic conditions may find sustaining continued employment without pause difficult. However, Grant Agreement guidelines for permissible employment breaks allow only 28 days in a 13-week period;
- Individuals with autism may be particularly challenged by disruptions to routine. However, such disruptions (office relocations, new technology, business restructuring, etc.) may well continue after any financially-incentivised support from DES providers has ceased.

Exhibit 77 provides an overview of how well service providers consider different disabilities are served by the current DES system, (e.g. deafblind conditions are seen as poorly served, while physical conditions are most likely to be seen as best served).

Exhibit 67. Provider survey indicated which conditions are seen as best- and worst-served in DES

What are the types of disability that are served best and served worst by the current system?



Source: DSS, BCG analysis

It is recommended that program re-design tests opportunities to expand program flexibility, taking care to avoid any further unanticipated increases in spend cost (Recommendation 49).

Recommendation 49. The Department should consider extending the duration of permissible breaks from employment, conditional on 1) the participant having an assessed episodic condition; 2) the provision of a medical certification describing the need for the break; 3) no other employment or education being entered into during the break period. Recognising that this rule may have cost implications, any such change should be staggered and monitored.

It is also noted that the full list of payments that providers can claim is quite extensive, totalling well over 100 distinct types in all, and including a variety of supplementary and bonus payments (e.g. for placements in apprenticeships, or for support for individuals with an intellectual disability). This adds to program complexity, and may complicate the intended calculations of the risk-adjusted funding tool. Opportunities to simplify the payment schedule should likely be explored as part of any optimisation effort (Recommendation 50). This may also encompass adjustments to the current approach of streaming individuals into DMS and ESS.

Finally, given the continuing rise in share of employment attributable to the gig economy and other forms of self-employment, it is recommended that any re-design allow for these forms of employment.

Recommendation 50. The Department should explore opportunities to consolidate the current long list of potential payments that providers can claim, as well as opportunities to simplify the division into DMS and ESS streams.

Recommendation 51. The Department should allow for forms of ‘gig economy’ and self-employment in future program design.

8.3. Improve program management with informed decision making and oversight

The future design of the DES program should provide the Department greater ability to manage program performance on an ongoing basis. The Review recommends that both the legislation governing the DES program (Section 8.3.1) and the legal framework for engaging providers (Section 8.3.2) for the future DES program affords the Department greater ongoing control and flexibility Department that than the current arrangements.

8.3.1. Legislative empowerment

s42

s42

Under any future legal framework, it is important that the Department be empowered to exercise the controls and variations specified in the DES Grant Agreement, or equivalent (Recommendation 52).

Recommendation 52. s42

s42

8.3.2. Legal framework for procurement and funding

Broadly speaking, there are three possible models for legally engaging providers in DES program service provision:

- Grant agreements: funding is paid to service providers as a grant (expected to be administered by the Community Grants Hub), and governed by relevant legislation;
- Contracting: providers enter into a contract with the Government;
- Licensing: providers that meet certain conditions would be formally permitted to provide services, with an expectation that market exit is easier than under contractual or grant arrangements.

The level of flexibility offered to government and to providers under each of these models varies, as does the challenge of design and administration. s42

s42

Consequently it is recommended that, at a minimum, the grant-based approach is replaced with an alternative framework in any future design of DES. (Recommendation 53). Note that,

to minimise risk, this is recommended regardless of whether there are legislative changes to create more flexibility around grant agreements.

Recommendation 53. The Department should not use grant funding in the next iteration of DES, but rather pursue either contractual or licensing arrangements (regardless of whether Recommendation 52 is carried out or not).

8.4. Smooth provider ability to enter and exit the market

Besides membership of the DES Provider Panel, the ESA system is the primary mechanism governing provider market entry and exit. Pain points associated with this system are discussed in Section 5.2. The Review recommends that DES reconsider the ESA approach to create more competition and allow greater diversity in provider business models (including increased specialisation).

Ultimately, attempting to force equity of service access via the ESA-based regulatory approach may not be successful, because the provider's economic considerations will be the ultimate driver of service level offered. Should issues arise around equity of access across geographies, alternative solutions (such as higher fee levels for regional areas) should be considered. However, given typically high levels of coverage in ESAs currently (Exhibit 45), this seems unlikely to be a concern in the near-term.

Suggested options for ESA reform consideration include:

1. Retaining the ESA model, and creating a mechanism for providers to enter ESAs outside the DES Panel Refresh process, and aligning with the smaller number of geographies used in jobactive (to enable collaboration, and comparison between the programs);
2. Offering a 'national licence' (based on, e.g. historically high performance, or pre-existing specialisation) to permit select providers to operate nationally;
3. Removing ESAs from metropolitan areas to create 'free entry and exit zones', creating a more open market. ESAs could continue to be used in regional areas;
4. Eliminating all ESAs to create an open market.

Note that model options two and three could function as stepping-stones in a progression towards option four. These models are discussed in more detail in These models are discussed in more detail in Table 4. Note that reforming the ESA model would be a significant change, with attendant uncertainties. These reforms must be implemented using a cautious, staggered approach to ensure second-order effects on participants, providers, employers and the Department are well understood.

Recommendation 54. The Department should explore reforms and alternatives to the ESA system, to simplify provider entry and exit across geographic areas. Further, the Department should deploy incentive-based (rather than regulatory) systems, if needed, to ensure equity of access in regional areas.

Table 4. Summary of ESA reform options

	1. Keep ESAs with easier entry	2. Remove metro ESAs	3. Allow 'national licences'	4. Eliminate ESAs
Description	<ul style="list-style-type: none"> Providers continue to operate under the current ESA arrangement 	<ul style="list-style-type: none"> Providers are allocated to regional ESAs, while free to operate in any metropolitan area 	<ul style="list-style-type: none"> Select providers are given a 'national licence', enabling them to operate in any ESA 	<ul style="list-style-type: none"> Providers given full autonomy to pick and choose where they deliver
Benefits	<ul style="list-style-type: none"> Ensures national availability Reduced competition benefits smaller providers Works well under current performance framework 	<ul style="list-style-type: none"> Ensures regional availability Market drives decisions on preferred providers Lowers barrier for entry in metropolitan areas Allows orientation by speciality or industry 	<ul style="list-style-type: none"> Ensures national availability Allows orientation by speciality or industry Able to use as an incentive for providers 	<ul style="list-style-type: none"> Increases market competition Market drives decisions on preferred providers Lowers barrier for entry Allows orientation by speciality or industry
Limitations	<ul style="list-style-type: none"> Does not ensure quality of service in regions Limited opportunities to enter / exit ESAs High admin burden 	<ul style="list-style-type: none"> Does not ensure quality of service in regions Limited opportunities to enter / exit regional ESAs High admin burden 	<ul style="list-style-type: none"> Increased competition may be harmful for SMEs Higher admin burden 	<ul style="list-style-type: none"> Potential difficult ESAs will become underserved High competition benefits larger providers Potentially higher cost to deliver regional services
Considerations	<ul style="list-style-type: none"> Provide rolling ESA entry option Allow providers to service remotely 	<ul style="list-style-type: none"> Provide rolling entry option Allow providers to service remotely Provide additional incentives for providers in regional areas 	<ul style="list-style-type: none"> Use selection criteria to push market towards more specialised model Reward generalist high performing providers 	<ul style="list-style-type: none"> Provide additional incentives for providers in regional areas

8.5. Encourage flexibility and innovation in support models

Review of the DES Grant Agreement and stakeholder interviews identified other possible options to relax regulation. For example:

- Elimination of the requirement for providers to log a minimum number of contacts per participant, per quarter (currently six). It is assessed that the current rule is unlikely to translate to any meaningful improvement in service quality: there is no mechanism to force 'contacts' to be meaningful (or even of a non-trivial duration), and consequently such contacts are unlikely to change any pre-existing provider decision to under-serve a participant. (Note: providers should be required to continue to register contacts that do occur.)
- Currently, providers are required to follow-up regularly with voluntary participants to confirm their continuing status. Alternative mechanisms could be explored (particularly as providers are unlikely to be incentivised to confirm volunteer exit).

The preferred approach would involve a top-to-bottom assessment of current rules that restrict behaviour, including those that may be implicit rather than formal (Recommendation 55).

Recommendation 55. The Department should engage an external, detailed assessment by appropriate specialists to identify opportunities to further simplify system rules.

8.6. Enhance provider productivity

Going forward, the Department should continue to seek opportunities to maximise provider productivity. One option, discussed in this section, relates to the divisions of tasks between providers and other parties. Currently, DES providers perform multiple roles, including supporting placement into employment, post-placement support, and overseeing participant compliance with mutual obligations.

While multiple possible divisions of those functions could be considered, responsibility for mutual obligations oversight appears to be the greatest current pain point for providers, as discussed in Section 5.1. This is particularly the case given the concerns regarding mutual obligations are not just a matter of the time and effort involved, but the fundamental challenges the oversight role presents for relationships between providers and participants, particularly in a market context.

The primary option for mitigating the burdens of responsibility for mutual obligations oversight is to transfer the bulk of that responsibility to either Services Australia, or to a third party. Explicitly reducing the scale of mutual obligations could also have an effect (anecdotally, providers may bias towards being aggressive in, for example, setting the number of job applications required per month, to avoid being perceived by the Department as too lenient). This was not investigated for this Review.

An example of this is provided in Exhibit 78, where providers would retain responsibility for agreeing job plans (because they have a participant-facing role), but subsequent oversight and maintenance would be undertaken by a third party.

Exhibit 68. Indicative model for mutual obligations outsourcing

Current provider activities





<p>Establishment of a Job Plan</p> <p>Purpose: Underpins provision of services and agreed assistance</p> <p>Details all requirements that Participants must undertake</p>	 <p>Tracking participant compliance</p>	<p>Provider must record details of, and schedule each requirement in the Calendar, including: provider appointments, activities, job interviews, education and training, drug and/or alcohol treatment, where relevant, third party appointments, workshops and employment</p> <p>Reporting Job Search efforts through the Job Seeker App or jobactive website, if Participants provides job search directly to their Provider, Providers will need to record</p>
	 <p>Validating and auditing activities</p>	<p>Providing evidence for attendance at activities, third party appointments and job interviews</p>
	 <p>Liaising with Services Australia</p>	<p>Setting daily requirements and issuing formal notification to the Participant</p> <p>Notification through system when a participant has not met mutual obligations, leading to Services Australia taking further measures if appropriate</p>
	 <p>Updating and revising the Job Plan</p>	<p>DES providers must update, at least quarterly, the details of the assistance to be delivered, purchased or organized for the Participant throughout their Period of Service</p> <p>Job Plan updating (e.g. commences a new activity, change in circumstances, completes an activity in Job Plan, undertakes ESAI or JCA, has a capacity interview or Capability assessment)</p>

Table 2. High-level comparison of options for assigning mutual obligations oversight responsibility

	1. Provider	2. Services Australia	3. Third Party
Description	<ul style="list-style-type: none"> Providers continue conduct mutual obligations oversight and enforce compliance 	<ul style="list-style-type: none"> Providers to retain responsibility for agreeing job plans, but subsequent oversight and maintenance would be performed by Services Australia 	<ul style="list-style-type: none"> Providers to retain responsibility for agreeing job plans, but subsequent oversight and maintenance would be performed by third party (using digital solutions)
Benefits	<ul style="list-style-type: none"> Single point of contact for all matters relating to participants 	<ul style="list-style-type: none"> Reduces relationship management complexity Already conduct compliance related activities 	<ul style="list-style-type: none"> Leverage economies of scale in mutual obligations validation Leverage digital solutions that would directly interface with Services Australia systems, reducing manual effort
Limitations	<ul style="list-style-type: none"> High admin burden, reduced capacity to service participants Strain on provider-participant relationships Awkward fit with competitive market approach 	<ul style="list-style-type: none"> Methodology to validating information is still quite manual Participants will have to manage multiple different stakeholders 	<ul style="list-style-type: none"> Requires initial upfront investment and for employers and participants to adopt the new system
Cost impact	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Potentially neutral in the medium to long-term 	<ul style="list-style-type: none"> Potentially net saving in the medium- to long-term

Since a major share of quarterly service fees are payment for performing the mutual obligations oversight, removing this responsibility from providers would justify substantially reducing fees. Although this would impact provider revenue, it should not impact profitability as costs should also be lower. This fee reduction would be offset by the costs to Services Australia or the third party in the medium to long-term (noting that either option would involve short-run establishment costs). However, if the provider complaints above are valid, the move would be beneficial even if it was revenue neutral. Moreover, there is at least some possibility that, if effectively managed, third-party provision could be revenue-saving in the medium-to-longer term, as a third-party may be able to:

- Deploy digital solutions that directly interface with Services Australia systems, reducing manual effort;
- Leverage economies of scale in mutual obligations validation/assurance.

Note that preliminary inquiries indicated that there is at least some market appetite to take on such an oversight role. Nonetheless, there would also be significant hurdles in such approach, including the challenges associated with contract administration and the management of additional relationships. A summary view of some of the benefits and limitations of different options are provided in Table 5.

Recommendation 56. The Department should assess options for the DES provider role in mutual obligations oversight to be minimised, and replaced with oversight by either Services Australia or a third-party provider.

8.7. Unlock employer demand

There is opportunity to unlock additional demand from employers as part of broader reform to the DES model, beyond the recommendations in Chapter 7.

The Department should investigate the possibility of diverting some resources away from the DES program and investing them in employer focused supports, for example wage subsidies. As an illustrative example, re-investing 30 per cent of the fees currently paid to providers (at a cost per 26-week employment outcome of \$38,400, as per Section 3.1) could provide a material incentive to employers.

Research by Webster (1998)³⁰, Kluge (2020)³¹, the OECD (2005)³² and the European Commission (2014)³³ indicates wage subsidies have been shown to have a positive impact on employment outcomes.

It is noted that wage subsidies need to be carefully designed:

- Subsidies should target those who will benefit most, such as those with high barriers to employment. They should not be used in isolation, but rather as one component of a comprehensive welfare to work strategy.
- Other elements of the labour market system can affect the impact of these subsidies, such as minimum wage levels and broader economic conditions.

³⁰ Webster, E. (1998), 'Microeconomic evaluations of Australian labour market programs', *Australian Economic Review*, 31, 189-201.

³¹ Kluge, J. (2010), 'The effectiveness of European active labour market programs', *Labour Economics*, 17, 904-18.

³² OECD (2005), *Employment Outlook* (OECD Publishing).

³³ European Commission (2014), 'Stimulating job demand: The design of effective hiring subsidies in Europe', *European Employment Policy Observatory Review* (Luxembourg).

- There is a trade-off between the size of financial incentive and creating a perception of participants as unsuitable candidates.
- Particular attention should be given to the payment mechanism and timing (e.g. front/back loaded lump sum payment, regular instalments, duration, etc.). As an example, poor design could lead to either participants losing their employment if the wage subsidy expires abruptly, and employers cycling through participants to attract the subsidy with each new recruit.

Recommendation 57. The Department should explore greater reliance on alternative policy approaches which engage employers more directly (which may include, but are not limited to, more emphasis on wage subsidies).

8.8. Improve integration between DES and jobactive

As discussed in Section 5.5.2, DES and jobactive have similar policy goals and explicit overlaps in the participant base and the provider network. However, variations between the programs, which increased as a result of the reforms, have contributed to increased numbers of participants transferring between the two programs (Section 2.1).

These two adjacent programs are managed by two separate Departments, naturally causing some of the variation and creating operational challenges. The separation also reduces a whole-of-government approach to program management, particularly regarding caseload allocation and cost management across the programs.

This raises two critical questions discussed in the following sections:

1. Should DES and jobactive be overseen by a single Department? (Section 8.8.1)
2. How far should the design and delivery of DES and jobactive be integrated? (Section 8.8.2)

8.8.1. Departmental oversight of design and operations

It is recommended that DES and jobactive are moved under the remit of a single Department. This offers a number of material benefits to government:

- Reduces the likelihood of differences between the programs resulting in unintended consequences;
- Facilitates a whole-of-government approach to managing outcomes, volumes and costs;
- Gives the Department greater end-to-end control over policy, systems and process (e.g. IT, data);
- Reduces complexity for participants and providers.

Alternatively, at a minimum a joint accountability and decision-making function should be established across both Departments to guide cross-program design.

1. Separate Departments, separate approach to design and governance	2. Separate Departments, joint accountability for design and governance	3. Single Department overseeing both programs
----------------------------------------------------------------------------	--------------------------------------------------------------------------------	------------------------------------------------------

Description	<ul style="list-style-type: none"> • Current approach: run by different Departments, DESE consulted in specific elements of DES design where there are strong interdependencies 	<ul style="list-style-type: none"> • Multi-departmental governance body oversees program design and decision making 	<ul style="list-style-type: none"> • Both programs sit under same Department (although they may still be run as distinct programs)
Opportunities	<ul style="list-style-type: none"> • Allows programs to operate with limited dependency, if programs have distinct designs and objectives • Aligns DES design with broader disability policy and services landscape 	<ul style="list-style-type: none"> • Reduces likelihood of creating misaligned incentives, to some degree • Facilitates whole-of-Government approach to volumes and costs 	<ul style="list-style-type: none"> • Reduces likelihood of unintended misalignment • Whole-of-Government approach to volumes and costs • Greater end-to-end control over policy, systems and process • Reduces complexity for participants and providers
Challenges	<ul style="list-style-type: none"> • Increases likelihood of unintended program misalignment e.g. gaming by providers • Results in each program optimisation for outcomes and costs within silos • Necessitates DSS being dependent on DESE for aspects of delivery (e.g. IT) • Creates additional complexity for participants and providers 	<ul style="list-style-type: none"> • Adds significant complexity and creates unclear decision rights, unlikely to be a practical solution given the breadth of the programs • Maintains some additional complexity for participants and providers 	<ul style="list-style-type: none"> • Creates limited benefits if programs have very distinct policy objectives, participants and providers
Assessment	<ul style="list-style-type: none"> • Not recommended 	<ul style="list-style-type: none"> • Minimum necessary 	<ul style="list-style-type: none"> • Recommended

summarises the issue. No recommendation of which Department should hold joint oversight is made: either DESE or DSS could be justified, for example:

- Consolidating the programs in DSS would create strong links from welfare to work, and ensure that both DES and the NDIS continue to be overseen by the same department;
- Consolidating both programs in DESE would enable greater engagement with employers and industry. However, it would also lead to a separation between employment services and Services Australia and broader social policy.

Table 6. Comparison of oversight options for DES and jobactive

	1. Separate Departments, separate approach to design and governance	2. Separate Departments, joint accountability for design and governance	3. Single Department overseeing both programs
Description	<ul style="list-style-type: none"> Current approach: run by different Departments, DESE consulted in specific elements of DES design where there are strong interdependencies 	<ul style="list-style-type: none"> Multi-departmental governance body oversees program design and decision making 	<ul style="list-style-type: none"> Both programs sit under same Department (although they may still be run as distinct programs)
Opportunities	<ul style="list-style-type: none"> Allows programs to operate with limited dependency, if programs have distinct designs and objectives Aligns DES design with broader disability policy and services landscape 	<ul style="list-style-type: none"> Reduces likelihood of creating misaligned incentives, to some degree Facilitates whole-of-Government approach to volumes and costs 	<ul style="list-style-type: none"> Reduces likelihood of unintended misalignment Whole-of-Government approach to volumes and costs Greater end-to-end control over policy, systems and process Reduces complexity for participants and providers
Challenges	<ul style="list-style-type: none"> Increases likelihood of unintended program misalignment e.g. gaming by providers Results in each program optimisation for outcomes and costs within silos Necessitates DSS being dependent on DESE for aspects of delivery (e.g. IT) Creates additional complexity for participants and providers 	<ul style="list-style-type: none"> Adds significant complexity and creates unclear decision rights, unlikely to be a practical solution given the breadth of the programs Maintains some additional complexity for participants and providers 	<ul style="list-style-type: none"> Creates limited benefits if programs have very distinct policy objectives, participants and providers
Assessment	<ul style="list-style-type: none"> Not recommended 	<ul style="list-style-type: none"> Minimum necessary 	<ul style="list-style-type: none"> Recommended

Recommendation 58. Government should consolidate oversight of DES and jobactive under a single Department.

8.8.2. Program operational integration

If the programs were overseen by a single agency, there remains a decision to be made about whether or not to merge the programs at an operational level.

There is a spectrum of alignment between jobactive and DES ranging from their remaining completely distinct programs with differentiated rules, through to dissolving them into a single program with no distinct service for people with a disability relative to other jobseekers (Table 7).

Further work on this issue will be required as part of the design of the target state program.

Recommendation 59. Government should decide whether to consolidate jobactive and DES into a single program, or whether to maintain separate programs, based on the target state design of the new DES model.

Table 7. Degree of integration depends on longer term vision for DES

	1. Distinct programs, different rules	2. Separate programs, but with more consistent rules	3. Dedicated DES within jobactive	4. Merged DES and jobactive
Description	<ul style="list-style-type: none"> Current approach: each program run as independent programs with separate contracting 	<ul style="list-style-type: none"> Consistent rules and approaches across both programs in major areas e.g. contracting, provider management, fee structure 	<ul style="list-style-type: none"> DES is a separate stream within jobactive for people with a disability as the primary barrier May include specialist providers 	<ul style="list-style-type: none"> DES program is completely merged with jobactive May include additional support packages for people with a disability (e.g. support packages, assessment packages)
Opportunities	<ul style="list-style-type: none"> Allows for fundamentally different program designs Reduces implementation timeframe risk 	<ul style="list-style-type: none"> Allows flexibility in managing DES/jobactive differently but maintaining alignment in priority areas Reduces implementation timeframe risk 	<ul style="list-style-type: none"> Greatly increases consistency Streamlines employment services journey Simplifies program management 	<ul style="list-style-type: none"> Likely enables large cost reductions Streamlines employment services journey
Challenges	<ul style="list-style-type: none"> Leads to greatest potential for misalignment to cause unintended consequences Adds additional program management, compliance 	<ul style="list-style-type: none"> Maintains potential for misaligned rules to cause unintended consequences Need to manage multiple programs 	<ul style="list-style-type: none"> May reduce focus and support for people with a disability Increases risk to implementation timeframe, as new jobactive deed starts on 1 July 2022 	<ul style="list-style-type: none"> May reduce focus and support for people with a disability Increases risk to implementation timeframe, as new jobactive deed starts on 1 July 2022
Choose this option when...	<ul style="list-style-type: none"> Programs have distinct objectives, clear segmentation and fundamentally different operating models 	<ul style="list-style-type: none"> Implementation timeframes require separate programs in the short term 	<ul style="list-style-type: none"> Model for supporting people with a disability and other participants is similar, evidence demonstrates people with a disability need support from specialist providers Implementation timeframes allow for programs to be consolidated 	<ul style="list-style-type: none"> Primary focus of both programs is on employment Implementation timeframes allow for both programs to be consolidated

8.9. Integration with the NDIS, and broader program strategy

A large proportion of this Review has focused on operational considerations, noting their criticality to improving outcomes for participants in the program. However, it is worth emphasising the importance of broader strategic considerations. These include the relationship between DES and the NDIS (Section 8.9.1), and the role and approach of DES, and its position amongst Government's broader strategy for social supports (8.9.2).

8.9.1. Opportunities for greater integration with the NDIS

An opportunity exists for the NDIS and DES to collaborate on a more participant-centred approach to disability support. Possibilities include:

- Establishing clear distinction between the two programs on their role in employment;
- Creating clear pathways into DES for NDIS participants with employment goals in their plan;
- Developing clear communication to participants, providers and employers on how the programs work together, and any potential funding implications;
- Improving the way plan information is shared between the two programs, to ensure a smooth participant experience;
- Synthesising compliance requirements into a single set of standards.

The Department has already commenced work in this area, including, for example, on synthesising compliance requirements. It is recommended that integration with the NDIS be a priority consideration of future program re-design efforts.

Recommendation 60. The Department should explore opportunities to work with the NDIA to develop a participant-centred approach to support people with disability into employment.

8.9.2. Broader strategic considerations

As both a disability support and an employment services program, the design of the DES program reflects the Government's philosophical and strategic approach to social support. The NDIS, for example, reflects the development of Australia's National Disability Strategy 2010-2020, which in turn was influenced by the United Nations Convention on the Rights of People with Disabilities – which, among other principles, emphasised individual autonomy and freedom of choice. The National Disability Strategy also reflects the importance of a 'whole-of-life' perspective, translating to the drawing together of a 'package' of individualised supports.

Any future redesign of DES must account for such broader strategic considerations, including issues around the DES program's role, approach, and positioning among other government programs. Fundamentally, DES must function as an employment services program, with a sharp focus on a clearly delineated and limited set of goals (with the achievement of durable open employment outcomes the highest priority). However, elements to consider in program design include:

- Broader goals for the Commonwealth's approach to support for people with a disability, for example:
 - To what extent DES can and should contribute to a 'whole of life' approach to disability management, including through integration and coordination with other support services, beyond jobactive and the NDIS;
 - How support services for people with a disability are integrated with mainstream social services;
 - How to approach disability supports with an aspirational mindset;
 - To what extent DES can and should align with "user choice and control" principles consistent with the philosophy of the NDIS (noting that the 2018 reforms already took sizeable steps in that direction).
- Approaches to embedding both broader-reaching and operational goals into ongoing management of the DES program and provider market place. For example:
 - How to embed disability advocate and employer representative perspectives into program design;
 - How to ensure the change management process is supported by quality, rigorous research and development;
 - How to ensure ongoing program design and management is informed by contemporary thinking around disability.

Recommendation 61. The Department should consider the role of the DES program within Government's broader strategy for disability and employment services when designing the future DES program.

9. Proposed implementation roadmap

s42

The proposed plan (Exhibit 79) outlines the recommended approach to **implementing short-to-medium term changes** (Chapter 7 recommendations) and **undertaking major reform of the DES program** (Chapter 8 recommendations) for implementation following the expiry of the DES Grant Agreement on 30 June 2023.

The Department should implement the **short-to-medium term changes** in three waves (Exhibit 80):

- Wave 1 (implement immediately): Changes which require no further design or consultation. Some of these changes are already planned, such as recalibrating the risk-adjusted funding tool;
- Wave 2 (implement on 1 January 2021): High value changes which require approval by Government (such as changes to eligibility and education outcomes), agreement with providers, or further design;
- Wave 3 (implement on 1 April 2021): Changes with longer-term strategic value requiring detailed design, such as developing a performance management framework.

In parallel, the Review recommends that the Department **undertake major reform** of the DES program. The Department should prepare advice to Government which includes:

- A recommendation to undertake reform of the DES program;
- Advice on the level of integration between DES and jobactive.

By early 2021, the Department should finalise advice on a target state DES design, with consideration given to the recommendations in Chapter 8. Furthermore, extensive planning will be required for the subsequent detailed design and go-to-market stages.

Detailed design could be achieved through an iterative process, incorporating trials. The decision to conduct trials should consider:

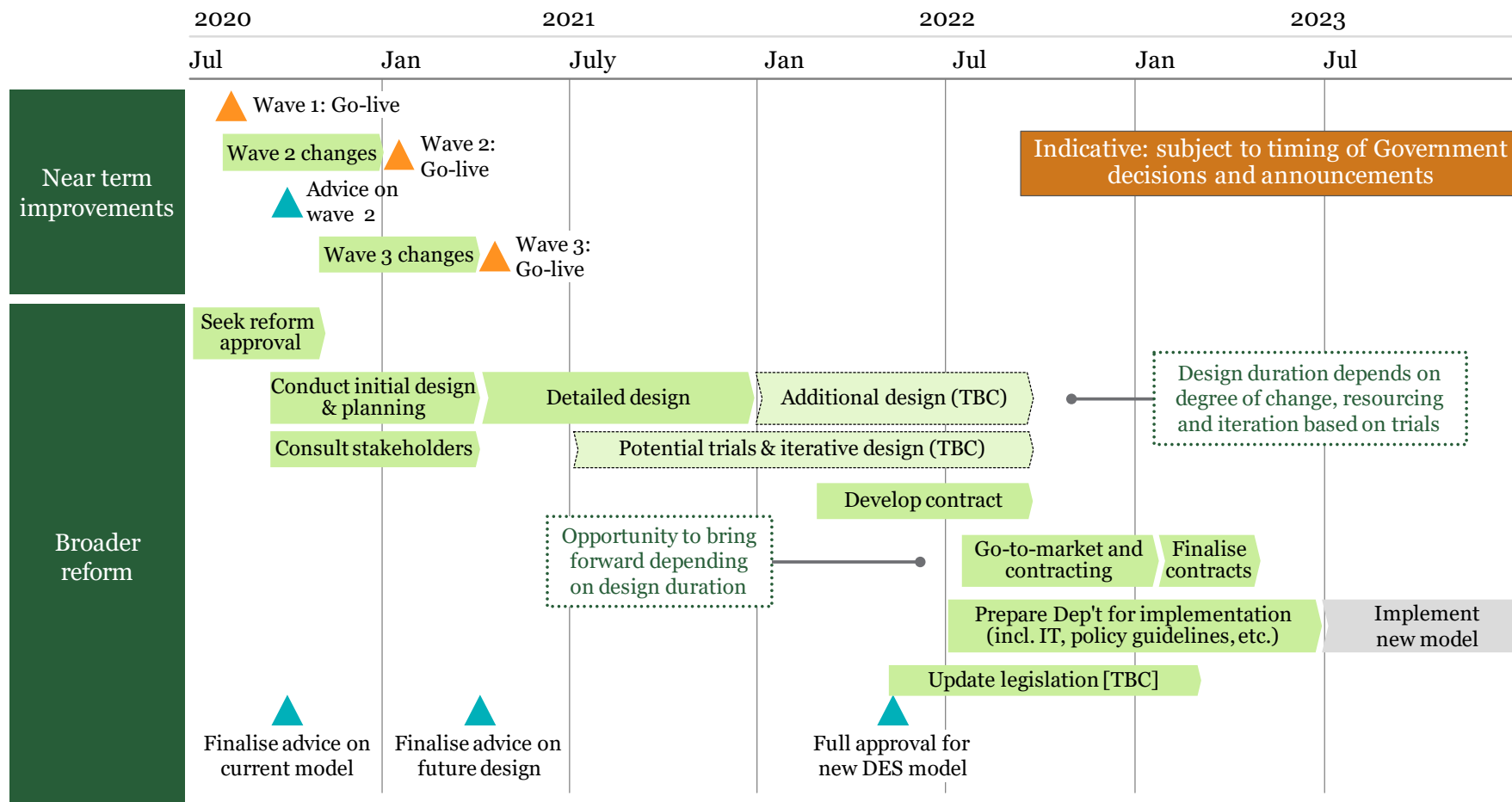
- The level of ambiguity in program design that can be resolved by obtaining information through a trial;
- Whether this information on this can be resolved in other ways (e.g. through research, analysis, competitive tender);
- The degree to which resolving ambiguity impacts risk and value;
- The cost of undertaking a trial, including Department resourcing and compensation for service providers.

The Department will need to go to market approximately twelve months before implementing the new DES model. The specific approach should be determined in the planning process based on the contracting approach (Section 8.3.2), the degree of change, and the preferred market model.

The Mid-term Review recommends the following immediate next steps:

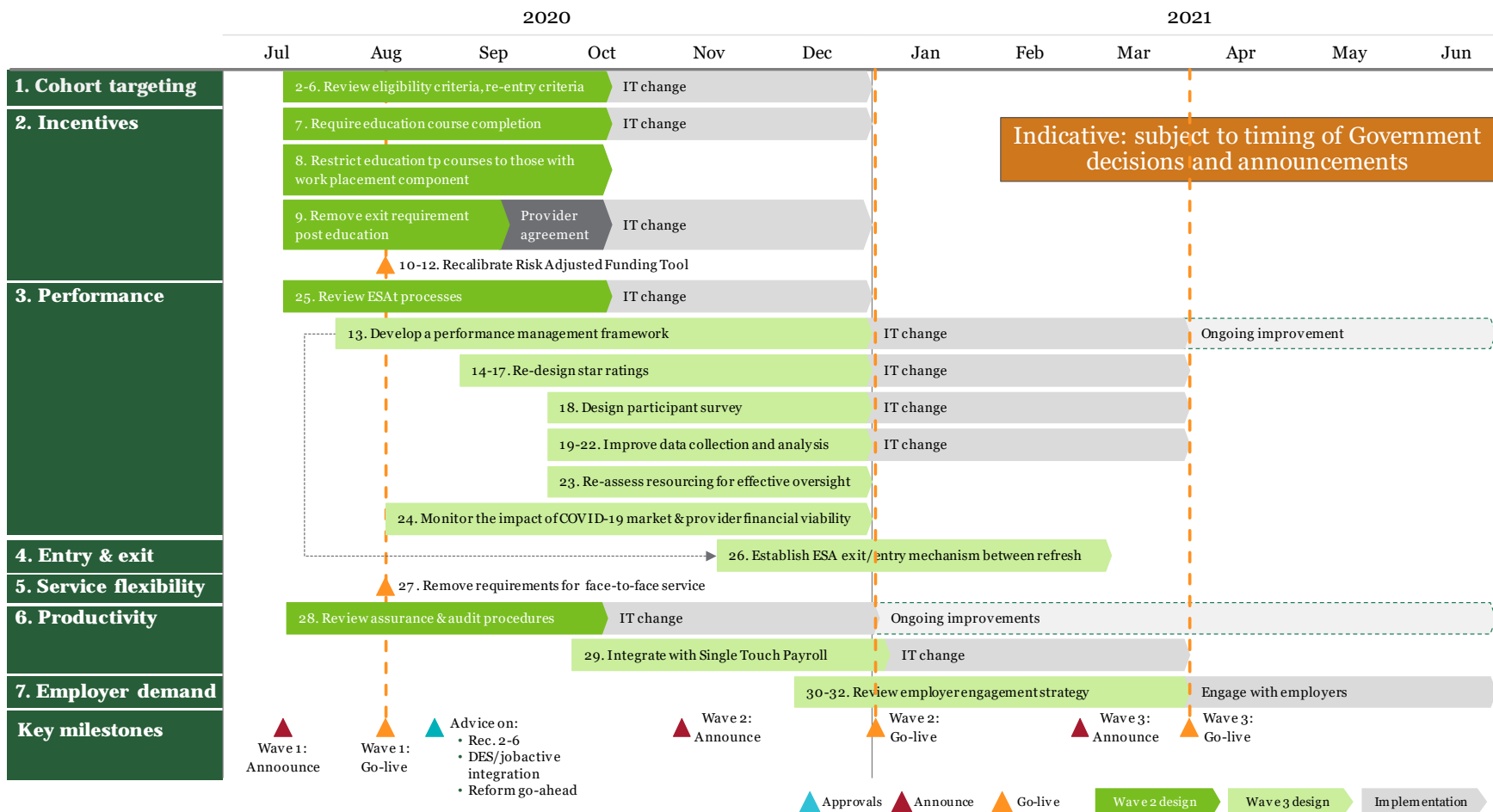
1. By 31 August 2020, finalise advice to Government including:
 - Advice on near term changes to eligibility and education, with consideration given to the marginal cost of DES compared to jobactive;
 - Recommendation to commence DES reform;
 - Advice on level of integration between DES and jobactive.
2. By October 2020, complete the activities listed below for implementation on 1 January 2021:
 - Obtain agreement from providers on any changes required to the Grant Agreement;
 - Conduct a detailed review of ESAs for implementation on 1 January 2021;
 - Redesign compliance and assurance procedures for implementation on 1 January 2021.
3. By December 2020, design a performance management regime for implementation on 1 April 2021.
4. By 31 early 2020, conduct initial reform design and planning for Consideration by Government:
 - Finalise advice on target state DES model;
 - Model the financial implications of the target state DES model;
 - Conduct detailed planning for the design process, including deciding on the extent of iterative design and trials.
5. On an ongoing basis, monitor the impact of the COVID-19 induced recession on the DES market and provider economics.

Exhibit 69. Implementation focuses on changes within the current system for the next six months, with broader reform undertaken ahead of the Grant Agreement expiring in June 2023



Source: BCG analysis

Exhibit 70. Implementation plan for near term changes



Source: BCG analysis

Appendix A. Comparison of jobactive and DES

Table 3. Comparison of features of DES and jobactive

		DES	jobactive	jobactive New Employment Services Model 2022
Structure	Overseen by...	DSS	DESE	DESE
	Legal framework	DES Grant Agreement July 2018 – June 2023	jobactive Deed 2015-2022 Providers engaged by contract	Providers will provide Enhanced Services through a contractual license
	Market restrictions	<ul style="list-style-type: none"> No market caps Able to change providers up to 5 times without any restrictions. After this, some restrictions apply 	<ul style="list-style-type: none"> Market caps for providers Able to change providers due to change of address, if all parties agree, if there has been a relationship failure, for a change in servicing, or if they reach the maximum servicing time with the same provider (varies by stream) 	<ul style="list-style-type: none"> Specialist licenses in some regions Licenses capped in each region
	Mutual obligations	<ul style="list-style-type: none"> Job search requirements dependent on capacity Anecdotal evidence that DES providers 	Job search requirements depend on stream and individual capacity. Typically they are:	<ul style="list-style-type: none"> Job search requirements remain key focus Shift to new points-based approach requires job seekers to meet certain number of points each fortnight

		DES	jobactive	jobactive New Employment Services Model 2022
		<p>usually agree 10-20 job searches in job plan to</p> <ul style="list-style-type: none"> • Other suitable activities determined by job plan 	<ul style="list-style-type: none"> • Stream A and B: 20 job searches per month • Stream C and over 60s: depends on capacity, generally 10 searches per month • Other activities per job plan 	through activities including job search and training
Service model	Service delivery	Regular contacts from provider	<p>Regular contacts from provider</p> <p>Some online servicing via jobactive website</p> <p>Some participants are engaged with Online Employment Services</p>	<p>Three tiers of support will be introduced for job seekers:</p> <ul style="list-style-type: none"> • Digital first: job-ready & digitally literate will self-manage • Digital plus: extra support combines digital services & face-to-face support from a service provider • Enhanced services: most disadvantaged supported by service providers
Segmentation	Segmentation structure	<p>Services</p> <ul style="list-style-type: none"> • DMS – job seekers with disability, injury or health condition who require assistance to find sustainable employment, not expected to need long-term workplace support 	<p>Streams (determined by JSCI and ESAT)</p> <ul style="list-style-type: none"> • Stream A - relatively more job ready • Stream B - some employment barriers • Stream C - non-vocational employment barriers 	<p>Enhanced Services will be delivered in two tiers:</p> <ul style="list-style-type: none"> • Tier 1: assessed as being ready to participate in intensive work readiness activities including vocational and non-vocational activities to address their barriers to employment • Tier 2: assessed as facing more substantial, non-vocational barriers to employment than Tier 1 job seekers

		DES	jobactive	jobactive New Employment Services Model 2022
		<ul style="list-style-type: none"> ESS – job seekers with permanent disability who require long-term Ongoing Support 		Providers will have the discretion to place job seekers into either tier based on their assessment & personal circumstances
	Sub structure	Funding levels 1 – 5	Period of unemployment Regional loading	JSCI score (moderate or high)
	Eligibility for education	DSP recipient or have not completed year 12	Aged 15-21yrs, have not completed year 12 or equivalent, or Cert III	
Participants	Referral	By Services Australia following an ESAt or JCA	By Services Australia following a JSCI or where applicable an ESAt	
	Caseload (March 2020)	280,180	757,316 (note: approximately 1.5m following COVID-19)	
	Share with disability	All	186,343 (24 per cent)	
Providers	Application process	Applications for grants via Community Grants Hub	Contract procurement via DESE Delivery & Employer Engagement	Panel of employment service providers

		DES	jobactive	jobactive New Employment Services Model 2022
	Performance information	<ul style="list-style-type: none"> Quarterly Star rating results 	<ul style="list-style-type: none"> Quarterly Star rating results Weekly performance reports 	
	Overlap	Around 30 per cent of DES providers also provide jobactive services, and three-quarters vice versa		

Table 4. Mutual obligations are perceived to be less strenuous in DES compared to jobactive

	jobactive	DES
Applicable job seekers	Job seekers receiving participation payments but usually determined by age, assessed work capacity and caring responsibilities: <ul style="list-style-type: none"> • JobSeeker Payment • Youth Allowance (other) • Special benefit 	
Job plan	<ul style="list-style-type: none"> • A job plan is developed by the provider and job seeker. The jobseeker has up to two days to consider their job plan before signing off on the plan. The job plan will outline activities required for the job seeker to satisfy mutual obligation requirements 	
Job search obligations	<p>Typical requirements:</p> <ul style="list-style-type: none"> • Stream A and B: 20 job searches per month (some variation, depending on capacity) • Stream C and over 60s: dependent on capacity, in general expected 10 job searches per month • Note: job search requirements are currently variable due to COVID-19 	<ul style="list-style-type: none"> • Job search requirements dependent on capacity • Anecdotal evidence that DES providers usually agree 10-20 job searches in job plan to "flick and stick"
Other suitable activities	<p>Job seekers may consider the following for inclusion in their job plan:</p> <ul style="list-style-type: none"> • Requirement to attend provider appointments • Requirement to act on referrals to specific jobs made by their provider and attend job interviews offered by employers • Participation in approved activities including <ul style="list-style-type: none"> – Activities to develop job search/interview skills e.g. Employability Skills Training (not available to DES participants) – Study or language, literacy, and numeracy activities under the Skills for Education and Employment program or Adult Migrant English Program – Work experience programs or PaTH internships – Work for the Dole 	

	jobactive	DES
Annual activity requirement	<ul style="list-style-type: none"> • Job seekers required to undertake additional activities for 6 months of each year after their first 12 months in jobactive, this may include: Work for the Dole • Paid or voluntary work • Accredited language, literacy and numeracy courses • Study/accredited education and training • Drug/alcohol treatment 	<ul style="list-style-type: none"> • Not required for DES participants
Exemptions	<ul style="list-style-type: none"> • Job seekers may be exempt in the following cases (however preference is to reduce requirements): temporary incapacity, special circumstances, those with partial capacity to work when their carer is unavailable 	
Oversight	<ul style="list-style-type: none"> • Employment services provider Services Australia 	
Compliance	<ul style="list-style-type: none"> • Targeted Compliance Framework is designed to target financial penalties towards only those participants who persistently commit Mutual Obligation Failures without a valid reason or reasonable excuse, while providing protections for the most vulnerable 	

Appendix B. Parallel international program case studies

Exhibit 71. The UK moved from a complex to a simplified model, while retaining incentive payments

Overview: UK has a highly similar system to DES, recently simplified the payment structures for providers

- UK has an analogous system contracting to providers through the Work and Health Programme (WHP), which provides employment services to PwD, LT unemployed and specific disadvantaged groups
- WHP introduced in 2018, following perception of Work Programme as unsuccessful due to highly complex payments and poor outcomes

Key facts:	Program overview:											
	Mid-2000s	2010-2015	2015-2018									
<p>Responsible Agency UK Department for Work and Pensions</p> <p>Labour force participation % (2018)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; background-color: #2e7d32; color: white;">People with disability</td> <td style="width: 50%; text-align: right;">57.7</td> </tr> <tr> <td style="background-color: #555; color: white;">General population</td> <td style="text-align: right;">83.8</td> </tr> </table> <p>Unemployment % (2018)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; background-color: #2e7d32; color: white;">People with disability</td> <td style="width: 50%; text-align: right;">8.5</td> </tr> <tr> <td style="background-color: #555; color: white;">General population</td> <td style="text-align: right;">3.5</td> </tr> </table> <p># Providers (2019) 6 providers total, with regional monopolies; many providers also have sub-contracted delivery partners</p> <p># Participants (2019) 67,150¹</p> <p>Population (2019) 66.65m</p> <p>Other relevant policies: The Personal Independence Payment is a non-means tested, tax free benefit (max. weekly: £151) to support adults with extra costs of living with a disability or long-term health condition; provides extra layer of support for those entering labour force</p>	People with disability	57.7	General population	83.8	People with disability	8.5	General population	3.5	<p>Timeline</p> <p>Pathways to Work Program</p> <ul style="list-style-type: none"> • Mandatory programme support those claiming incapacity benefits return to work <p>Work Programme</p> <ul style="list-style-type: none"> • Complex outcome payments for providers • Perceived poor outcomes driven by creaming and parking to maximise outcome payments • Scope beyond people with a disability, including more general disadvantage jobseekers (e.g. recently imprisoned) <p>Transition to Work and Health Programme</p> <ul style="list-style-type: none"> • Simplified outcome payments & introduced accelerator payment mechanism, • Reduced participant scope • Shift in provider type from mostly for-profit providers to non-profits 	<p>Payment structure</p> <ul style="list-style-type: none"> • 30% service fee • 70% for job starts: payment by results • Extra service fees provided to most contractors for cash flow problems <p>Program cost</p> <ul style="list-style-type: none"> • Not available 	<p>Payment structure</p> <ul style="list-style-type: none"> • 20% attachment fee: for taking on a jobseeker • 25% outcome fee • 55% sustainment fee • 9 levels of payment based on job seeker status • Payments contingent on exceeding baseline placement rate by 30% <p>Program cost</p> <ul style="list-style-type: none"> • £416.4m for 2015/16 	<p>Payment structure</p> <ul style="list-style-type: none"> • Greatly simplified fee structure – effectively single level • Retained sustained outcome-based focus • Accelerator payment mechanism: standard outcome payment for first 75% of contracted outcome volumes; all further outcomes provided at a 40% higher rate <p>Program cost</p> <ul style="list-style-type: none"> • Estimated at least £130m for 2019/20
People with disability	57.7											
General population	83.8											
People with disability	8.5											
General population	3.5											
<p>Takeaways:</p> <ul style="list-style-type: none"> • The more complex the incentive structure, the higher the chances of unintended consequences • "Set and forget" is very difficult: finding a perfect mix of incentives and program design from the start is unlikely 	<ul style="list-style-type: none"> • Lack of flexibility threatens viability: higher chance of entire program being abandoned 											

1. Note this is for disability cohort only, does not include participant numbers for long term unemployed and early access. Source: UK Department for Work & Pensions; UK House of Commons Library Briefing Papers 2018, 2020; expert consultations; BCG analysis

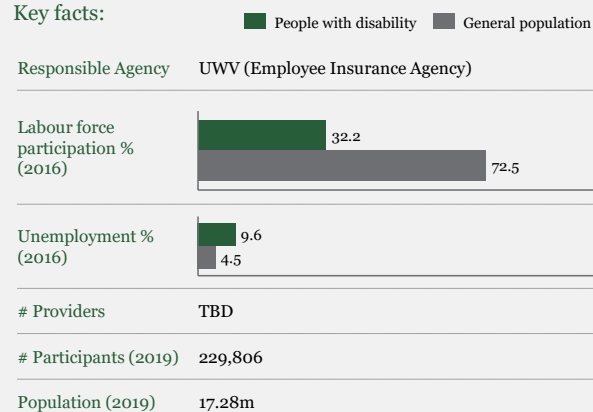
Exhibit 72. The Netherlands transitioned from a complex incentive-based model to mixed public-private delivery, a transition accelerated by economic downturn



Overview: Netherlands had a highly similar system to DES, but from 2007 wound back contracting of services

- During early 2000s, Netherlands had analogous welfare to work system contracting to providers using complex two-tiered categorisation (100+ job seeker types) of unemployed & disabled job seekers
- Following the economic downturn, contracting of services was wound back with providers supporting harder to place cohorts only and the social benefit administration taking on easier to place cohorts
- In 2009, Netherlands had second highest % GDP spend on labour market policies in OECD, spend halved in 2017 following scope reduction & tightening eligibility

Key facts:



Other relevant policies:

The Wajong Act Work Scheme provides specific support to young people with a disability (acquired before 18 yrs old) to boost labour force participation rates through a participation plan and employment support

Program overview:

	2002-2005	2007-2009	2009-present
Timeline	All welfare to work services contracted <ul style="list-style-type: none"> • Complex outcome payments for 100+ granular job seeker cohorts • Perceived poor outcomes driven by creaming & parking to maximise outcome payments • Evidence that outcome only contracts improved outcomes by 3% 	From 2007, contracting of services is wound back <ul style="list-style-type: none"> • Reduction in funding & changed approach given high % GDP spend (0.32% in 2007, second highest after Denmark) • Transition to 'easier to place' cohorts supported by government provided service 	Economic downturn accelerates scope reduction & devolved responsibility to municipalities <ul style="list-style-type: none"> • Tightening of eligibility criteria, scope & disability benefits • UWV still responsible for supporting partially disabled; municipalities deliver the Participation Act for young people with disability
Payment structure	<ul style="list-style-type: none"> • Typical split for partial performance contracts: <ul style="list-style-type: none"> - 50% fixed service fee - 50% outcome fee • Gradual transition to outcome only payment for >50% of all contracts (mostly easier to place cohorts) 	<ul style="list-style-type: none"> • Tender process for outsourced providers using block contracts for target jobseeker cohorts 	<ul style="list-style-type: none"> • Municipalities funded by block grant mechanism, strong incentive to reduce caseloads due to budget constraints
Program cost	<ul style="list-style-type: none"> • €1.1b spent on placements & related services in 2005 	<ul style="list-style-type: none"> • €1.3b spent on placement & related services in 2009 	<ul style="list-style-type: none"> • €609b spent on placements & related services by 2017

Takeaways:

- Appeal of outcome-based models increases for easier-to-place cohorts
- Some evidence that outcome-based models are associated with better placement rates
- Major economic downturns can destabilise outcome-based systems
- Some evidence that targeted support to young people with disability is associated with better placement rates

Note this is for all public employment services, including disability specific programs. Source: Algemene Rekenkamer 2017 (Dutch Audit Chamber); ESB 2015; Journal of Policy Analysis and Management 2013; Learning & Work Institute 2016; Netherlands Institute for Human Rights; Onbeschutte werklozenindustrie, expert consultations; BCG analysis

Exhibit 73. The French employment services network provides job seeker/employer matching

Overview: France provides employment services through government-run Cap Emploi network to match jobseekers/employers



- The government-run Cap Emploi network supports job seekers with disability with job placement & associated supports, working with Pôle Emploi generalist job centres
- Offers employers advice and support on employing PwD including recruitment and presentation of suitable candidates

- Cap Emploi advisors are dedicated to each job seeker/employer providing comprehensive support, can also engage training providers where required
- Cap Emploi funded by the AGEFIPH fund that is fed by contributions from those who do not reach 6% quota of PwD employees, FIPHP and Pôle Emploi

Key facts:

■ People with disability ■ General population

Responsible Agency Cap Emploi (reporting to Ministry of Labour)

Labour force participation % (2015)	43.0	72.5
Unemployment % (2019)	18.0	8.1

Providers (2019) Network of Cap Emploi offices in each of the 98 département (sub-regions)

Participants (2019) 100,000+

Population (2019) 66.99m

Other relevant policies:
AGEFIPH implements the law on the employment of disabled people requiring all companies with >20 employees to hire >6% PwD. AGEFIPH is funded by contributions for those who do not meet quota

Program overview:

	1987	2000	2017
Timeline	<p>AGEFIPH established to promote PwD employment</p> <ul style="list-style-type: none"> • Fund promotes the professional integration & retention of PwD in open employment • Establishes & maintains partnerships with national & regional actors e.g. councils, Pôle Emploi 	<p>Cap Emploi network established</p> <ul style="list-style-type: none"> • Cap Emploi is the specialised operator for disabled workers, working with Pole Emploi (generalist job centres). • 25% of disabled job seekers are supported by Cap Emploi (most complex needs), majority supported by generalist Pôle Emploi 	<p>Role of Cap Emploi strengthened by signing of the disability mobilization agreement</p> <ul style="list-style-type: none"> • Multiyear agreement strengthens role of Cap Emploi with action plan to define national & regional measures for integration of people with disability into the workforce • Cap Emploi has supported job seekers with disability to find job placements with 13% after 6 months; 24% after 12 months
Payment structure		No equivalent structure or KPIs available	
Program cost	• Not available	• Not available	• In 2018, AGEFIPH annual budget of €450m

Takeaways:

- Consistent network across regions ensures clear entry point to system for employers & job seekers
- Two sided system that effectively supports job seekers & employers critical to program satisfaction & outcomes
- Funding of services through quota fund connects spend to highly visible public-facing policy

Note this is for all public employment services, including disability specific programs. Source: Algemene Rekenkamer 2017 (Dutch Audit Chamber); ESB 2015; Journal of Policy Analysis and Management 2013; Learning & Work Institute 2016; Netherlands Institute for Human Rights; Onbeschutte werklozenindustrie, expert consultations; BCG analysis

Exhibit 74. Sweden currently transitioning from public-private employment services to outsourced model

Overview: Sweden currently provides services through municipalities, moving to outsourced model by 2021

- Currently, employment services including for PwD provided at a municipal level, overseen by Arbetsförmedlingen Public Employment Service (PES)
- Outsourced providers are engaged for targeted cohorts needing more dedicated support (e.g. PwD, LT unemployed, migrants) through the Support & Match service

- Sweden will transition to fully outsourced model by 2021, with PES providing only assessments & oversight of the system
- Education payments are equal to employment outcome payments for all job seekers (if they complete equivalent 20 weeks of full time study)

Key facts:		Program overview:			
Responsible Agency	Arbetsförmedlingen Public Employment Service		2009 - 2010	2014 - 2016	2018 - present
Labour force participation % (2019)			Freedom of Choice Act established in 2009	Greater engagement of outsourced providers for expertise & efficiency	Fully outsourced model will be implemented by 2021
Unemployment % (2019)		Timeline	<ul style="list-style-type: none"> Enables regions & municipalities to offer a system where the individual has the right to choose the supplier to perform a service Take-up varied between regions, especially in regional areas 	<ul style="list-style-type: none"> Support & matching service provides more specialised support for target job seeker cohorts; 3 periods of 90 day support limit Public procurement law enables regions to procure outsourced services (primarily for training & education services) 	<ul style="list-style-type: none"> Minority government 'January Agreement' enacted reforms Decision driven by cost saving measures Some flexibility in extent of outsourcing by region Reform delayed by 12 months to allow for further planning before implementation
# Providers (2019)	200+		<ul style="list-style-type: none"> Outsourced providers (both private & not-for-profit) are engaged through local procurement processes & paid for by Arbetsförmedlingen 	Support & matching service payments based on 4 track model of support <ul style="list-style-type: none"> Basic compensation: SEK 100-285 (AUD \$15-45) per day of support Performance compensation: based on track SEK 12,000-18,000 (AUD \$1,898-2,847) Education outcomes¹ is equal to outcome payments for employment on each track (for all job seekers) 	Recommended payment structure aligned with current Support & Matching Service model <ul style="list-style-type: none"> Basic allowance (service fee): varied levels depending on job seeker distance to labour market Income allowance (outcome payment): 3 installments in 12mths for employment/education outcomes
# Participants (2018)	202,503 (57,778 transitions to work; 3,615 transitions to study)		<ul style="list-style-type: none"> Not available 	<ul style="list-style-type: none"> 2014, compensation to private providers was SEK 1,378m (AUD \$217m) 	<ul style="list-style-type: none"> In 2018, compensation to private providers was SEK 980m (AUD \$155m)
Population (2019)	10.23m				
Other relevant policies:					
<p>Education outcomes are core to Sweden's labour market policy. Under the Support & Match service, each job seeker is required to complete 2hrs per 90 day support period receiving education guidance from a guidance counsellor. Education outcomes also receive same outcome payment as employment for all tracks.</p>					
Takeaways:					
<ul style="list-style-type: none"> Provides a one stop shop for employers via the Public Employment Service Education outcome payments may be more effective with higher quality bar 		<ul style="list-style-type: none"> Mandatory education guidance from guidance counsellors may encourage job seekers to complete education courses closely connected to employment goals 			

1. Education outcome paid only for equivalent to 20 weeks full-time study. Swedish Employment Services job readiness training or other education financed by activity support does not qualify. Source: Arbetsförmedlingen 2019, 2014; EASPD 2019; Statistics Sweden 2019; Svenskt Näringsliv 2019; expert consultations; BCG analysis

Disclaimer and conditions

This report has been specifically created for the Commonwealth Department of Social Services (DSS). The purpose of this report is to provide general and preliminary information, and its contents should not be relied upon or construed as such by DSS or a third party. The contents of this report are disclosed in good faith, and subject to change without notice. The report does not contain a complete analysis of every material fact on the subject matter, and all warranties, representations and guarantees pertaining to the reliability, timelines, suitability, accuracy or completeness of its contents are expressly disclaimed. BCG, its subsidiaries and affiliates disclaim all liability relating to or arising from access, use or reliance on this report. DSS is solely responsible for its interpretation of, and decisions taken, based on this report. Except for claims which cannot be capped at law, in no event will BCG, its subsidiaries and affiliates be liable for direct, indirect, incidental, special or consequential losses arising from the information in this report, whether arising out of contract (including under an indemnity), tort (including negligence), statute, strict liability, third party claims or otherwise, resulting from or related to this report, whether or not such party knew of should have known of the possibility of any such damages.



2020 ESAt Review

Final report

21 AUGUST, 2020



Australian Government
Department of Social Services

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Executive summary

The recent Mid-Term Review of the Disability Employment Services program (DES) highlighted the unclear value-for-money currently provided, given the rising caseload and spend but soft growth in employment outcomes. Employment Services Assessments (ESAts) are a critical process step in controlling entry into the Disability Employment Services program (DES), allowing for qualitative assessment of the employment barriers faced by job seekers. Ensuring that ESAts are effective, accurate, and consistent is critical to matching appropriate supports to job seekers, and for the ongoing sustainability of DES.

Using analytical and qualitative research, this ESAt Review identified that while ESAts are carried out with a high degree of professionalism, there are suggestions of variation in decision-making patterns, likely due to unclear and generalised guidelines. ESAt assessors face the challenging task of making professional judgments of the severity of barriers to employment faced by a diverse set of ESAt participants. Tightening the guidelines, with clearer specification of what criteria should and should not be used to inform decision-making, will help ensure assessors are equipped to align decisions with policy intent. In addition, a revamped and more tightly targeted Quality Assurance (QA) process will communicate priorities and support information-sharing across assessors. Opportunities also exist to free up assessor workload by eliminating the compulsory ESAts that take place after 18 months of participation in DES.



It is estimated that these changes could result in a net reduction of referrals into DES of between 2 to 7 per cent, translating to a reduction in DES spend of between \$25–90m by 2022-23, along with better matching of individuals to the supports available. Given these implications, a rapid implementation timeline is proposed. However, it is important to allocate time for cross-Commonwealth stakeholder engagement, to avoid any unintended consequences of ESAt changes.

Nonetheless, adjustments to ESAts alone will make a moderate impact at best on the issues identified by the Mid-term DES Review. Broader, more fundamental reconsideration of DES design and eligibility is required. In addition, the complexity of organisational oversight for DES entry – where three policy agencies and one service delivery agency all have varying responsibilities and interests across the end-to-end process – emphasises the importance of the Mid-term Review's recommendation to consolidate the governance of the Commonwealth's employment services programs.

Chapter-by-chapter overview

Chapter	Content
Chapter 1: Context and introduction	<ul style="list-style-type: none">• Description of flagship employment services programs and the role of ESAts and JSCIs in managing program access• Recent history of rapidly increasing caseload and spend in DES, alongside soft employment outcome growth, and the underlying causes of that growth• Scope, timeline, and methodology of the ESAt Review
Chapter 2: Referrals (triggers and triaging)	<ul style="list-style-type: none">• Overview of the process by which ESAts are triggered (via new registrations / JSCIs, Change of Circumstance Reviews (COCRs), DES 18-Month Reviews, and DSP applications) and then triaged by Services Australia prior to assessment• Pain points and opportunities for trigger reform: proposed removal of DES 18-Month Reviews, increased scrutiny of COCRs• Automation of triage efforts by Services Australia
Chapter 3: Program recommendations and work capacity assessments	<ul style="list-style-type: none">• Observations from interviews and data regarding consistency and accuracy of ESAt assessments, for both program recommendations and work capacity• Recommended approaches to tightening up ESAt guidelines, accompanying revisions to Quality Assurance to embed and support change, and enforcing ESAt outcomes
Chapter 4: Further opportunities for change	<ul style="list-style-type: none">• Identification of the need for additional data to support ESAt design and DES eligibility policy decisions• Considerations for ESAt design in the context of broader DES redesign
Chapter 5: Impact assessment and proposed implementation	<ul style="list-style-type: none">• Scoping potential impact of changes on DES referral count and spend• Proposed timeline for recommendation implementation, including immediate next steps

Summary of recommendations

Category	Recommendation
 <p>Referrals (triggers and triaging)</p>	<ol style="list-style-type: none"> 1. Ensure changes to the JSCI as part of the new jobactive model consider the impact on ESA^t referrals through consultation between DESE, Services Australia, DSS and the NIAA 2. Update the pre-listed medical conditions which automatically trigger an ESA^t referrals through the JSCI, informed by the likelihood of achieving a useful ESA^t outcome 3. Increase reviews of provider initiated change of circumstances and clarify when to initiate a COCR review (e.g. new medical evidence should only be actioned if it is likely to change work capacity or required supports) 4. Remove the DES 18-Month Review. Alternatively, conduct 18-Month Reviews as file assessments 5. Continue improving the accuracy and efficiency of ESA^t referrals triggered by the online JSCI. This could include adding new questions to the JSCI, or an alternative screening process 6. Ensure the "Screeni Bot" automation is effective and integrates well within current operations (including passing Business Verification Testing). This should include ongoing auditing and recalibration 7. As already planned by Services Australia, continue to build out complementary automations for ESA^t booking and report writing
 <p>Program recommendations and work capacity assessments</p>	<ol style="list-style-type: none"> 8. Update ESA^t guidelines to be clearer and have more specific criteria 9. Provide more examples of correct ESA^t decisions, aligned to updated program guidelines and covering more "borderline" cases 10. Use analytics to target assessor quality assurance activities (e.g. comparison to overall program results, regional results, or to expected results after normalising for other factors) 11. Conduct standardised QA testing across assessors using file assessments, with a focus on "borderline" decisions 12. Provide selective, data-based feedback to assessors to address potential bias. For example, this could be informed by comparison of individual assessor results to program level results 13. Collect data on actual hours worked (e.g. by work capacity band, disability type) to inform assessor training 14. Examine opportunities to enforce Grant Agreement clauses regarding DES exits following an ESA^t recommendation to another program
 <p>Further change opportunities</p>	<ol style="list-style-type: none"> 15. Conduct more extensive data-gathering to inform ESA^t design and DES eligibility decisions 16. Reconsider ESA^t policy in context of DES re-design

List of terminology used in this review

Term	Description
ADE	Australian Disability Enterprises
COCR	Change of Circumstances Review
DES	Disability Employment Services
DMS	Disability Management Service (DES stream)
ESS	Employment Support Service (DES stream)
Disability	Includes sensory impairment, physical impairments, learning disabilities, mental health conditions or behavioural conditions, and injuries and chronic illnesses, and including both permanent and temporary disabilities
DESE	Department of Education, Skills and Employment
DSP	Disability Support Pension
DSS	Department of Social Services
Employment Assistance	The program services provided to a participant prior to achieving an outcome. This continues for a maximum of 18 months, included all prescribed program services to participants who are not receiving Post Placement Support, or until the participant exits the program, starts Ongoing Support, or transitions to Post Placement Support.
ESAt	Employment Services Assessment
Grant Agreement	The Disability Employment Services Grant Agreement, effective as of 1 July 2018 until 30 June 2023. This may be extended up to an additional 10 years at the Department's option.

Term	Description
JCA	Job Capacity Assessment
JSCI	Job Seeker Classification Instrument
NIAA	National Indigenous Australians Agency
Non-medical barriers	Barriers to employment not related to medical conditions. This includes vocational barriers, special needs barriers (e.g. risk of homelessness) and personal factors (e.g. alcohol dependence, relationship breakdown)
Ongoing Support	Services provided to a participant who are assessed as requiring further support in the workplace. This is determined through an Ongoing Support Assessment and is available to participants who have achieved a 26-week Employment Outcome or a Work Assistance, and are currently employed.
Post Placement Support	Services provided to a participant after starting an education or training activity while they are working towards an outcome, unless the participant is in Ongoing Support.
QA	Quality Assurance
SA	Services Australia
TtW	Transition to Work

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Chapter 1 summary: Context and introduction

1.1. Entry to flagship employment services programs is managed through JSCIs and ESAts

DES and jobactive are flagship employment services programs, responsible for ~\$850m and \$1.4b of spend in 2018-19 respectively, where non-government providers are offered incentive payments to assist job seekers in finding employment. DES is intended for individuals for whom disability is their primary barrier to employment. In remote areas, the function of both programs is replaced by the Community Development Program (CDP). Oversight of these programs is split between DSS, DESE, and the National Indigenous Australians Agency (NIAA), with Services Australia as the key delivery partner (including ESAts management).

A two-stage process manages entry into these programs:

- Job seekers complete the JSCI questionnaire, identifying where they might have substantive barriers to employment (including work capacity limitations, disability, or non-disability barriers such as homelessness). JSCI results will flag the possible need for an ESAt to Services Australia, who perform triaging before an ESAt takes place;
- Triaging then decides who undertakes an ESAt, where an interview by an appropriately qualified individual (e.g. allied health professionals) results in a recommendation for which program an individual should join, and assesses their weekly work capacity.

1.2. Declining DES performance has drawn attention to role of ESAts

The DES caseload has grown rapidly in recent years, while employment outcomes achieved have been soft and program efficiency has fallen. Variations in program design between DES and jobactive have attracted relatively hard-to-place individuals into DES. The 2020 Mid-term DES Review suggested:

- Eligibility for DES should be optimised, to ensure a focus on individuals who gain the most benefits compared to baseline outcomes;
- The ESAt process may also need to be adjusted, to ensure accuracy and consistency in decision-making under current selection criteria.

1.3. BCG commissioned to conduct ESAt Review with broad scope and at speed, using multiple lines of evidence

Consequently, BCG was commissioned to support the Department of Social Services in a four-week, end-to-end review of the ESAt process, spanning the initial triggering of ESAts by JSCIs, the triaging of triggered ESAts prior to assessment, the assessment process itself, and broader opportunities for change and reform. The ESAt review leveraged wide-ranging stakeholder and assessor interviews, as well as analysis of multiple-million row datasets.

Section 1.1

Two-stage entry process into employment services programs is managed through JSCIs and ESAts

jobactive, DES, and CDP are **flagship employment programs**

- Employment services programs overseen by the Commonwealth span:
 - jobactive, a large "mainstream" service
 - DES, supporting individuals whose primary barrier to employment is disability
 - CDP, offering remote area services
 - Other programs e.g. Transition to Work (TtW), ParentsNext

Program entry is **regulated by JSCIs and ESAts**

- JSCI provides initial questionnaire –based assessment
- For selected individuals, the interview-based ESAt recommends a program and assesses participant work capacity

Policy and delivery is **split between four agencies**

- DESE oversees jobactive and JSCI policy
- DSS oversees DES and ESAt policy
- NIAA oversees CDP
- Services Australia is a key delivery partner across agencies, including administering ESAts for DSS

DES, jobactive, and CDP are flagship employment support services programs



Description	"Main stream" non-remote employment services program	Specialist disability support service	"Main stream" remote employment services program
Caseload (March 20 ¹)	757,316 (note: approximately 1.5m following COVID-19)	280,180	32,145
Key criteria for entry	Job seekers who do not qualify for DES or CDP, in addition to other eligibility criteria	Disability as primary barrier to employment	Job seekers living in designated remote areas of Australia
Segmentation structure	Streams (determined by JSCI and ESAt) <ul style="list-style-type: none"> Stream A - most job ready, on a relative basis Stream B - some employment barriers Stream C - Non-vocational employment barriers 	<ul style="list-style-type: none"> DMS - job seekers with disability, injury or health condition who require employment assistance, not expected to need long-term workplace support ESS - job seekers with permanent disability who require long-term Ongoing Support 	No segmentation
Funding approach	Combination of duration of unemployment, stream (which incorporates JSCI), and regional loading combined with stream	Funding Levels, based on algorithmic assessment of participant characteristics and likelihood of finding a job	Service payments based on Work for the Dole (WfD) eligibility and participation in WfD activities. Employment outcome payments based 13 and 26 week achievements
Market	<ul style="list-style-type: none"> 39 providers Market caps for providers Limited participant choice 	<ul style="list-style-type: none"> 110 providers No market caps Choice of provider 	<ul style="list-style-type: none"> 46 providers in 60 regions No participant choice - only one provider in each region
Dependency on ESAts	<ul style="list-style-type: none"> Eligibility for Stream C Exemption from mutual obligations requirement Related employment programs - e.g. Transition to Work - may have ESAt dependencies Affects provider payment rates 	<ul style="list-style-type: none"> Eligibility Inform funding arrangements Work capacity assessment 	<ul style="list-style-type: none"> Eligibility Inform funding arrangements Exemption from mutual obligations requirement
Use of work capacity assessments	May determine mutual obligation hours	Affect classification of employment outcomes as either "pathway" or "full", with the latter resulting in ~3x higher payments to providers	May determine mutual obligation hours
Program spend (FY19)	~\$1,400m	~\$900m	~\$300m
Managed by...	Department of Education, Skills and Employment	Department of Social Services	National Indigenous Australians Agency

1. Note that caseloads across all programs have grown rapidly since the March quarter 2020, due to the impact of COVID-19.

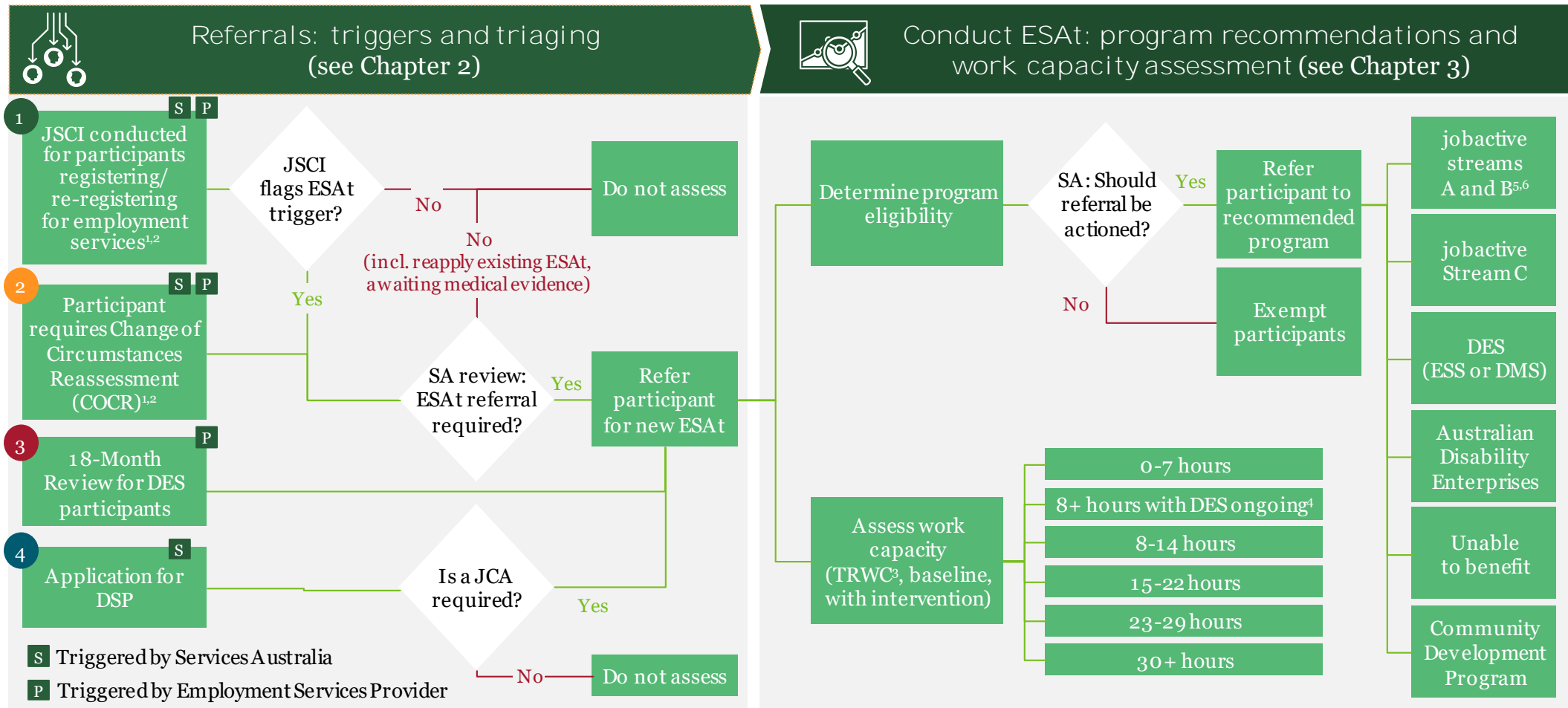
Source: [CDP Regional Data Report 2018-19](#), [CDP Head Agreement](#); [DJSB Portfolio Budget Statements](#); [DSS Portfolio Additional Estimate Statements](#);

DES Mid-Term Review report; BCG analysis

Entry to DES, jobactive, and CDP is managed through JSCIs and ESAts (while JCAs manage eligibility for DSP)

	JSCI	ESAt	Job Capacity Assessment (JCA)
Description	<ul style="list-style-type: none"> Most job seekers complete the JSCI when they first register for employment assistance with Services Australia and when there is a change in their circumstances Initial assessment to determine the appropriate employment service for the job seeker (those with more complex barriers or needs may complete the JSCI as well as ESAt/JCA) 	Used to assess <ul style="list-style-type: none"> barriers to finding and maintaining employment work capacity (in hour bandwidths) interventions/assistance that may be of benefit to improve their current work capacity 	Used to determine qualification for DSP based on <ul style="list-style-type: none"> level of functional impairment current/future work capacity barriers to finding/maintaining employment JCA contains a complete ESAt
Format	Survey consisting of up to 49 questions (min. of 18 questions)	~30 minute interview, conducted by an allied health professional	~1 hour interview by phone or video conference
Performed by	<ul style="list-style-type: none"> Participant (survey) Services Australia staff or employment service provider 	<ul style="list-style-type: none"> Health or allied health professional 	<ul style="list-style-type: none"> Clinical health professional
Outputs	<ul style="list-style-type: none"> Numerical JSCI score – higher the score, the higher likelihood of remaining unemployed for at least 12 mths Recommendations for ESAt trigger, social worker trigger, language literacy and numeracy 	<ul style="list-style-type: none"> Report on identified barriers to work Estimate of work capacity, including: temporary reduced work capacity, baseline work capacity and with intervention capacity Recommendation of referral into relevant employment program and stream 	<ul style="list-style-type: none"> Outcome on qualification for receiving DSP Work capacity for Fully diagnosed, treated and stabilized conditions
# conducted per year (2019-20)	>1m	261,811	51,961
Managed by...	Department of Education, Skills and Employment	Department of Social Services	Department of Social Services

End-to-end ESAt process spans two stages: referrals (triggers and triaging), and the assessment itself (program recommendation and work capacity assessment)



1. JSCI not required in all cases 2. Restrictions apply to provider referrals 3. Temporary Reduced Work Capacity 4. For participants who will only be able to reach 8 or more hours work a week with DES ongoing support. Applies to With Intervention work capacity only 5. Stream determined by JSCI score 5. Participant may be subsequently referred to TtW
 Source: ESAt and JSCI Instrument Overview; ESAt referral information; ANAO 'Qualifying for the Disability Support Pension'; BCG analysis

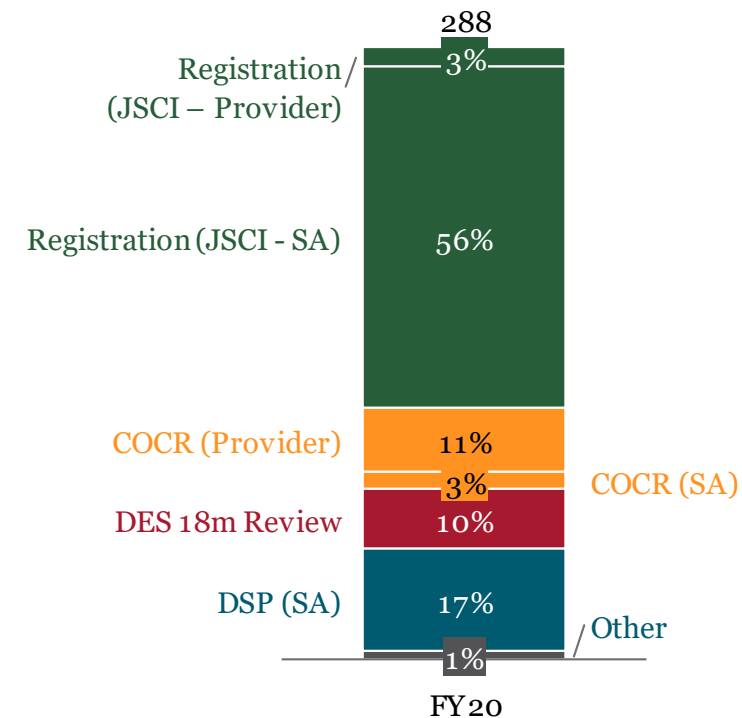
ESAts are mainly triggered through four channels

Description of ESAt triggers

- | | |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1 Registration for employment services with JSCI trigger</p> | <ul style="list-style-type: none"> Participant undergoes a JSCI when they register or re-register for employment services JSCI triggers an ESAt depending on the participant's responses to medical, special needs or personal factor questions |
| <p>2 Change of Circumstances Review (COCR)</p> | <ul style="list-style-type: none"> Services Australia or the participant's provider may refer the participant for an ESAt if their circumstances change in a way which may influence their ESAt result For example, provision of new medical evidence |
| <p>3 DES 18-Month Review</p> | <ul style="list-style-type: none"> DES participants undergo a "Program Review" after 18 months in "Employment Assistance" to determine if they will benefit from an further 6 months in DES This is conduct through an ESAt, unless the participant is undertaking employment or training, or otherwise exempt |
| <p>4 DSP application, resulting in a JCA</p> | <ul style="list-style-type: none"> Participants who apply for the Disability Support Pension, meet the non-medical claims criteria but not the manifest criteria are required to undergo a Job Capacity Assessment, which includes an ESAt |

Majority of ESAts triggered by JSCIs on registration for employment services

Number of ESAts ('000)



Note: Other includes Foreign Pension, Sickness Allowance, Youth Disability Supplement and Temporary Incapacity Source: ESAt and JSCI Instrument Overview; ESAt referral information; DSS; BCG analysis

JSCI triggers an ESAt referral based on participant's particular medical conditions or if medical condition impacts ability to work

Current JSCI medical triggers for an ESAt

	Overall triggers	Additional detail
Medical triggers (any one of the following triggers)	Does the participant have one of the pre-listed conditions (medical, disability, addictions)?	Acquired Brain Impairment, Anxiety, Anorexia Nervosa, Bi Polar Affective Disorder (Manic Depression), Bulimia, Depression, Emotional Disturbance, Child/Adolescent, Intellectual Disability, Learning Disability, Obsessive Compulsive Disorder, Other Psychological/Psychiatric disorder, Paranoid, Personality Disorder, Phobias, Post Traumatic Stress disorder, Psychosocial Deprivation, Psychotic, Schizophrenia, Toxic Brain Injury, Traumatic Brain Injury
	Participant considers they are unable to work at least 30 hours per week	--
	Medical condition which affects the type of work a participant can do	--
	Medical condition which results in participant requiring additional support in the workplace	--

Note: Triggers only apply to disabilities that the job seeker considers will last for three months or longer, or is not sure whether they will last for this duration
Source: ESAt Triggers Document provided by DESE

JSCI triggers an ESAt referral if participant has special needs or personal factors impacting their ability to obtain employment

Current non-medical triggers for an ESAt

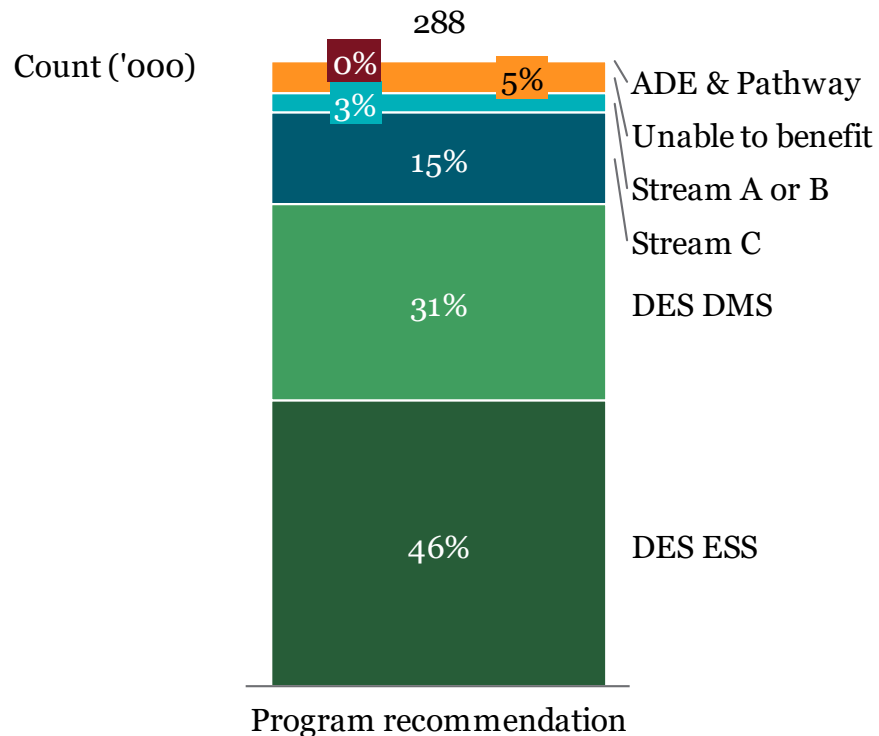
	Overall triggers	Additional detail
Special needs triggers	21 or younger and satisfies any one of the specific triggers:	<ul style="list-style-type: none"> • Sole parent • Mostly unemployed in past two years • Stability of residence (e.g. required emergency or temporary housing, moved 4+ times in the past year) • Risk of homelessness • Highest level of education is less than year 10 • Ex-offender • Indigenous • Socially isolated (parents were not regularly paid work in early teens)
	22 or older and receives any three of the specific triggers	<ul style="list-style-type: none"> • All factors listed above (excl. sole parent, indigenous, socially isolated) • Low English Language and Literacy skills
	Recent crisis payment recipient	<ul style="list-style-type: none"> • Received crisis payment in the 6 months before initial registration or annual review
Personal factors triggers	Any of the following factors	<ul style="list-style-type: none"> • Drug dependence • Personal crisis or trauma (incl. domestic violence, grief, etc.) • Vertigo • Drug treatment program • Gambling addiction • Severe stress • Anger issues/violence • Relationship breakdown • Arrived in Australia on refugee/humanitarian visa in the past 5 years

Note: "sleep problems/insomnia" or "self esteem/motivation/ presentation issues" adds to the JSCI rather than triggering an ESAt referral
 Source: ESAt Triggers Document provided by DESE

More than three-quarters of completed ESAts recommend DES, and 70 per cent are assessed as low work capacity (<23 hours/week)

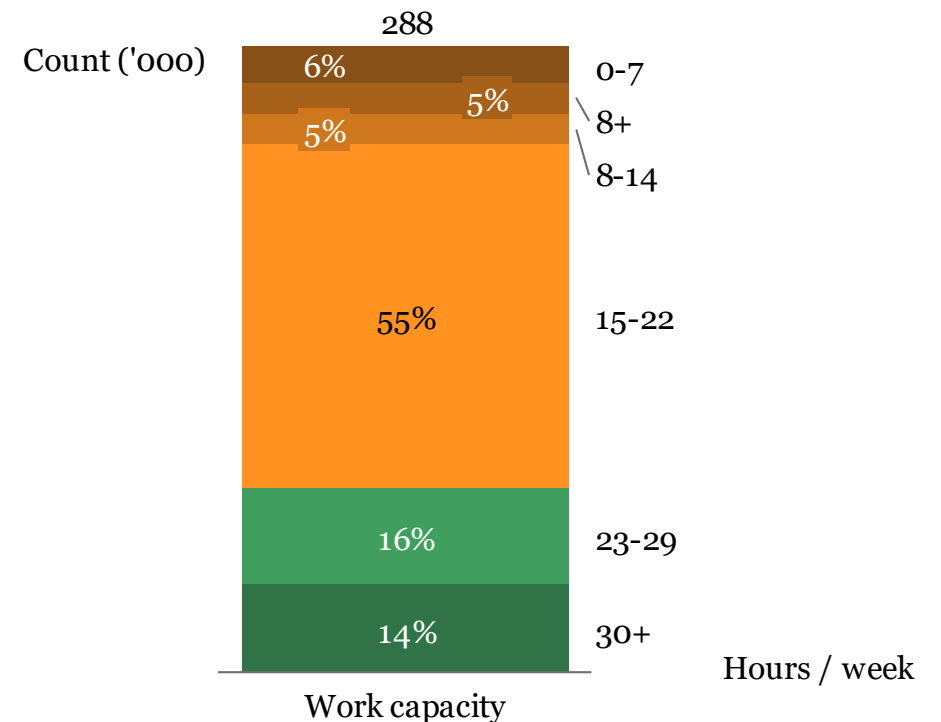
~77 per cent of completed ESAts recommend DES program for participants

Distribution of ESAt program recommendations (2019-20)



~65 per cent of completed ESAts result in work capacity assessments under 23 hours/week

Distribution of ESAt program recommendations (2019-20)



Accurate program recommendations are necessary not only to ensure that participants access appropriate supports, but to manage spend sustainability

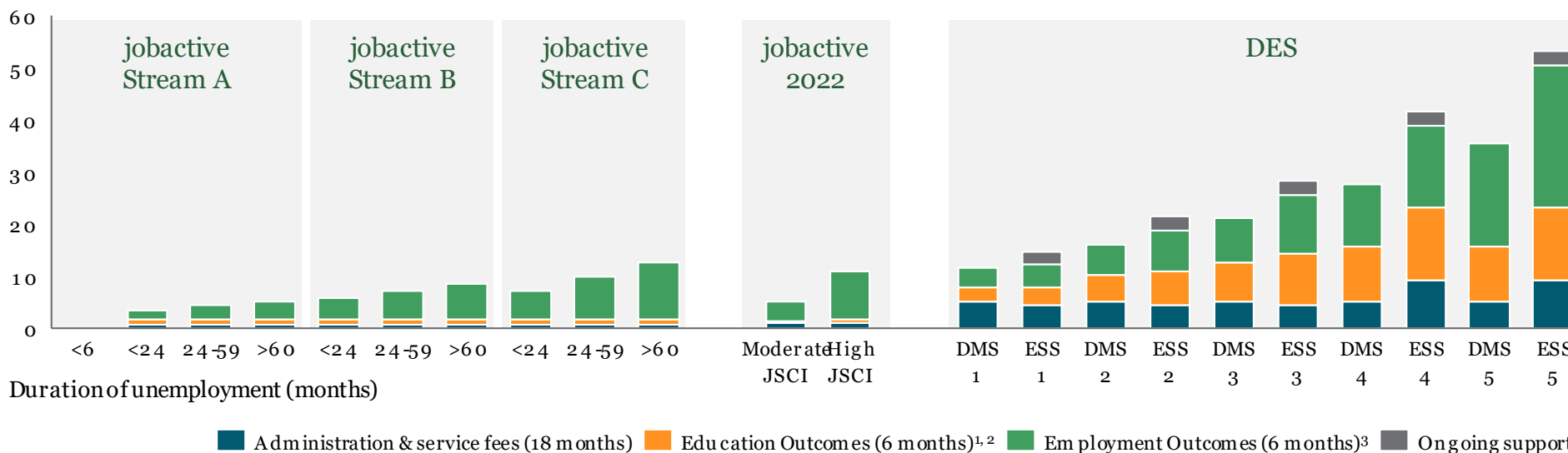
Using an illustrative participant journey...

Illustrative journey includes education, employment outcomes and ongoing support



...cost of delivering employment programs varies substantially across major employment services programs

Provider payment in programs based on illustrative customer journey (\$ '000)



1. Eligibility for education outcomes more restricted in jobactive vs DES 2. Assumes participant re-enters DES after achieving an education outcome 3. Assumes “full outcome” payments rather than “pathway outcome” 4. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 months, ESS only).

Source: DSS DES Grant Agreement 2018, DESE jobactive Deed 2015-2020

Accurate work capacity assessments are necessary to avoid the negative impacts of under- and over-estimates

Impact of underestimating or overestimating work capacity:



Participant employment outcomes



Government expenditure

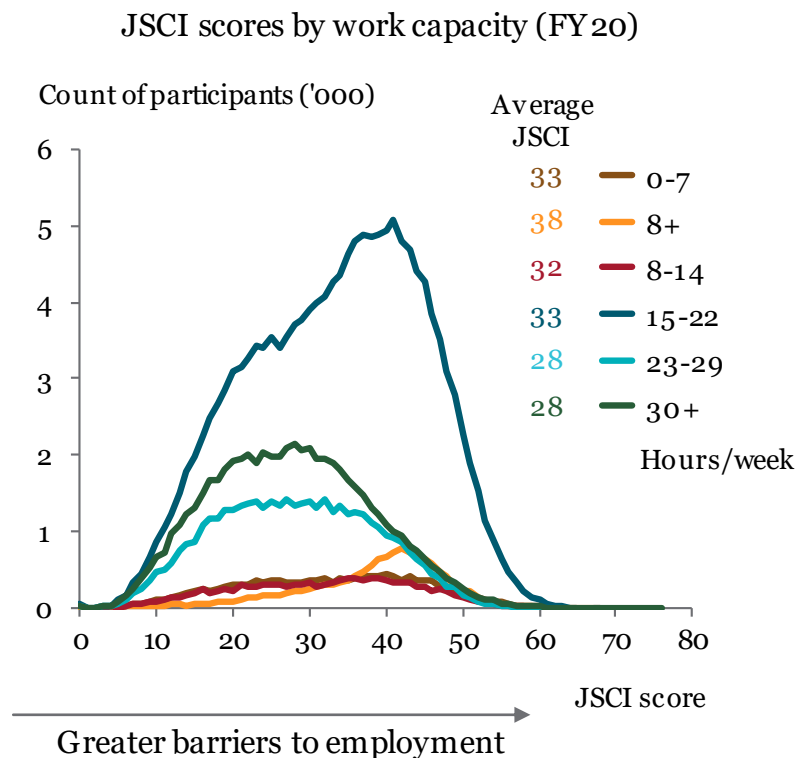
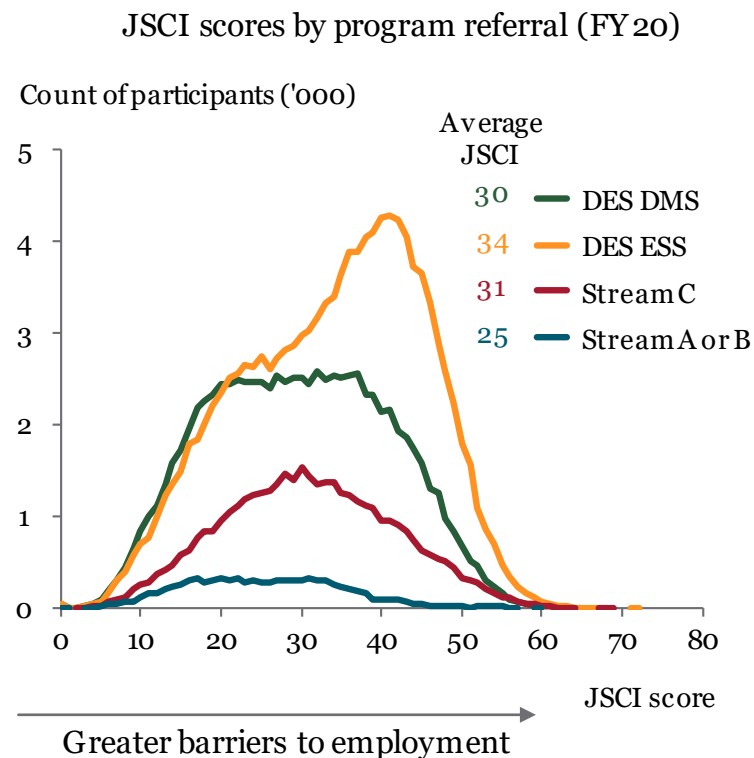


Provider economics

	Participant employment outcomes	Government expenditure	Provider economics
<p>Overestimating work capacity</p>	<ul style="list-style-type: none"> × Participant will not be able to sustain employment in the role × Provider will focus efforts on participants who can more easily meet their benchmark hours 	<ul style="list-style-type: none"> × Higher income support payments if participant is unable to gain employment 	<ul style="list-style-type: none"> × Providers less likely to receive full outcome payments (which are 3x the value of pathway outcomes), impacting sustainability
<p>Underestimating work capacity</p>	<ul style="list-style-type: none"> × Provider has less incentive to place participants into roles with greater hours 	<ul style="list-style-type: none"> × Participants more likely to remain on income support, even after achieving an employment outcome × Granting a medical exemption (via a temporary reduced work capacity) can result in participant being stuck in unemployment cycle by delaying return to work × Higher cost of paying providers for full outcomes 	<ul style="list-style-type: none"> × Providers more likely to achieve full outcome payments without justification

JSCI scores are only weakly correlated with ESAt results, illustrating how ESAts add nuance to assessments

JSCI scores overlap across program recommendations and work capacity estimates



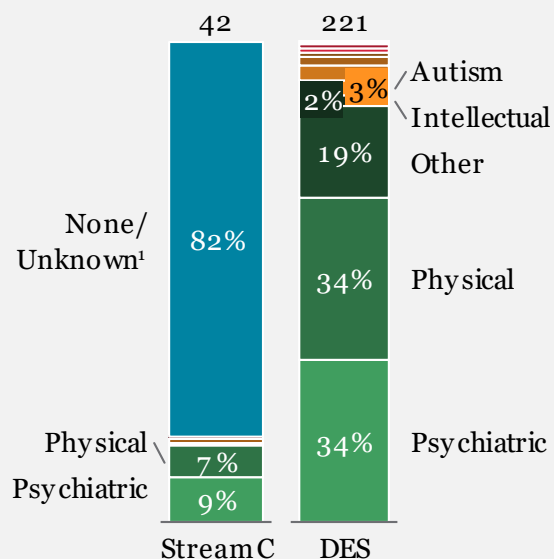
JSCI scores reflects a job seeker's **relative disadvantage** in the labour market which alone is an insufficient basis for decision-making as programs such as DES **specialise in** addressing a particular type of barrier (i.e. disability) rather than an overall disadvantage level.

Work capacity and medical conditions are also factors in the JSCI, hence higher work capacities are on average associated with lower JSCI scores

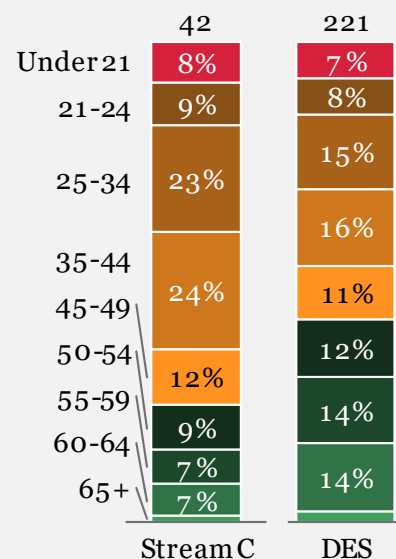
1. <23 hours/week
Source: DSS; BCG analysis

Systematic differences observed between jobactive Stream C and DES participants

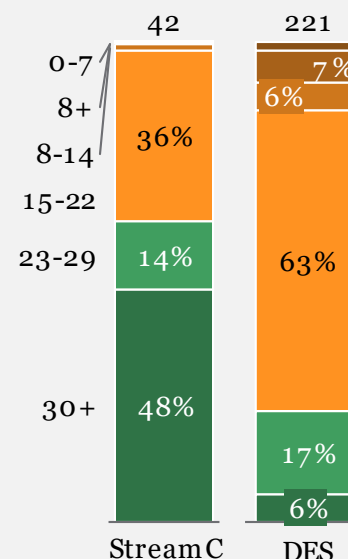
Majority of participants referred to Stream C have not provided evidence of a disability... ('000)



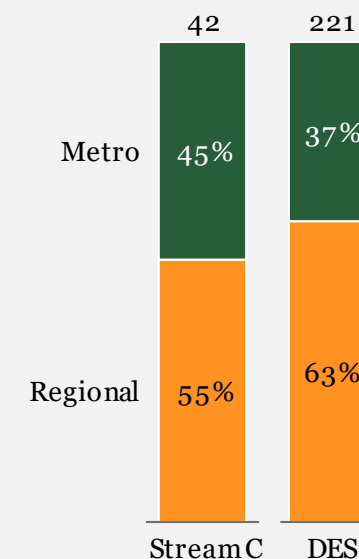
...in general, have a relatively younger age profile... ('000)



... relatively high work capacity in comparison to DES... ('000)



... and are also slightly more likely to live in metropolitan areas ('000)



1. At the time of referral no primary disability was recorded with supporting evidence.

Note: For 2019-20. Assumes NA work capacity to be 30+. 8+ work capacity category is for DSP participants. Unknown geography refers to sensitive individuals that do not have their postcode disclosed. Characteristics of referred participants may not entirely equate with actual participants on the program.

Source: DSS; BCG analysis

Section 1.2

Declining DES performance and rising costs has drawn attention to role of ESAts

- Following the 2018 reforms, **DES caseload grew substantially**, but employment outcome growth has been soft, resulting in **declining overall efficiency**
- **Changes in incentives for providers and participants** have encouraged caseload growth, particularly for volunteers and former jobactive participants
- In recent years, ESAts are:
 - Increasingly **provider-initiated**
 - More likely to **recommend individuals towards DES**, rather than jobactive Stream C
 - Tend to give **lower assessments of work capacity**
- **The relatively high expense of DES, the importance of accurate work capacity assessments**, and the criticality of ensuring DES is targeted towards **those who benefit the most**, all emphasise the importance of **ensuring ESAts are operating effectively**

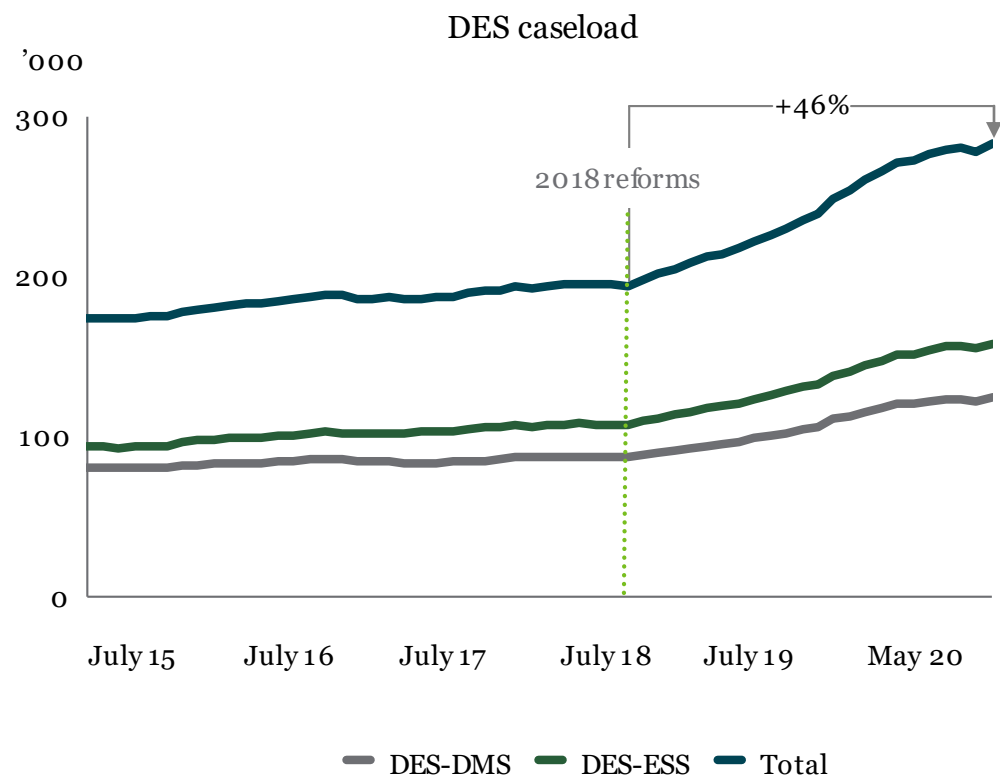
The 2018 DES reforms expanded eligibility for education outcomes and supported participant choice

Six major planks to 2018 reforms:

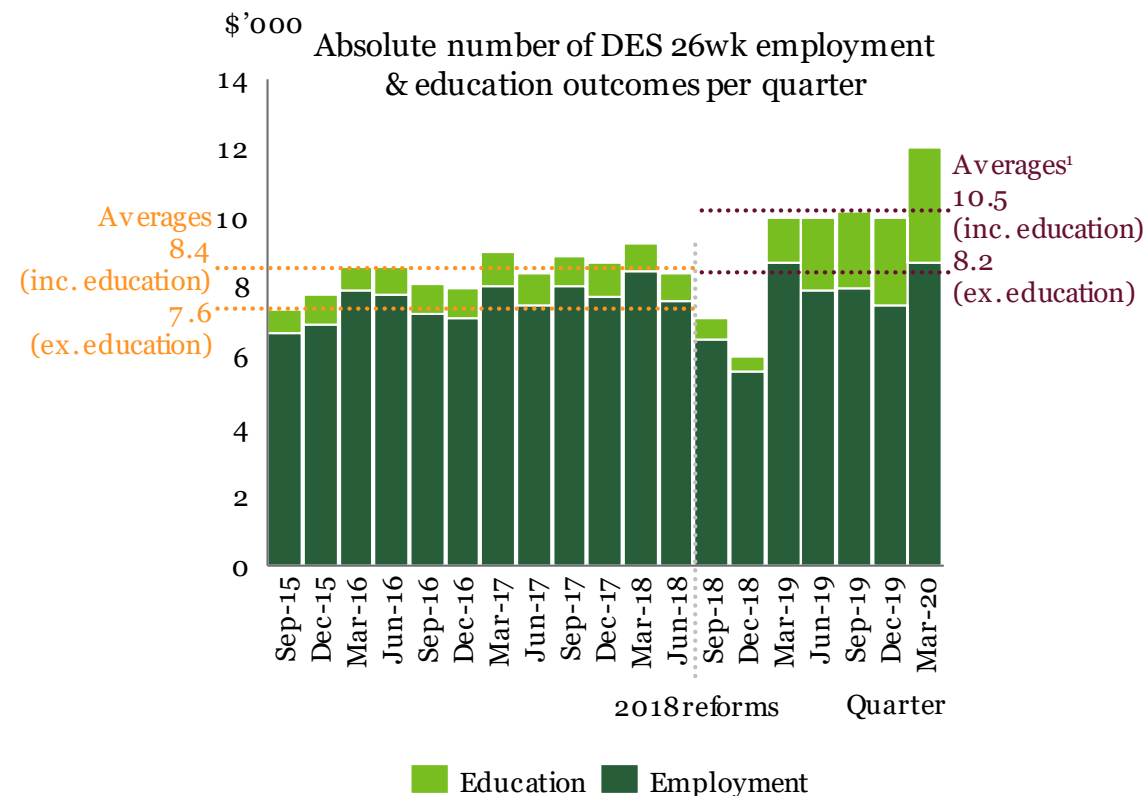
- 1 **Expanded access to education outcomes.** Fees paid to providers increased substantially, as well as participant eligibility.
- 2 **Increased competition and contestability.** Removal of market share caps for DES providers.
- 3 **Increased participant choice.** Allowing participants to change providers up to five times during their time in the program, without prerequisites.
- 4 **Introduced a risk-adjusted funding model.** Splitting funding tiers into five levels across both ESS and DMS participants, with funding based on actuarially-assessed difficulty of placement.
- 5 **Rebalanced fees towards outcomes and away from services.** Adjusting fee rates to move towards 50-50 service-outcome split, rather than 60-40.
- 6 **Encouraged longer-term employment placements.** Among other changes, introduction of 52-week employment outcome fees, elimination of "placement" fees in favour of 4-week outcome fees.

DES showed rapid caseload growth post-reforms, despite relatively flat employment achievement

Caseload has grown by 46 per cent following the reforms



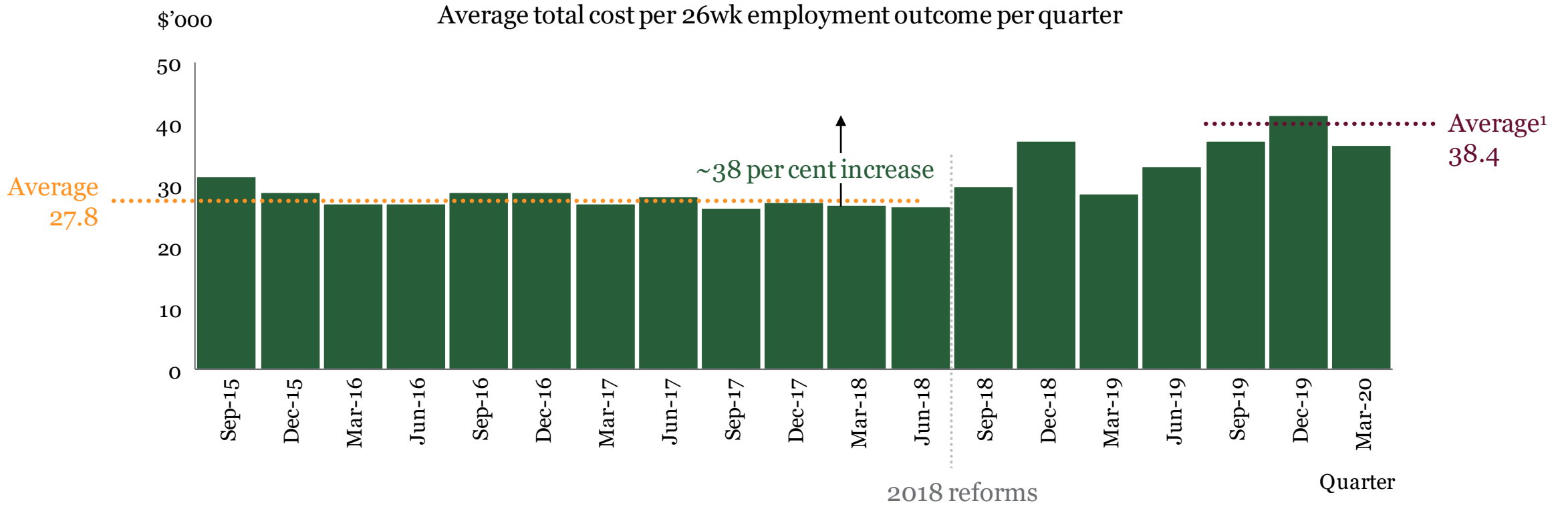
The number of employment outcomes achieved per quarter has been broadly flat



Note: Includes participants who are commenced, suspended, and referred but not yet commenced. 1. Excludes Sep-18 and Dec-18 quarters in weighted average calculation
 Source: DSS; BCG analysis

Consequently, DES efficiency (measured by average costs per employment outcome achieved) has declined

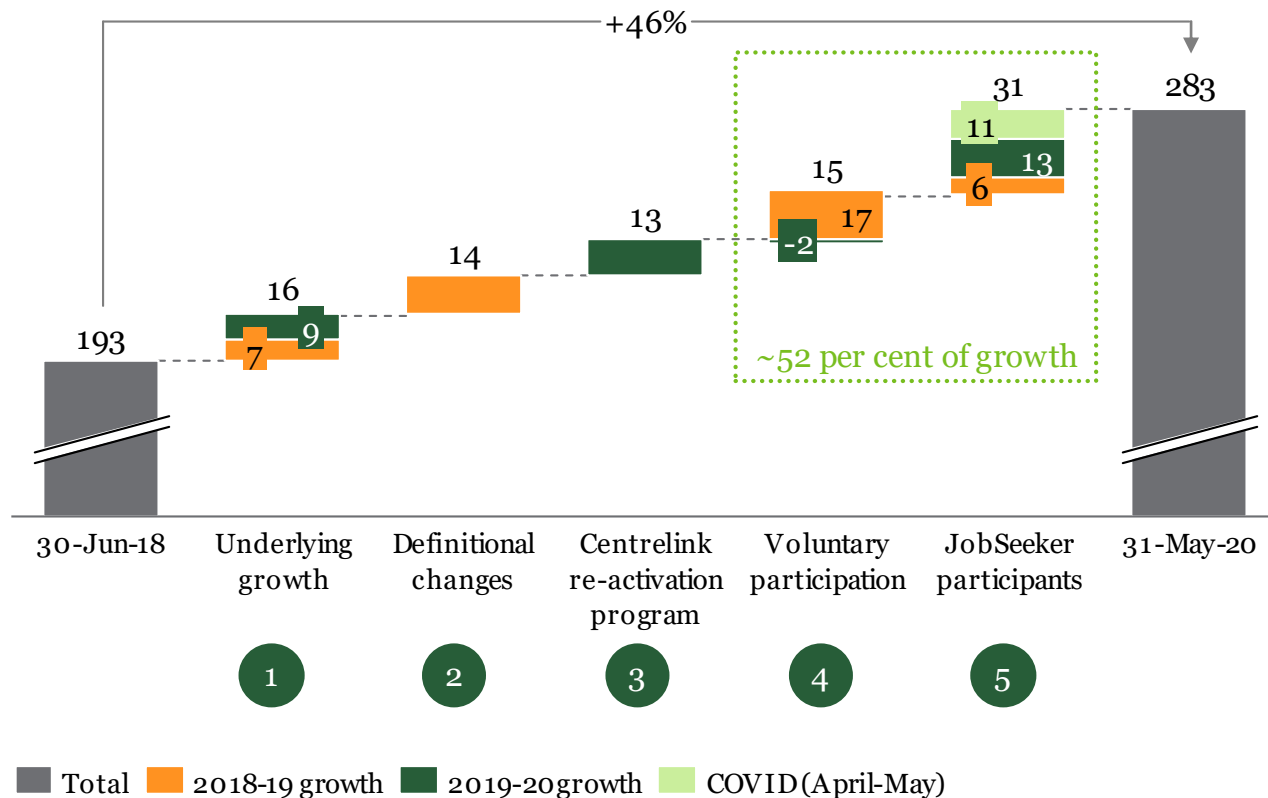
Average spend per 26wk employment outcomes is ~38 per cent higher, on average, post reforms



1. Excludes Sep-18 to Jun-19 quarters in average, due to understatement of total costs as a result of funding level issues (~\$20m was refunded to providers, timing not recorded in available dataset).
Source: DSS; BCG analysis

Approximately half of DES caseload increase driven by JobSeeker participants and volunteers

DES total caseload ('000)



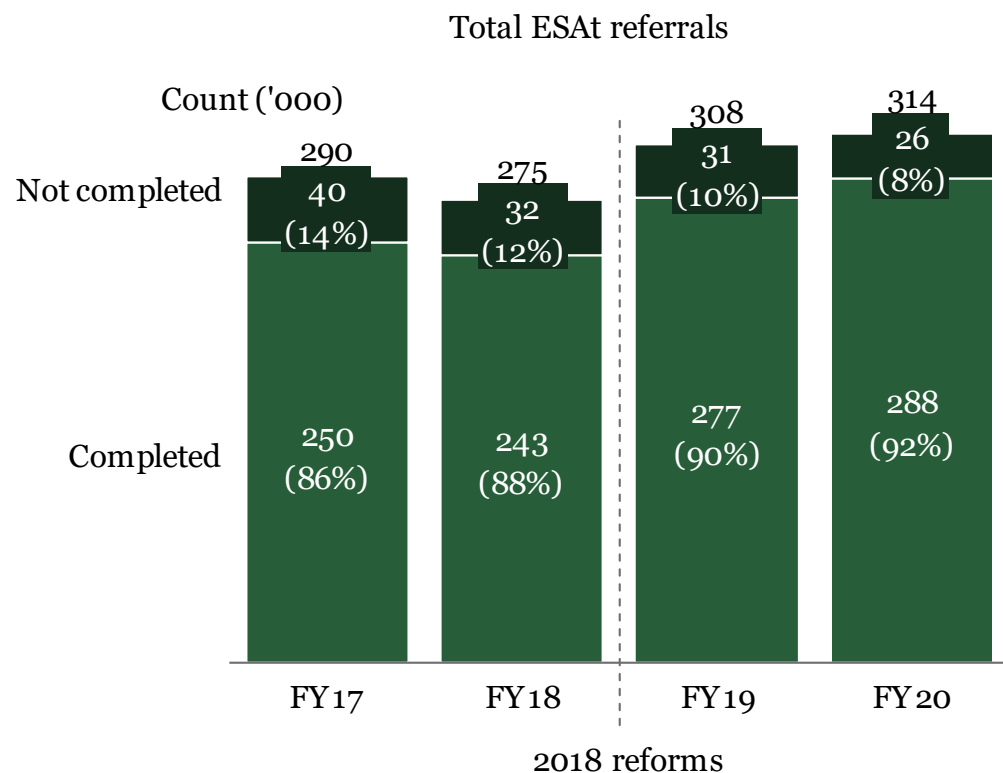
Reason for growth:

- 1 Underlying growth of DES of 3.8 per cent p.a. from 2014-15 to 2017-18
- 2 Definitional changes due to the introduction of 52 week outcomes resulting on participants staying on caseload for longer
- 3 One-off Centrelink re-activation program for participants with mutual obligations who were inactive due to system faults
- 4 Higher voluntary participation, due to provider behavior after removal of market share caps
- 5 High growth in JobSeeker participants, not accounted for by other factors including +11k in the COVID-19 period

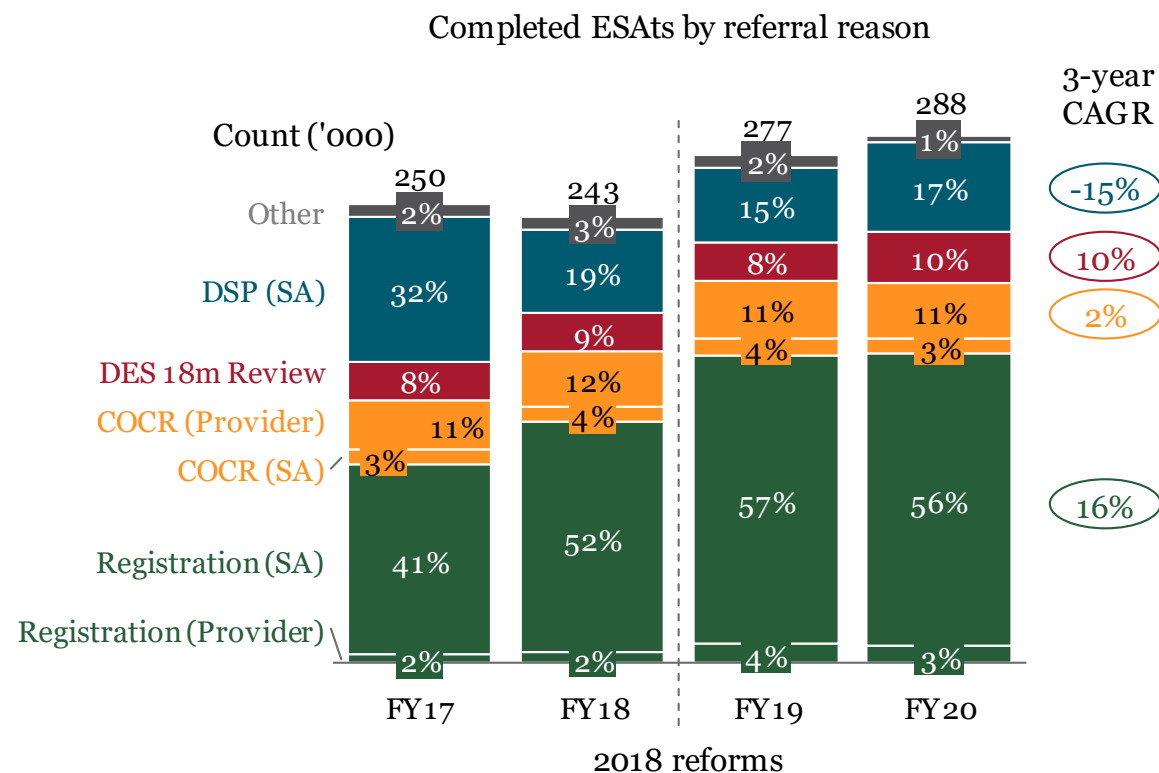
Notes: Figures are for total caseload, including suspensions
 Source: DSS; BCG analysis, EY DES Caseload and Cost Analysis

Bulk of ESAt growth due to new registrations from the introduction of pre-vetting, along with increased use of telephone-based interviews

Increased use of telephone interviews has raised the ESAt completion rate



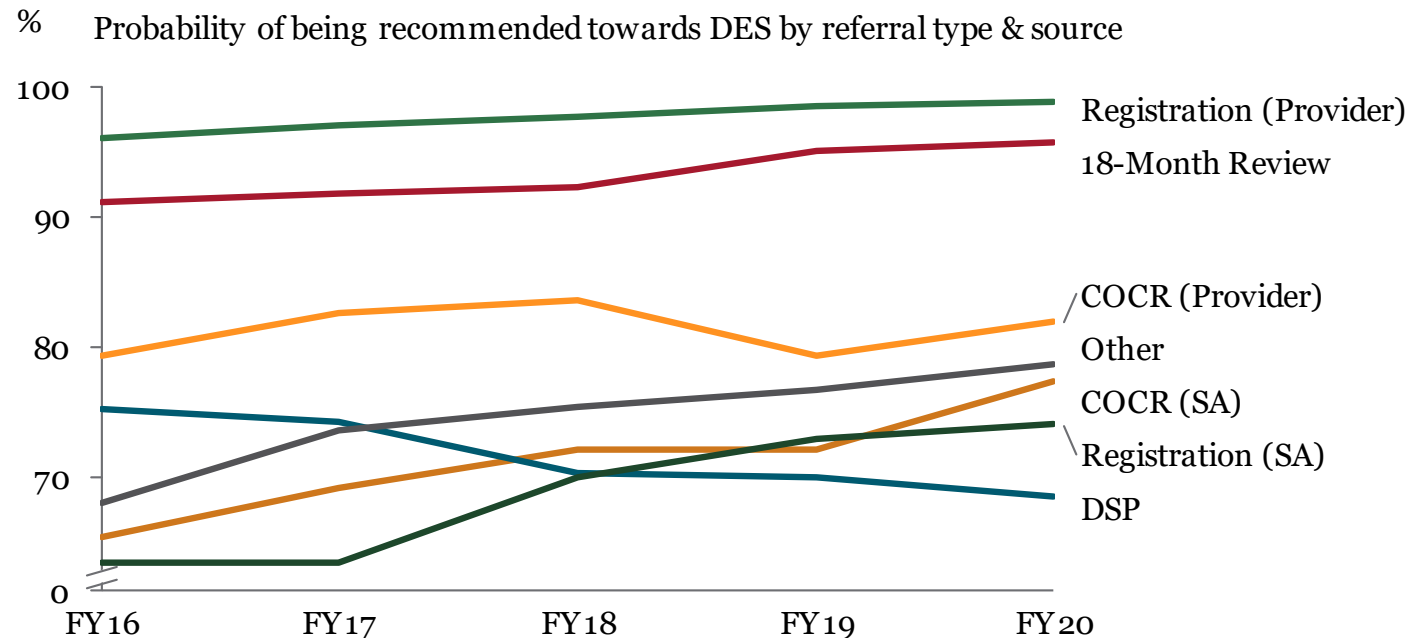
Pre-vetting services for DSP claims in mid-2017 caused ineligible DSP individuals to take the ESAt instead



Note: The most common reason for an ESAt not being completed is participant failure to attend the interview.
Source: DSS; BCG analysis

Majority of referral types are increasingly likely to recommend participants towards DES

Overall upward trend in DES recommendations across referral sources



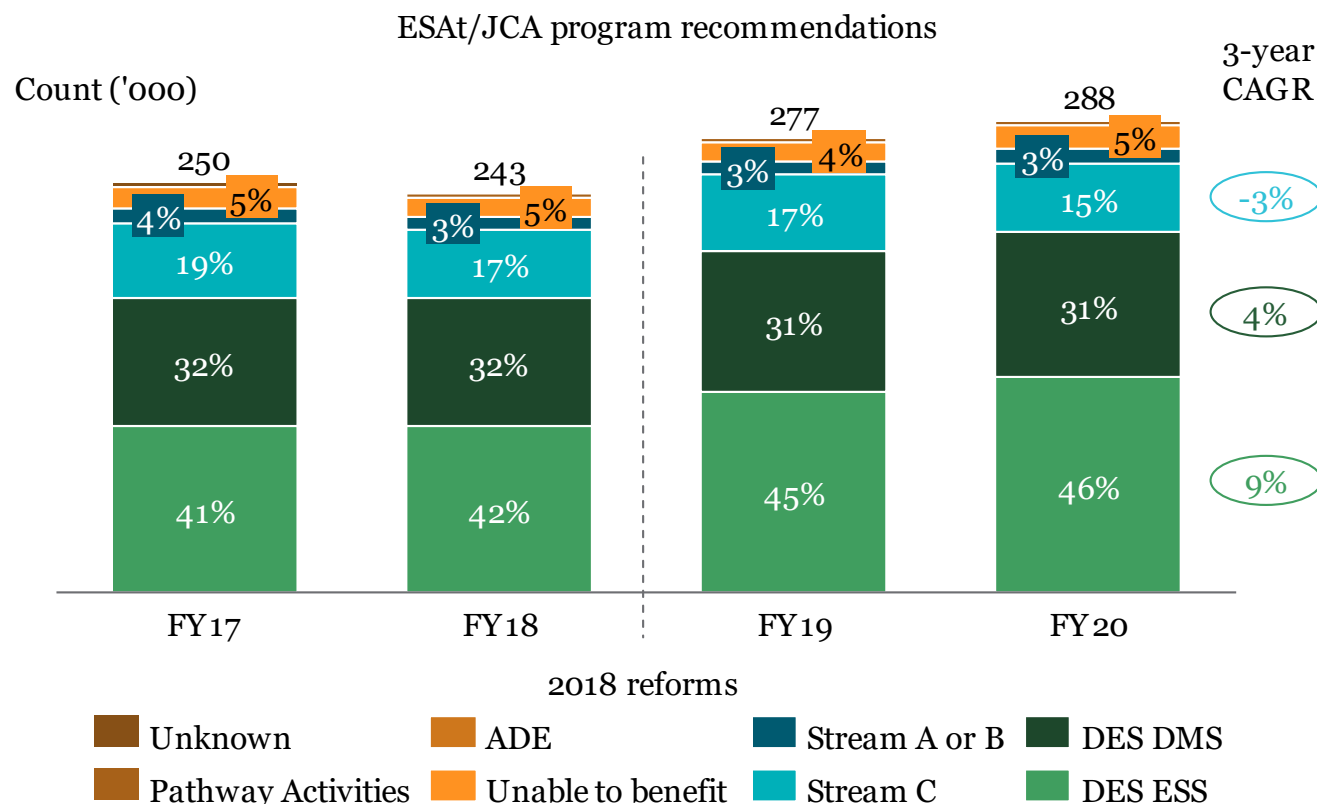
New registrations, COCR and DES 18-Month Reviews ESAts have **increased in both absolute numbers** (as per previous slide) as well as **likelihood of recommending DES**

Both factors are associated with increasing DES caseload

Note: All DSP referrals reasons require a JCA, which inherently includes an ESA t. The majority of DSP referrals are for new DSP claims although there is a minority of DSP Medical Review, DSP Appeal referrals etc, which have all been discontinued and slowly phased out
 Source: DSS; BCG analysis

ESAts are increasingly likely to recommend participants towards DES ESS, which offers Ongoing Support and has higher outcome fees

DES ESS program recommendations are by far the fastest-growing category



Increase in DES ESS recommendations is driven by both the increase in **volunteers (often DSP recipients)** and individuals who have been rejected from DSP but have **some form of long-term disability**

The importance of accurate program recommendations and work capacity assessments underscores the importance of ensuring effective ESAt operations

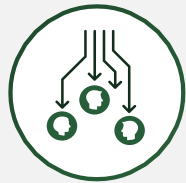
- Program recommendations need to balance both **ensuring appropriate supports are available**, with **maximising the impact of the Commonwealth's limited resources**
- Important to ensure that both...
 - Individuals who face disability as the primary barrier to employment are **able to gain access to DES**
 - Individuals **better served by other programs** are streamed appropriately
- Note that DES is **multiple times higher in cost**, on average, per participant than jobactive Stream C
- Context of rapidly rising caseload raises importance of ensuring ESAt process is operating effectively
- Consequently in mid-2020 the Department of Social Services commissioned an end-to-end review of ESAts

Section 1.3

BCG engaged to conduct ESAt Review with broad scope and at speed, using multiple lines of evidence

- ESAt Review **scope** spanned four questions:
 1. Is the ESAt referral process functioning effectively?
 2. Do ESAts make accurate and consistent decisions, for both program recommendations and work capacity assessments?
 3. What broader changes to ESAt context and oversight should be investigated?
 4. What are the restrictions to and implications of changes, and what is the possible timeline and pathway of reform?
- Review **timeline** covered four weeks, from July to August 2020
- BCG worked with DSS to deploy multiple **methodologies**
 - ESAt Review completed as an extension to BCG's support of the 2020 DES Mid-term Review
 - BCG deployed an expert team, conducting interviews with both stakeholders and operational staff, and analysing multiple-million row datasets

The scope of the ESAt review spanned four issues, covering the end-to-end ESAt process and the opportunities for future change and reform



Chapter 2: Is the ESAt referral process functioning effectively?



Chapter 3: Do ESAts make accurate and consistent decisions, for both program recommendations and work capacity assessments?



Chapter 4: What broader changes to ESAt context and oversight should be investigated?



Chapter 5: What are the restrictions to and implications of changes, and what is the possible timeline and pathway of reform?

BCG partnered with DSS to deliver the ESAt Review, deploying a combination of qualitative and quantitative methodologies

- Leveraging the team that conducted the 2020 DES Mid-term Review, BCG deployed a mix of expert economists, policy analysts, and quantitative researchers
- Delivery of the ESAt Review encompassed:
 - Engagement with Commonwealth stakeholders across the Departments of Social Services, Education, Skills and Employment, Prime Minister and Cabinet, and Services Australia, as well as with Comcare
 - A series of interviews and observation sessions conducted with operational staff:
 - Interviews with 6 ESAt assessors
 - Observation of 11 ESAts
 - Interviews with 1 JSCI assessor
 - Combined analysis of multiple data sources:
 - Historical data on ~1.3m ESAts conducted over the five years spanning 2015-16 to 2019-20
 - Historical data on activity and outcomes for DES participants over the same period, spanning over 1m rows
 - Profiles of ESAt assessors
 - Aggregated data on JSCI participants, completion rates, and triggers

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Chapter 2 summary: Referrals (triggers and triaging)

ESAts are mainly triggered for four reasons:

1. A participant registering for employment services;
2. A change of circumstances review requiring an ESAt being initiated by a provider or Services Australia;
3. Reviews for DES participants that occur after 18 months participation;
4. Applications for DSP ¹.

The JSCI triggers for an ESAt appear to be functioning well, with opportunities for some relatively minor refinements:

- Update the pre-listed medical conditions which automatically trigger an ESAt referrals, informed by the likelihood of achieving a useful ESAt outcome;
- Ensure changes to the JSCI being designed as part of the new jobactive model consider the impact on ESAt referrals. This should include consultation with Services Australia, DSS and the NIAA.

While the ESAt change of circumstances review mechanism results in change in outcome for the participant 48 per cent of the time, there is opportunity ensure these reviews are more targeted. It is recommended that Services Australia increase the reviews of provider-initiated COCR and clarify the appropriate reasons for a COCR.

However, the DES 18-Month Review is a pain point for multiple stakeholders while offering low benefits. It is recommended that 18-Month Review is removed, noting this requires Government approval and provider consent. This would allow assessor work effort to be re-prioritised on higher value tasks and reduce ESAt waiting times.

Section 2.2: ESAt triaging

After an ESAt is triggered by the JSCI, Services Australia conducts a triaging process prior to the ESAt being carried out. This triaging has historically been conducted manually and involved triaging during the participation interview. However, this process has recently changed due to the introduction of the online JSCI ("Job Seeker Snapshot") and process automation by a tool called "Screeni Bot". While BCG not reviewed the operations of this tool, there are clear benefits to automation as a general principle, and Screeni Bot appears to have been welcomed by Services Australia staff.

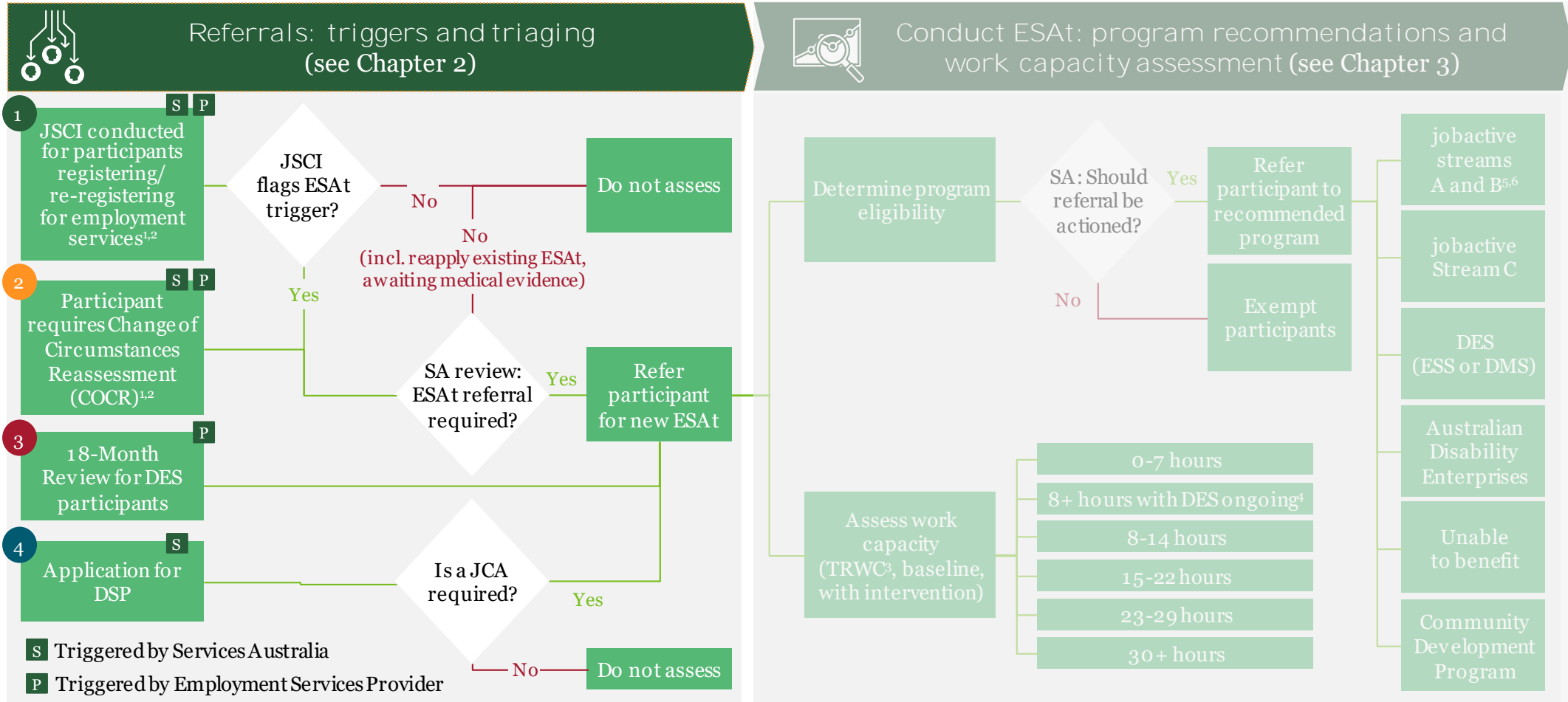
Recommendations to improve the triaging process include:

- Continue improving the accuracy and efficiency of ESAt referrals triggered by the online JSCI. This could include adding new questions to the JSCI, or an alternative screening process;
- Ensure the "Screeni Bot" automation is effective and integrates well within current operations (including passing Business Verification Testing). This should include ongoing auditing and recalibration;
- As already planned by Services Australia, continue to build out complementary automations for ESAt booking and report writing

¹. DSP application triggers are not considered in detail as part of this review
Source: BCG analysis

Chapter 2: ESAt triggers and triaging

Current section



1. JSCI not required in all cases 2. Restrictions apply to provider referrals 3. Temporary Reduced Work Capacity 4. For participants who will only be able to reach 8 or more hours work a week with DES ongoing support. Applies to With Intervention work capacity only 5. Stream determined by JSCI score 5. Participant may be subsequently referred to TtW Source: ESAt and JSCI Instrument Overview; ESAt referral information; ANAO 'Qualifying for the Disability Support Pension'; BCG analysis

Section 2.1

ESAt triggers



Observations

ESAt triggers appear to function effectively, however the DES 18-Month Review has limited benefit

- JSCI medical condition triggers for an ESAt appear appropriate, however there is an opportunity to make minor updates to the conditions which are pre-listed as ESAt triggers
- DESE is re-designing the JSCI as part of the new jobactive model being introduced on 1 July 2022
- Change of Circumstances Review ESAts change program recommendation or work capacity 48 per cent of the time
- DES 18-Month Review provides limited value, creates ~\$4m in cost and workload for assessment services, and negatively impacts participant experience



Recommendations

1. Ensure changes to the JSCI as part of the new jobactive model consider the impact on ESAt referrals through consultation between DESE, Services Australia, DSS and the NIAA
2. Update the pre-listed medical conditions which automatically trigger an ESAt referrals through the JSCI, informed by the likelihood of achieving a useful ESAt outcome
3. Increase reviews of provider initiated change of circumstances and clarify when to initiate a COCR review (e.g. new medical evidence should only be actioned if it is likely to change work capacity or required supports)
4. Remove the DES 18-Month Review (with Government and provider consent). Alternatively, conduct 18-Month Reviews as file assessments

Recap: ESAt are triggered by four main factors

Scope of this review

- 1 Registration for employment services with JSCI trigger
- 2 Change of Circumstances Review (COCR)
- 3 DES 18-Month Review
- 4 DSP application, resulting in a JCA¹

1. JCA and DSP application process are not covered in the scope of this review
Source: ESAt and JSCI Instrument Overview; ESAt referral information; BCG analysis

DESE's review of ESAt triggers found opportunity to refine the list of medical condition triggers

Key findings from the ESAt Trigger Review

- 21 triggers are likely to result in ESAt and a useful outcome
- 12 triggers are unlikely to result in ESAt nor a useful outcome
- 4 triggers are likely to result in ESAt but unlikely to get a useful outcome
- 70 medical conditions which are not triggers but are likely to contribute in getting useful outcome from an ESAt



Estimated Impact of Changing ESAt Triggers in JSCI

Impact of potential actions	Impact on	
	ESAt numbers	Placement
01 Adding 70 more medical conditions as triggers	31% increase	Increased flow to DES ¹
02 Removing 16 current triggers	9% decrease	Imperceptible change
03 1 and 2 together	23% increase	Increased flow to DES ¹

1. Due to expected placement of job seekers with one or more of the 70 medical conditions
 Note: Definition of "Useful" ESAt Outcome includes if the job seeker was referred to jobactive Stream C, DES or another program; or a recommendation for a reduction in the job seeker's work capacity was made; or workplace support requirements were identified; or assessment of personal circumstances lead to identification of some impact on employment
 Source: DESE ESAt Review

Change of Circumstances Review ESAts change program recommendation or work capacity 48 per cent of the time

13 per cent of all ESAts

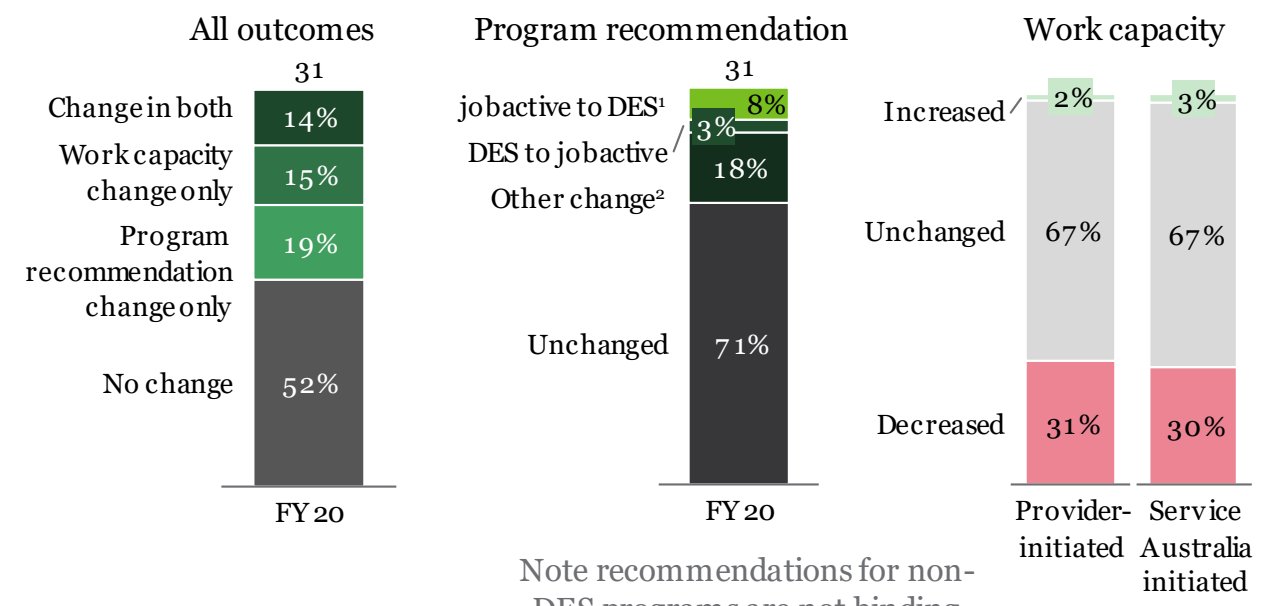
COCR ESAts are a material proportion of all ESAts

80 per cent provider initiated

Providers initiate majority of COCR ESAts

COCR ESAts predominantly change program recommendation or work capacity in 48 per cent of assessments

Results of COCR ESAts, 2019-20 ('000)



Note recommendations for non-DES programs are not binding (see Section 3.3)

1. Approximately 4295 Stream C participants sent for a COCR, 54 per cent (i.e. 2,311) resulted in a DES recommendation. 2. Other change includes changes involving outcomes such as unable to benefit, pathway activities or ADE
Source: DSS; BCG analysis

Recommend ongoing monitoring of COCR ESAts



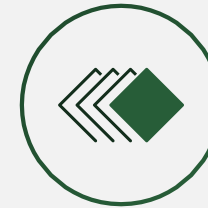
Clarify when to initiate COCR

For example, emphasise new medical evidence should only be actioned if it is likely to change required supports or work capacity



Increase reviews of provider COCRs

Provide feedback to providers with high COCR ESAt referrals and low probability of changes



Services Australia review prior to ESAt

Services Australia officers review requests prior to ESAt being conducted



Charge providers for COCR ESAts

Charge providers for any ESAts which don't result in a change in program referral or work capacity

Recommended options

Recommend ongoing monitoring of COCR ESAts

Selected options to manage change of circumstances ESAts

	Clarify when to initiate COCR	Increase reviews of provider COCRs	Services Australia review prior to ESAt	Charge providers for COCR ESAts
Description	<ul style="list-style-type: none"> For example, emphasise new medical evidence should only be actioned if it is likely to change required supports or work capacity 	<ul style="list-style-type: none"> Identify and provide feedback to providers who are referring high volumes of COCR ESAts, but a low probability of changes occurring based on these assessments 	<ul style="list-style-type: none"> Services Australia officers review requests prior to ESAt being conducted, similar to current triaging process 	<ul style="list-style-type: none"> Charge providers for any ESAts which don't result in a change in program referral or work capacity
Benefits	<ul style="list-style-type: none"> Services Australia still able to audit if COCR ESAts dramatically increase 	<ul style="list-style-type: none"> May reduce volume of assessments 	<ul style="list-style-type: none"> May reduce ESAt volumes 	<ul style="list-style-type: none"> Provides very strong deterrent to additional ESAts
Drawbacks	<ul style="list-style-type: none"> Likely to have a smaller impact 	<ul style="list-style-type: none"> Limited means to penalise providers for unwarranted ESAts Requires analytics effort, potentially IT build 	<ul style="list-style-type: none"> Creates workload for Services Australia officers (but not ESAt assessors) 	<ul style="list-style-type: none"> Providers unlikely to agree May lead to participants not being well supported
Implemented within current framework	<ul style="list-style-type: none"> No change to current DES Grant Agreement 	<ul style="list-style-type: none"> No change to current DES Grant Agreement 	<ul style="list-style-type: none"> No change to current DES Grant Agreement 	<ul style="list-style-type: none"> Requires change to DES and jobactive Grant Agreement
Overall recommendation	<ul style="list-style-type: none"> Viable option 	<ul style="list-style-type: none"> Viable option 	<ul style="list-style-type: none"> Viable option 	<ul style="list-style-type: none"> Not recommended

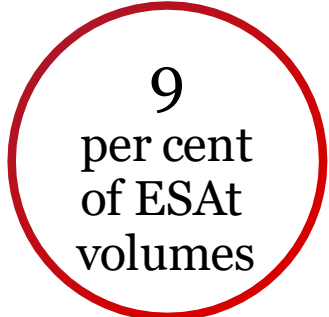
Recommended

DES 18-Month Reviews provide little benefit, but cost ~\$4m and disrupt the participant's employment journey

DES 18-Month Reviews drive workload, cost and detract from participant experience

In recent years, 4 per cent of 18-Month Reviews result in exit from DES

18-Month Review ESAts ('000)³



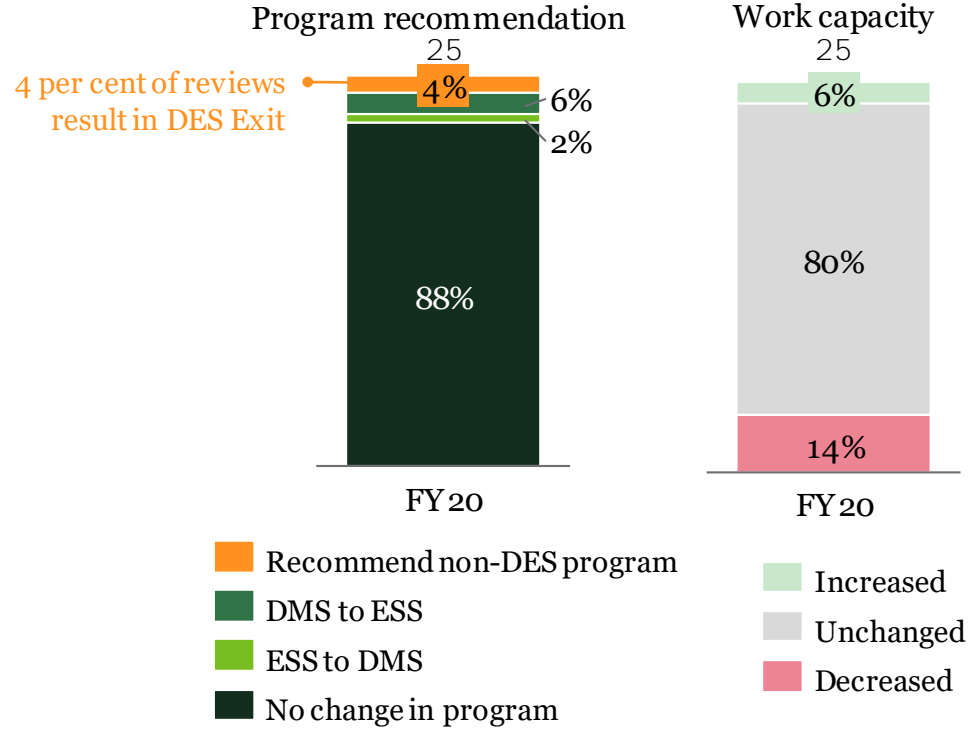
Increases assessment volumes by 25k ESAts per year



Additional annual expenditure on ESAts

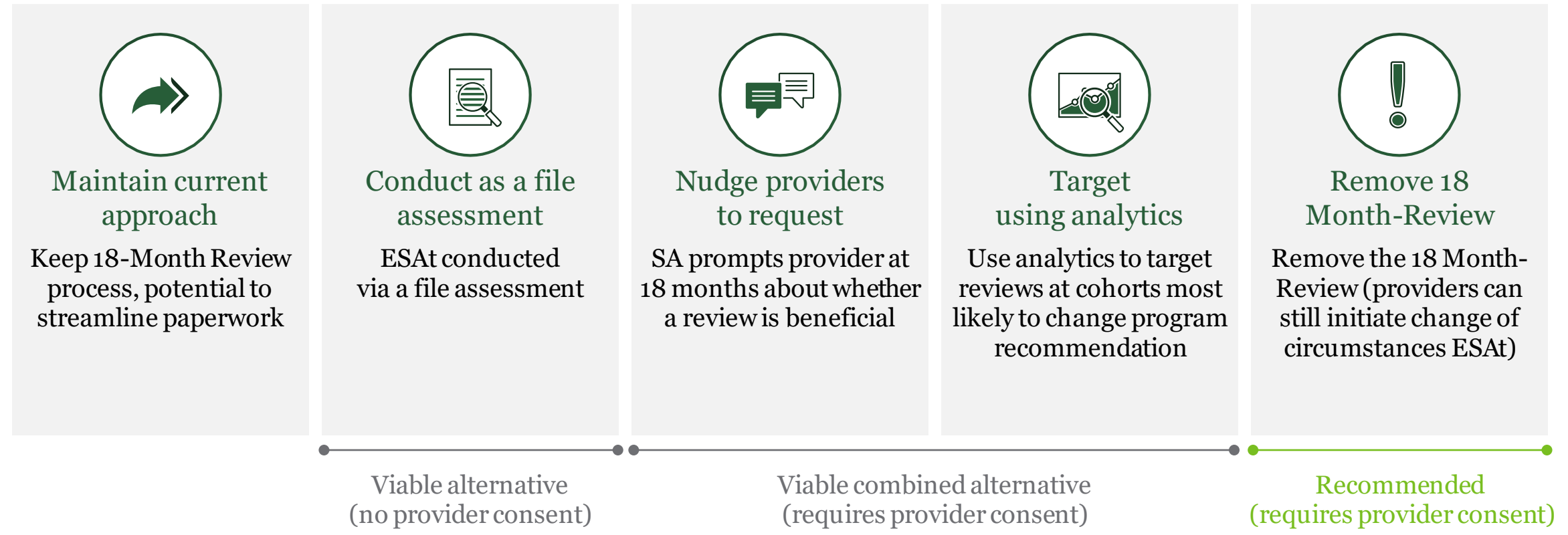


Disrupts employment services journey, stopping provider payments and support if ESAt not conducted before 18 months



1. Assumes 18m Review ESAts require 70% of the effort of a standard medical ESAt 2. Assumes \$223 cost per ESAt based on 2012-13 data: assessment appropriations of \$86.3m, assessment proportions of 10% ESAt, 55.5% medical ESAt, 34.5% JCA, task times of 47min, 69min and 106.5min respectively. Total assessment volume of 334,394 assessments 3. Excludes participants whose initial DES program referral was not present in the DES Data Source: DSS; BCG analysis

Recommend removing DES 18-Month Review



Recommend removing DES 18-Month Review

Options to manage DES 18-Month Review

	Maintain current approach	Conduct as a file assessment	Nudge providers to request	Target using analytics	Remove 18-Month Review
Description	<ul style="list-style-type: none"> Keep 18-Month Review process. Streamline ESAt paperwork for these ESAts 	<ul style="list-style-type: none"> ESAt conducted via a file assessment 	<ul style="list-style-type: none"> SA prompts provider at 18 months about whether a review is beneficial 	<ul style="list-style-type: none"> Target reviews at cohorts most likely to change program (e.g. existing referral for another stream) 	<ul style="list-style-type: none"> Remove the 18 Month-Review (providers can still initiate COCR ESAt)
Improves participant experience	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Yes
Enables participants to exit DES after 18m	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Partially 	<ul style="list-style-type: none"> Partially 	<ul style="list-style-type: none"> Mostly 	<ul style="list-style-type: none"> No
Impact on DES caseload and expenditure ¹	<ul style="list-style-type: none"> Negligible volume and cost increase 	<ul style="list-style-type: none"> Increase caseload by ~250 Increase cost by ~\$1.5m 	<ul style="list-style-type: none"> Increase caseload by ~100 Increase cost by ~\$600k 		<ul style="list-style-type: none"> Increase caseload by ~500 Increase cost by ~\$3m
Impact on ESAt effort ^{2,3}	<ul style="list-style-type: none"> Limited reduction in assessor work effort 	<ul style="list-style-type: none"> Reduce by ~\$1.5m (40 per cent reduction in effort per ESAt) 	<ul style="list-style-type: none"> Reduce by ~\$2.3m (60 per cent reduction in volumes) 		<ul style="list-style-type: none"> Reduce by ~\$3m (80 per cent reduction in volumes)
Implemented within current framework	<ul style="list-style-type: none"> No change to current DES Grant Agreement 	<ul style="list-style-type: none"> No change to current DES Grant Agreement 	<ul style="list-style-type: none"> Requires change to current DES Grant Agreement 	<ul style="list-style-type: none"> Requires change to current DES Grant Agreement 	<ul style="list-style-type: none"> Requires change to current DES Grant Agreement
Overall recommendation	<ul style="list-style-type: none"> Not recommended 	<ul style="list-style-type: none"> Viable alternative (e.g. if providers do not agree) 	<ul style="list-style-type: none"> Viable alternative (in combination) 		<ul style="list-style-type: none"> Recommended

Recommended

1. Assumes increased caseload results in \$750 service fee per participant per quarter 2. Assumes 18m Review ESAts require 70% of the effort of a standard medical ESAt 3. Assumes \$223 cost per ESAt based on 2012-13 data: assessment appropriations of \$86.3m, assessment proportions of 10% ESAt, 55.5% medical ESAt, 34.5% JCA, task times of 47 min, 69min and 106.5min respectively. Total assessment volume of 334,394 assessments Source: DSS Data; DEEWR DHS ESAt Case Study 2012-13; BCG Analysis

Section 2.2

ESAt triaging



Observations

ESAt triaging process has changed since COVID-19, new automations are being introduced

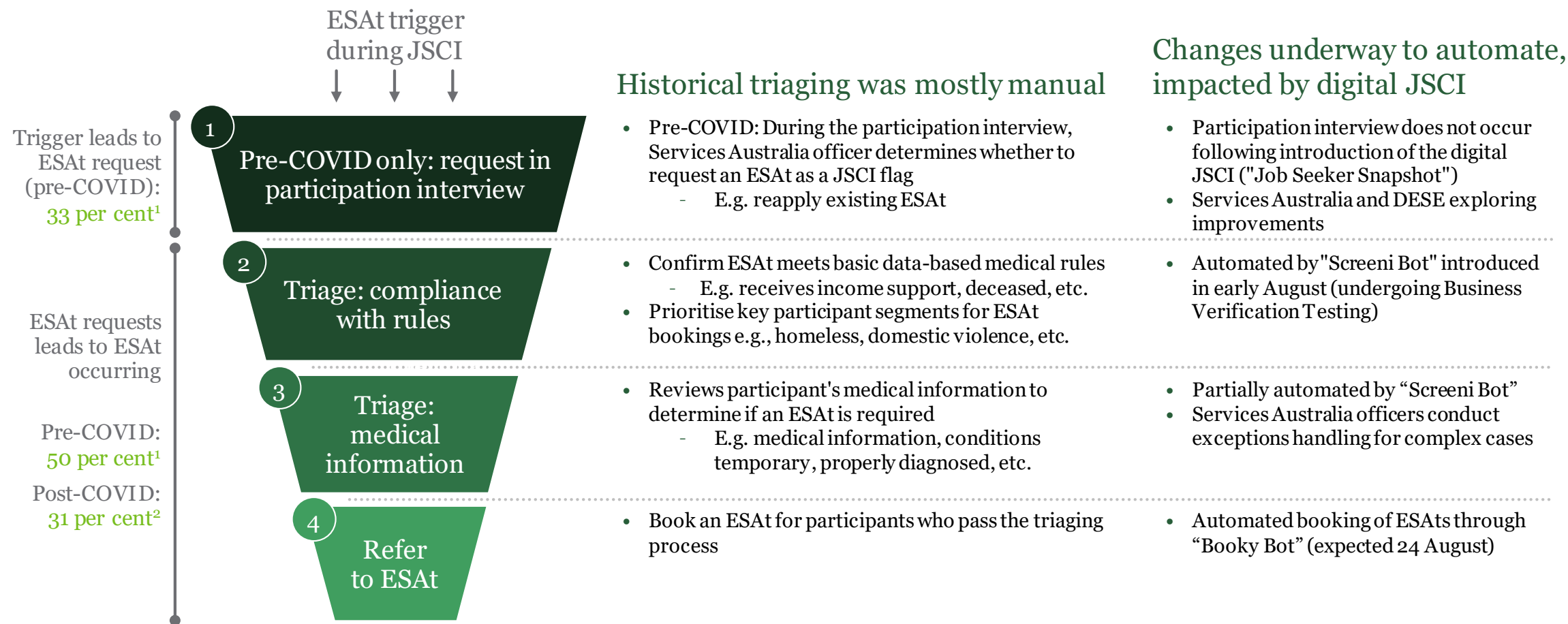
- Pre-COVID, triaging was conducted during the participation interview and through subsequent manual processes
- Post-COVID, the JSCI is now conducted online by the participant. This means triaging effort previously performed during the participation interview must occur through other means
- Parts of this process have recently become automated through the introduction of a tool called "Screeni Bot", which is undergoing Business Verification Testing
- While BCG has not reviewed the operations of this tool, there are clear benefits to automation and it has been welcomed by Services Australia staff



Recommendations

5. Continue improving the accuracy and efficiency of ESAt referrals triggered by the online JSCI. This could include adding new questions to the JSCI, or an alternative screening process
6. Ensure the "Screeni Bot" automation is effective and integrates well within current operations (including passing Business Verification Testing). This should include ongoing auditing and recalibration
7. As already planned by Services Australia, continue to build out complementary automations for ESAt booking and report writing

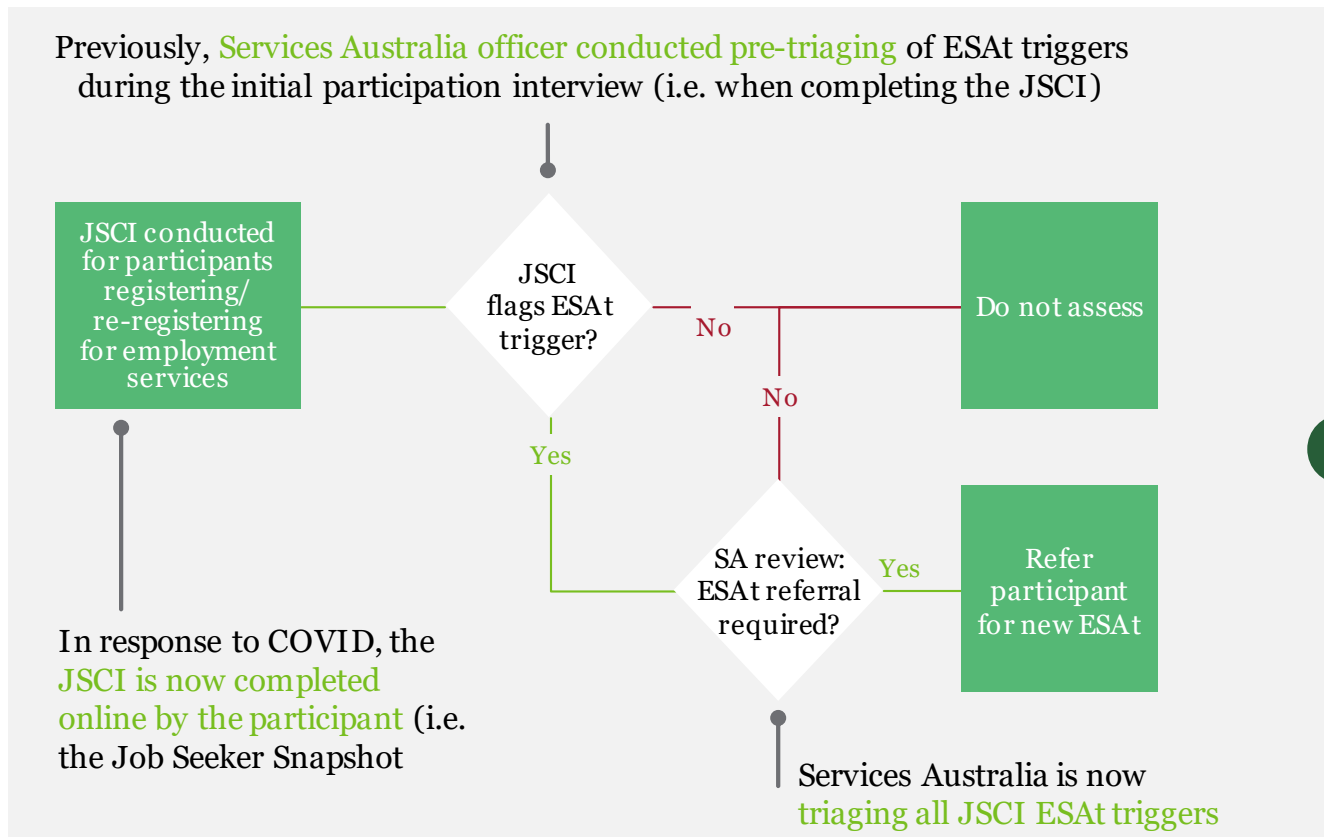
Triaging process is become increasingly automated, triaging during participation no longer occurs following the introduction of the digital JSCI



1. Includes JSCIs conducted by Services Australia due to registration or re-registration that result in an ESAt trigger. For JSCI and ESAt data between July 2018 and June 2020
 2. From May 2020 to 5 August 2020. Based on data for DESE ESAts provided by Services Australia (57,104 ESAts received and 39,360 triaged as not being required)
 Source: DESE Assessment, Services and Outcomes Branch; Services Australia Assessment Services Branch; BCG analysis

Potential to improve the accuracy and efficiency of ESAt referrals resulting from the online JSCI

ESAt referral process changed after introducing the online JSCI



Potential opportunities for improvement

Can the new process trigger ESAts more **accurately**? That is:

- Reduce the number of unnecessary ESAts referrals
- Ensure ESAts are being triggered in all cases where they are of benefit

Can the **efficiency** of the new process be improved to reduce workload for Services Australia?

1. May occur with or without a JSCI reassessment depending on the circumstances 3. Stream determined by JSCI score
 Source: ESAt and JSCI Instrument Overview; ESAt referral information; ANAO 'Qualifying for the Disability Support Pension'; BCG analysis

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Chapter 3 summary: Program recommendations and work capacity

3.1. ESAt decision-making

Interviews with assessors and observations of ESAt assessments demonstrated that ESAts are performed to a high standard by appropriately qualified professionals. However, broad guidelines require a high degree of professional judgement, which introduces inconsistency.

Recommendations to ESAt decisions more accurate and more consistent include:

- Update ESAt guidelines to be clearer and have more specific criteria. For example, the Department could consider increasing focus on the impact of medical conditions on the ability to obtain or retain employment, prioritisation of medical barriers compared to other barriers, factors which should not be considered as part of the ESAt, and the ongoing support requirements for DES-ESS and DES-DMS;
- Provide more examples of correct ESAt decisions, aligned to updated program guidelines and covering more "borderline" cases.

Section 3.2. Quality assurance

Services Australia currently has effective QA processes. However, changes in emphasis, including greater targeting, are necessary to embed any changes made to the program guidelines. Recommended changes to the QA process include:

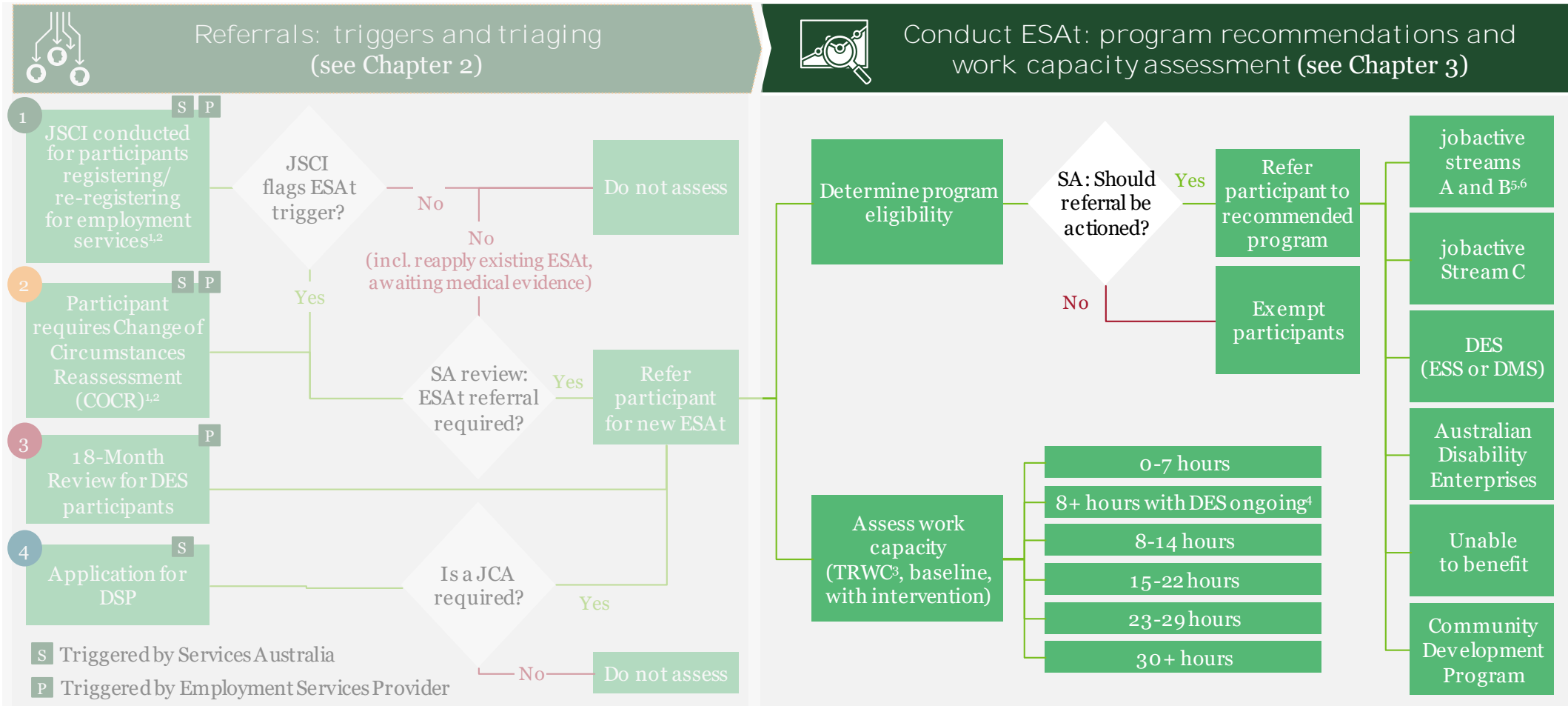
- Use analytics to target assessor quality assurance activities;
- Conduct standardised testing across assessors using file assessments, with a focus on "borderline" decisions;
- Provide selective, data-based feedback to assessors to address bias;
- Collect data on actual hours worked (e.g. by work capacity band, disability type) to inform assessor training.

Section 3.3. Enforcement of ESAt results

Currently, a proportion of individuals continue to participate in DES, despite having previously had ESAts that recommended an alternative program. While this proportion is small, at well under 1 per cent, the increased scale of DES suggests that it could translate into costs of up to \$8m per annum. It is recommended that the Department examine methods of encouraging providers to more thoroughly enact exits of such individuals.

Chapter 3: Program referrals and work capacity assessment

Current section



1. JSCI not required in all cases 2. Restrictions apply to provider referrals 3. Temporary Reduced Work Capacity 4. For participants who will only be able to reach 8 or more hours work a week with DES ongoing support. Applies to With Intervention work capacity only 5. Stream determined by JSCI score 5. Participant may be subsequently referred to TtW Source: ESAt and JSCI Instrument Overview; ESAt referral information; ANAO 'Qualifying for the Disability Support Pension'; BCG analysis

Section 3.1

ESAt decision-making: observations and recommendations



Observations

Broad program guidelines naturally lead to variation between assessors

- Observations of ESAt assessments demonstrated that ESAts are performed to a high standard by appropriately qualified professionals
- Guidelines for program recommendations and work capacity assessments are broad, require professional judgement
- Data shows statistically significant variability between assessors
- Assessor observations highlight differing interpretations of the program recommendation guidelines
- Incentives encourage assessors to be conservative in work capacity assessments



Recommendations

8. Update ESAt guidelines to be clearer and have more specific criteria. For example:
 - Criteria which should not be considered e.g. employment service, duration in employment service, age
 - More detail on when a medical condition should be the primary barrier to employment compared to other factors (e.g. vocational barriers, other non-medical barriers, macroeconomic conditions)
 - Emphasise that ESS eligibility should require substantive reasons to believe that a participant will require moderate to high DES ongoing support (rather than flexible ongoing support)
 - Clarifications on the treatment of the "post-COVID" cohort
9. Provide more examples of correct ESAt decisions, aligned to updated program guidelines and covering more "borderline" cases

Assessment observations highlighted opportunities to clarify guidelines



Assessors report they are confident in most cases

- A. Assessors appear suitably **qualified and highly competent**
- B. Individual assessors usually have **clear view of recommended program** between streams; participants with medical evidence and no major non-medical barriers streamed to DES
- C. Borderline decisions involve difficult judgement on **comparative impact of medical and non-medical barriers**



Decision criteria based on ambiguous guidelines

- D. **Participant input** informs whether medical condition impacts their employment, if non-medical barriers are the more significant barrier
- E. Some assessors refer from **Stream C to DES to "try something different"**
- F. Assessors more likely to recommend **older participants** into DES
- G. Some assessors may refer to **DES ESS** based on **permanence and complexity** of medical conditions rather than the need for **ongoing support**
- H. Current assessment implicitly incorporates participant **motivation**, despite not being part of the assessment criteria
- I. **Employment experience** not explicitly included in DES referral guidelines



Participant demographics changed post COVID-19

- J. **Post-COVID cohort** is seen as more employable, experienced and motivated. Assessors have not yet been given additional referral guidance for this cohort

Program recommendations: Interview observations (I/III)

A

Assessors appear suitably qualified and highly competent

- Assessors appear suitably qualified, even when assessing participants with conditions outside their specific domain of expertise (e.g. due to ability to draw on other assessors, able to review existing medical evidence)
- Assessors demonstrate strong understanding of the employment services programs

B

Individual assessors report they have clear view of recommended program between streams; participants with medical evidence and no major non-medical barriers streamed to DES

- DES decisions usually come down to whether they have a medical condition with supporting evidence, unless there is another complex non-medical barrier which needs to be sorted first (e.g. homelessness). Medical conditions usually make it obvious (e.g. autism usually belongs in ESS)
- Stream C decisions usually clear - participants with one or more complex non-medical barriers
- ESAt assessments viewed as much more straightforward than JCA assessments

C

Borderline decisions involve difficult judgement on whether medical or non-medical barriers are more impactful

- “Borderline” decision between DES vs job active are relatively infrequent (“I probably pause and really have to think about the most appropriate referral maybe once a week”)
- Assessor judgement is required to determine whether non-vocation or medical barriers are more material

Program recommendations: Interview observations (II/III)

D

Participant input informs whether medical condition impacts their employment and whether non-medical barriers or medical barriers

- Decision on whether medical condition is a barrier to work often comes back to the participant “Yes, I have chronic anxiety. It's being treated. It might impact my ability to work but it should be fine. I'll try going back part time and then see”
- Input from participants is needed to determine severity of non-medical barriers and whether they need to be addressed to make participant job-ready

E

Some assessors refer Stream C participants to DES to “try something different”

- Multiple assessors stated they will refer an existing Stream C participant to DES to “try something new” if they have been unsuccessful in Stream C
- Sometimes assessors keep participants in Stream if participant says they are satisfied with their current provider

F

Assessors see older participants as very likely to be streamed into DES

- Assessors noted it was highly likely older participants (e.g. 55+) would be streamed into DES, as they often have multiple medical conditions
- Unclear whether assessment considers whether medical barriers are the primary barrier for this cohort or other factors

Program recommendations: Interview observations (III/III)

G

Some assessors may recommend DES ESS based on permanence and complexity of medical condition rather than the individual's need for ongoing support

- Some assessors assume participants will require "Moderate" or "High" ongoing support (and belong in DES ESS) based on severity of medical condition, although there may not be evidence this will be required
- Some assessors have commented that participants with conditions which may improve (but are still permanent) are streamed into DES DMS

H

Current assessment implicitly incorporates participant motivation, despite not being part of the assessment criteria

- Official criteria state that assessment shouldn't be incorporated into program recommendations or work capacity assessments
- However, assessors noted that in practice it is difficult to separate out motivation from other factors

I

Employment experience not explicitly outlined in DES referral guidelines

- Participants' employment history can indicate whether their medical conditions impact their ability to gain or retain employment
- This is not explicitly included in the DES referral guidelines, however in some cases this is considered by assessors

J







Post-COVID participant cohort is more employable, experienced and motivated

- Assessors view participants who lost their job due to COVID-19 as more employable, experienced and motivated "they'll get a job quickly once COVID-19 settles down"
- Some assessors indicate their questions for people who lost their job as result of COVID-19 focused on whether they previously needed support finding employment and/or were able to work full time to determine whether DES is appropriate
- Assessors haven't received feedback on their approach to participants who are unemployed as a result of COVID-19

DES recommendations require assessor judgement on whether conditions "substantially" impact employment

See appendix for further detail

ESAt guidelines for recommendation to employment services:

	Employment Service	Summary of ESAt guidelines for recommendation to employment service
	Streams A and B	<ul style="list-style-type: none"> • Medical conditions don't impact ability to find employment • Minimal to medium support required to overcome non-medical barriers • Stream Services Job Seekers considered job ready
	Stream C	<ul style="list-style-type: none"> • May have unstable medical conditions which significantly impact ability to find employment • Must have multiple or complex non-medical barriers to overcome • Participants not considered job ready until barriers are addressed
	Disability Employment Service (DES) (DMS or ESS)	<ul style="list-style-type: none"> • Participant must have temporary or permanent disability, illness or injury • Condition must result in substantially reduced capacity to obtain or retain employment • Must have work "with intervention" work capacity of 8+ with DES support • Non-medical barriers must have stabilised sufficiently to benefit from DES
	Australian Disability Enterprises (ADEs)	<ul style="list-style-type: none"> • Participants have severe medical barriers requiring a supported work environment who are able to work 8+ hours in supported environment
	Unable to benefit	<ul style="list-style-type: none"> • Severe medical barriers meaning participant is unable to work more than 8 hours in supported work environment or open employment
	Community Development Program	<ul style="list-style-type: none"> • Participant located in a designated remote area as determined by the NIAA¹

1. National Indigenous Australians Agency
 Source: ESAt JCA Guide to Determining Eligibility and Suitability for Referral to Employment Services

Interviews highlighted challenges of work capacity assessments



Underlying challenge in an assessment

1. There is inherent uncertainty in a participants work capacity which makes assessments challenging, even with very similar conditions
2. Separating work capacity from motivation is challenging



Limited information to inform decisions

3. Short assessment time and relatively limited medical (compared to rigour required for DSP) leads to uncertainty
4. Limited recent work history for many participants makes work capacity assessments challenging



Assessors prefer to be conservative in their assessment

5. Assessors want to be sure participant will be able to maintain employment at the assessed work capacity
6. Some assessors are conscious of providers challenging high benchmark hours, see little downside in being conservative in their assessment

Assessors also have broad, subjective guidelines to assessing work capacity

ESAt guidelines for assessing work capacity

“

Work capacity is defined in relation to **any type of work**, and is not limited by the work the customer usually performs or work available in the customer's area

“

All **non-medical factors should be disregarded**, except where directly attributable to an impairment

“

Person should be capable of reliably performing the assessed work capacity on a **sustainable basis**

- e.g. 26 weeks in open, unsupported employment

“

Work capacity should consider **combined functional impacts** of all permanent medical conditions, treat all conditions as stable

“

Bandwidths for work capacity corresponding to **qualitative categorisation of functional impact**¹

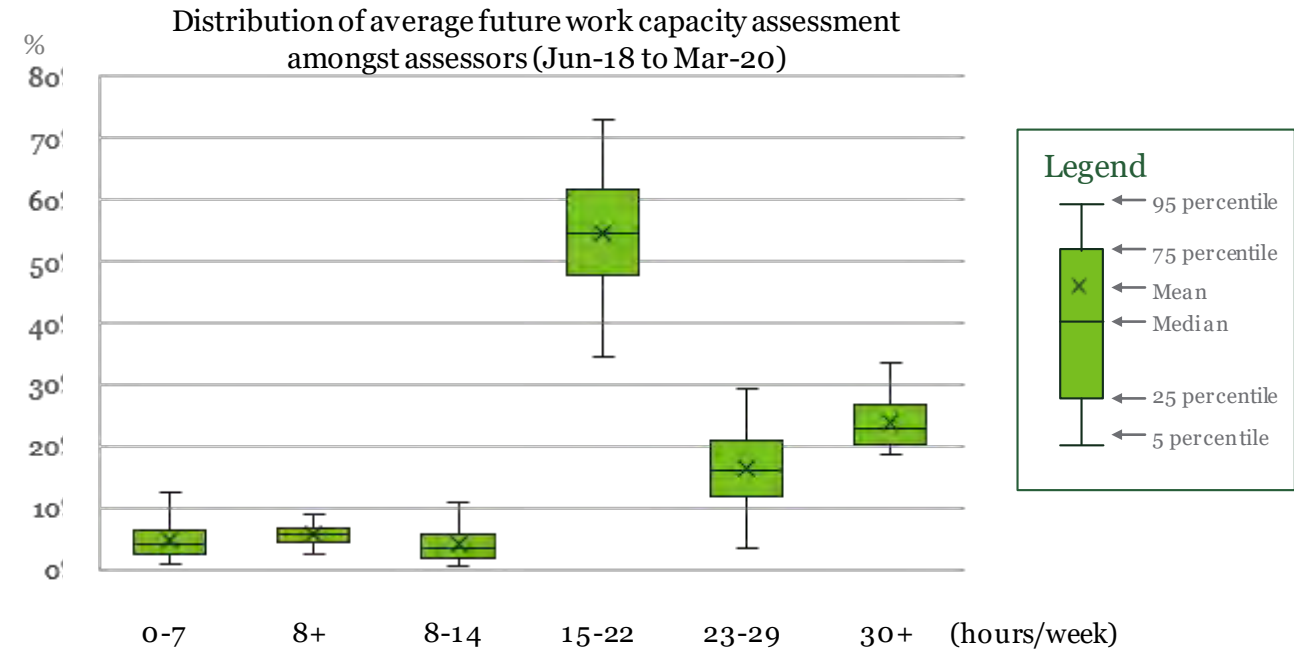
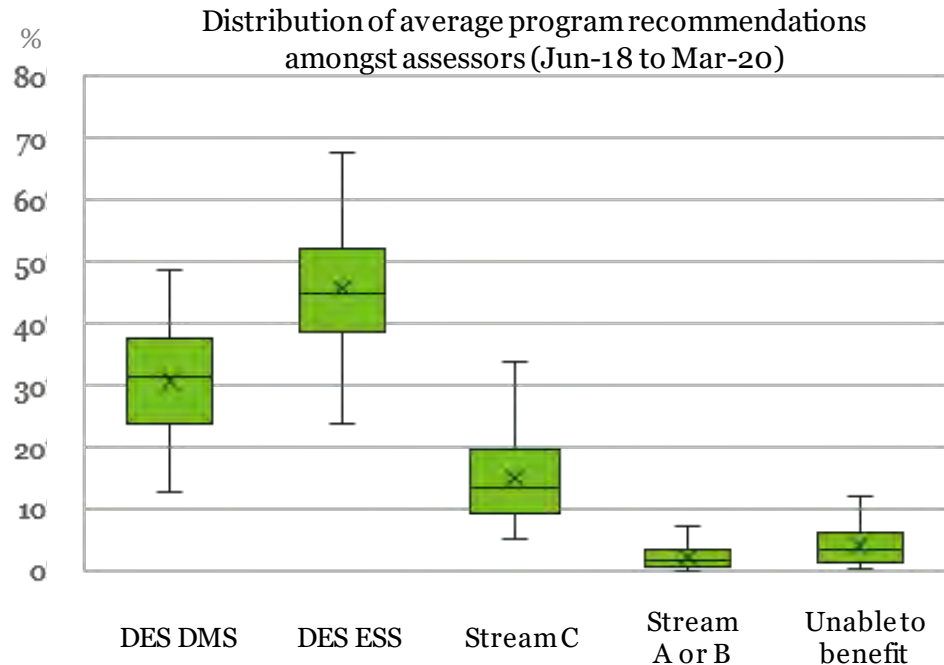
- i.e. no (30+), mild (23-29), moderate (15-22h), severe (8-14), extreme (0-7)

1. Future work capacity ("with intervention") will often be higher than baseline (pre-DES) capacity
Source: ESAt Operational Blueprint 'Assessing Work Capacity (008-06110020)'

Summary data suggests substantial variation between assessors, but more thorough analysis needed to control for other variables

Average program recommendation rates vary by up to 50 percentage points across assessors

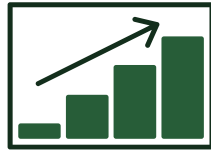
Similarly, future work capacity assessments can vary by up to 40 percentage points across assessors



However, such summary data does not control for variation in the job seeker population faced by each assessor

Note: Includes only assessors who have conducted 500 or more assessments in the period of Jun 2018 to Mar 2020 with no controls. Total of 448 observations.
Source: DSS; BCG Analysis

Regression findings suggest that assessors may vary substantially in their probability of recommending DES and assigning low work capacity



A statistical regression at least partially controlled for other factors¹ allows the extent of variation across assessors to be estimated

- 1 There is **high variability** in the way that assessors stream participants into DES or assign low work capacity
- 2 Older participants are **slightly more likely** to be streamed into DES and assessed as low capacity
- 3 Participants with barriers that are not related to their vocation or disability are **less likely** to be streamed into DES, but **more likely** to be assessed as low capacity if they are related to drug and alcohol and social isolation
- 4 Participants are **more likely** to be streamed into DES over time²
- 5 Participants are **more likely** to be assessed as low capacity if they have some form of disability, although the type of disability also affects the likelihood

1. Factors controlled for include geography, age, volunteer status, gender, months unemployed; whether the participant was Indigenous, homeless, CALD, ex-offender or a refugee; primary disability type; barriers; referral reason; source of referral, outcomes of follow-up ESA ts, time spent on Stream C, assessor credentials. 2. This is driven by the pre-vetting services introduced for DSP mid-2017 which drove ineligible DSP participants to enter DES instead. Note: While these findings should not be taken as comprehensive proof (as not all factors have been or can be controlled for), they are consistent with ESAt assessor interviews
Source: DSS; BCG analysis

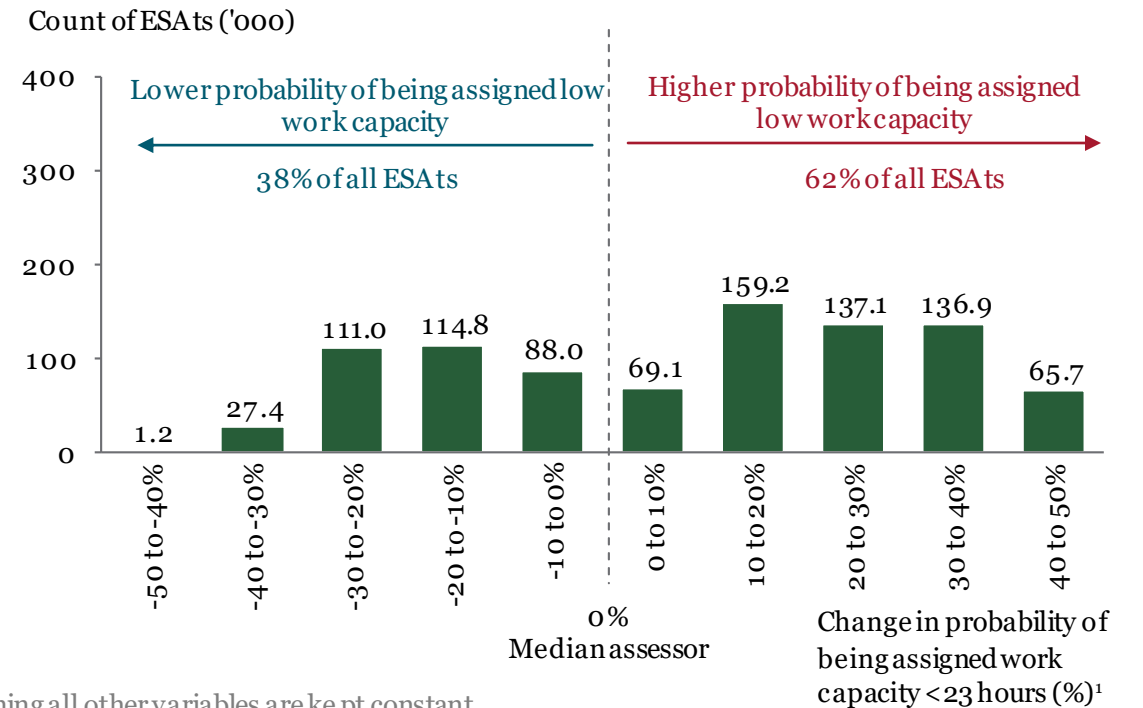
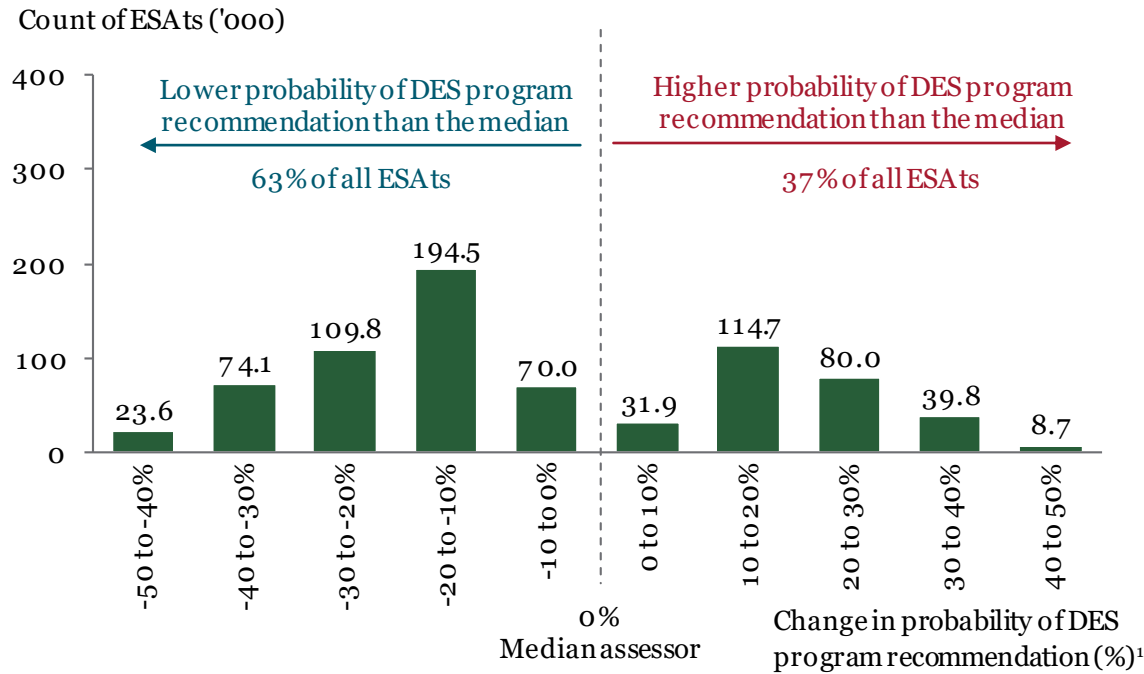
Regression suggests choice of assessor can have a substantial impact on whether an individual receives a DES program recommendation or a low work capacity

Choice of assessor can substantially impact probability of a DES recommendation, even after controlling for other variables

Similarly, the choice of assessor can substantially impact probability of being assessed as work capacity

Distribution of tendency to provide a DES program recommendations

Distribution of tendency to assign low future work capacity (<23hrs)

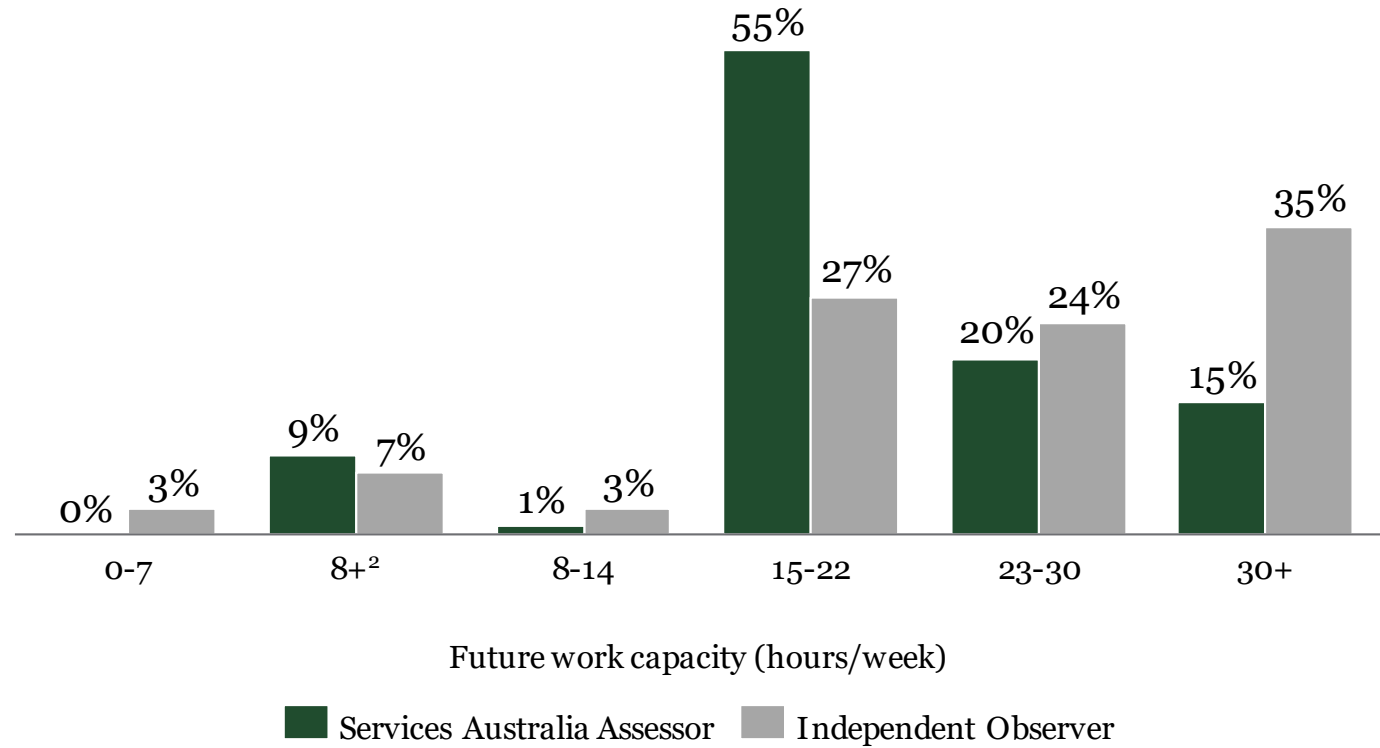


1. Incremental percentage change from deviating from the median assessor (TB2720, AHO816) assuming all other variables are kept constant.
 Note: factors controlled for include geography, age, volunteer status, gender, months unemployed; whether the participant was Indigenous, homeless, CALD, ex-offender or a refugee; primary disability type; barriers; referral reason; source of referral, follow-up ESA, time spent on Stream C, assessor credentials
 Note: only assessors that statistically differ from the median assessor included, as well as their respective assessments
 Source: DSS; BCG analysis

Services Australia assessors and independent observers had differing assessments of work capacity

Assessments of work capacity by independent observers were higher than those of Services Australia assessors

Comparison of future work capacity assessments from Services Australia and independent observers¹
% of assessments

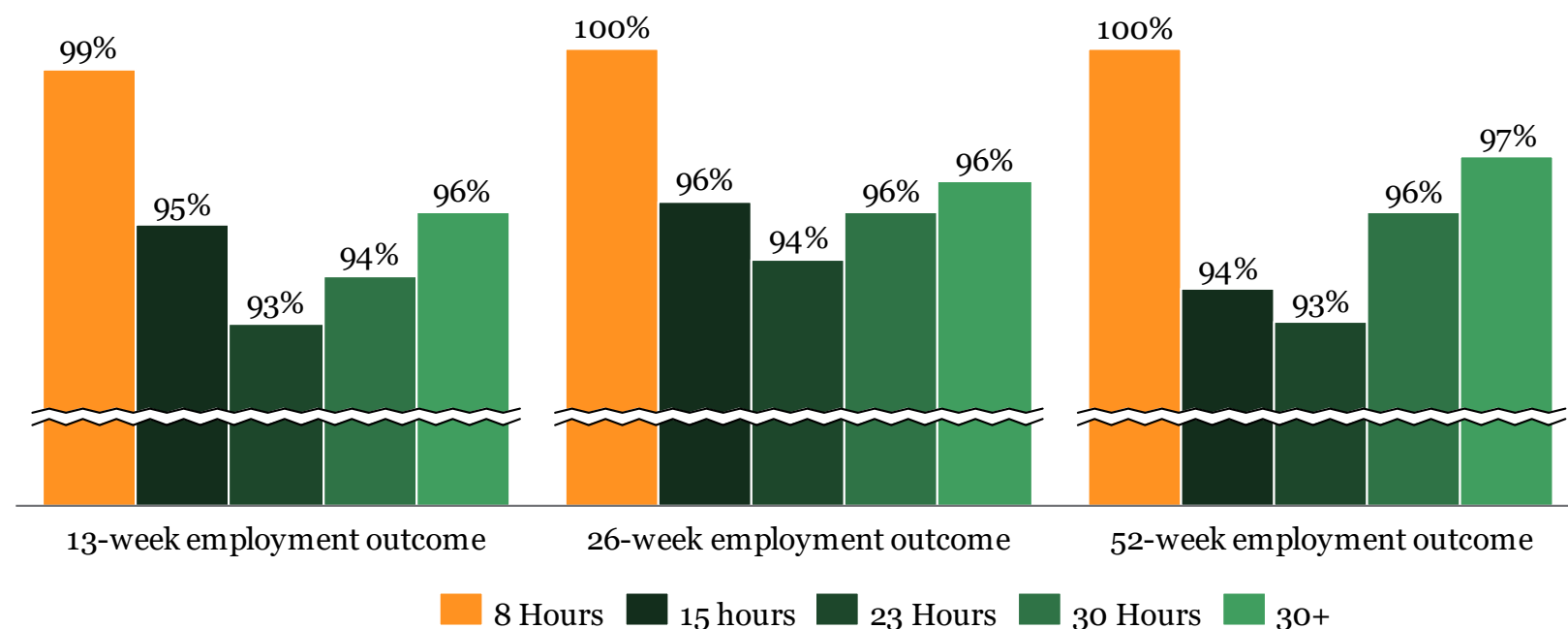


1. Based on approximately 320 assessments observed by Independent Assessors 2. Capacity of 8+ hours with DES Ongoing Support
Source: EY, 'DES Assessment Review Final Report'

The bulk of DES participants who achieve employment outcomes do so at or above their assessed benchmark hours

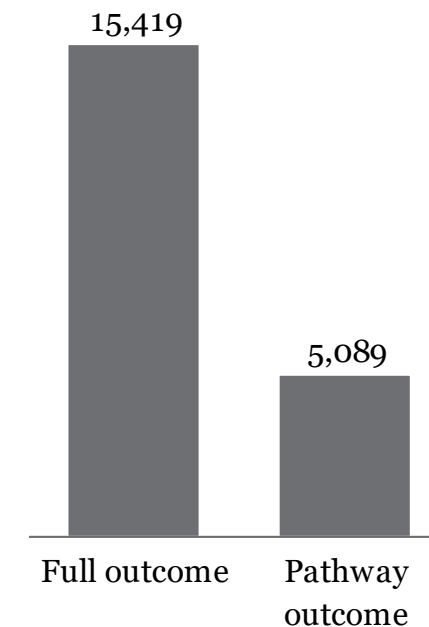
Across all work capacity levels, strong tendency to achieve full, rather than pathway, outcomes, implying work capacity consistently reached or exceeded

Full outcomes as a percentage of all outcome (%), from Mar-19 to Mar-20



Pathway outcomes are one-third of a full outcome payment

26 week outcome fee for ESS 5 participant (\$)

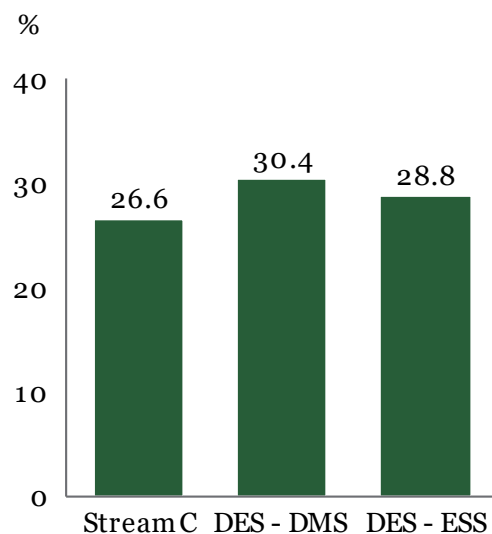


Transferees from Stream C to DES have substantially worse outcomes than the average DES participant

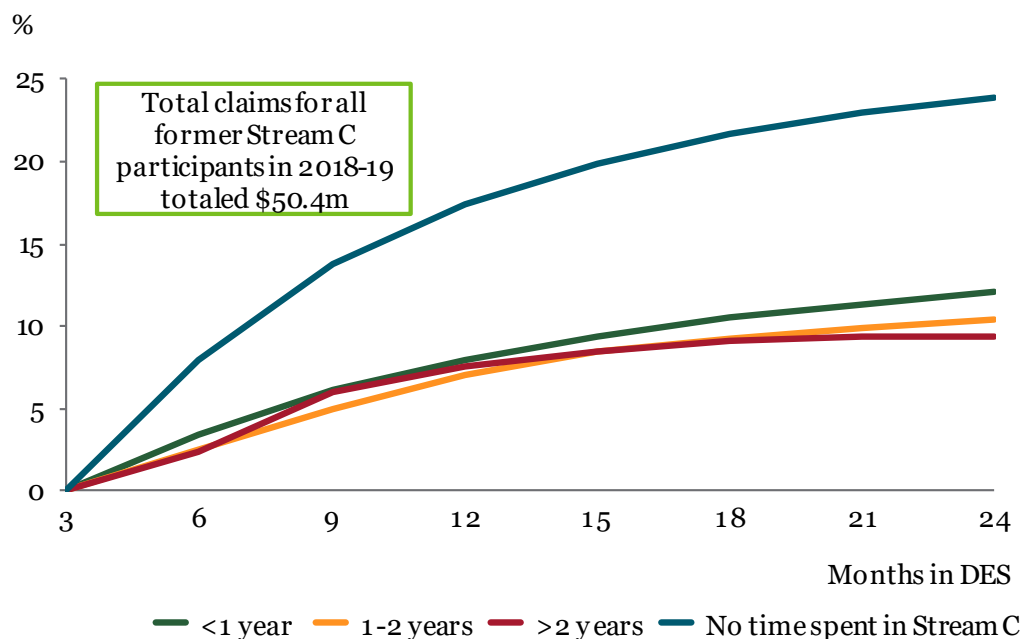
While Stream C and DES achieve similar outcome rates overall...

...transferees from Stream C are substantially less likely to achieve a 13-week employment outcome rate

Employment outcome rates



13-week employment outcome rates based on amount of time spent in Stream C before entering DES



For any given length of time in DES, former Stream C participants are **half as likely** to achieve a 13-week employment outcome than the rest of the DES cohort

However, it is difficult to conclude whether DES or Stream C is the less effective program for this cohort without observing their respective outcomes in Stream C

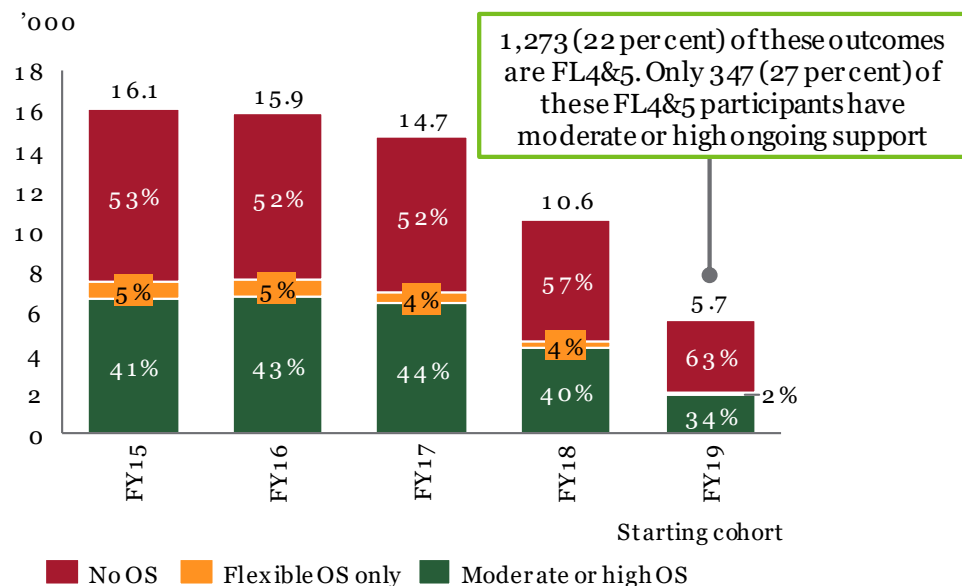
Note: Former Stream C participants were identified by looking at COCR that resulted in a DES recommendation but the previous ESA was Stream C. 7,607 former Stream C participants identified in DES (FY 15-20). The difference in completion date between the two ESAs was used to determine the length of time a participant was in Stream C before transferring to DES. 3,149 has been in Stream C less than a year, 2,793 had been in Stream C between 1-2 years and 1,665 had spent more than 2 years in Stream C before transferring
 Source: Employment Services Outcome Reports December 2018; DSS ; BCG analysis

Most individuals referred to ESS do not ultimately receive moderate or high ongoing support

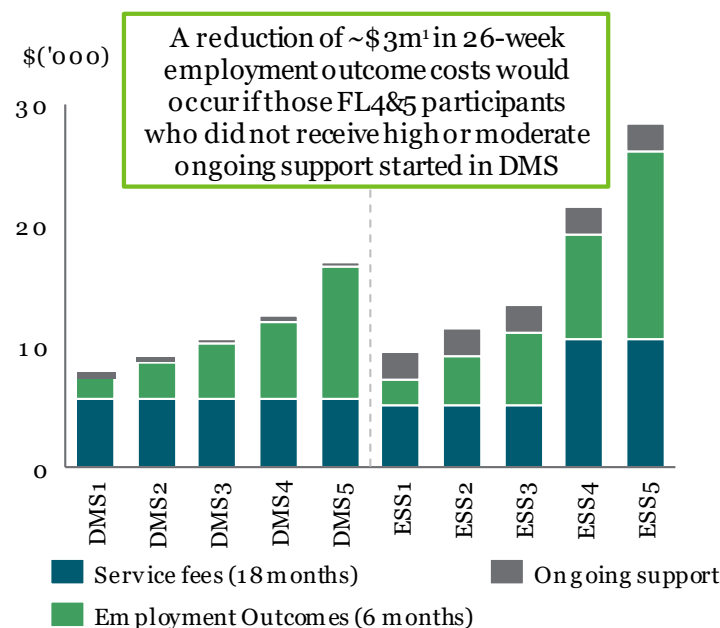
Over 50 per cent of ESS participants who achieved a 26-week employment outcome did not receive ongoing support (OS)

Service and outcome fees for FL4 & 5 in ESS are substantially higher than DMS

Proportion of participants that made an ongoing support claim post achieving a 26-week outcome



Provider payment schedule per funding level



Current guidelines indicate that participants should be referred to ESS if it is expected that they will require moderate or high ongoing support to maintain their job.

However, less than 50 per cent of participants actually receive moderate or high ongoing support leading to the conclusion that most did not require the support

1. Calculated based on the average difference between a DMS4&5 and ESS4&5 26-week employment outcome (i.e. \$3,311) and the 926 ESS FL4&5 participants that did not make an high or moderate ongoing support claim post achieving their 26-week employment outcome.

Note: All 26-week employment outcomes achieved in the last 6 months of the dataset have been excluded, as participants may not have had sufficient time to incur an Ongoing Support claim.

Source: DSS ; BCG analysis

Recommend ESAt guidelines are updated to provider clearer, more specific guidance on program recommendations

Program criteria

Condition materially impacts employment

- Condition results in substantially reduced capacity to obtain or retain open employment
- Participant requires specialist assistance to build capacity to assist job seekers to work to their assessed future work capacity



Potential clarifications to consider

- Participants should not be referred to DES if they were **previously able to obtain or retain employment** at their assessed work capacity without specialist DES support and there has been no material change in their medical conditions

Prioritisation of factors

- Non-medical barriers must have stabilised sufficiently to benefit from DES
- Not suitable for participants requiring longterm assistance, or with multiple non-medical barriers



- Participants with continuing **non-medical barriers should not be referred to DES** if there has been no improvement in these barriers
- Participants should not be streamed into DES where general **unemployment barriers or macroeconomic conditions** are the primary barrier to employment

Exclusions from program decisions

- No clear guidelines as to whether age, duration in current employment service, duration of unemployment should be considered



- The following factors must not be considered as part of the program recommendations: **age, duration in current employment service, duration of unemployment**

Ongoing support needs (for DES ESS)

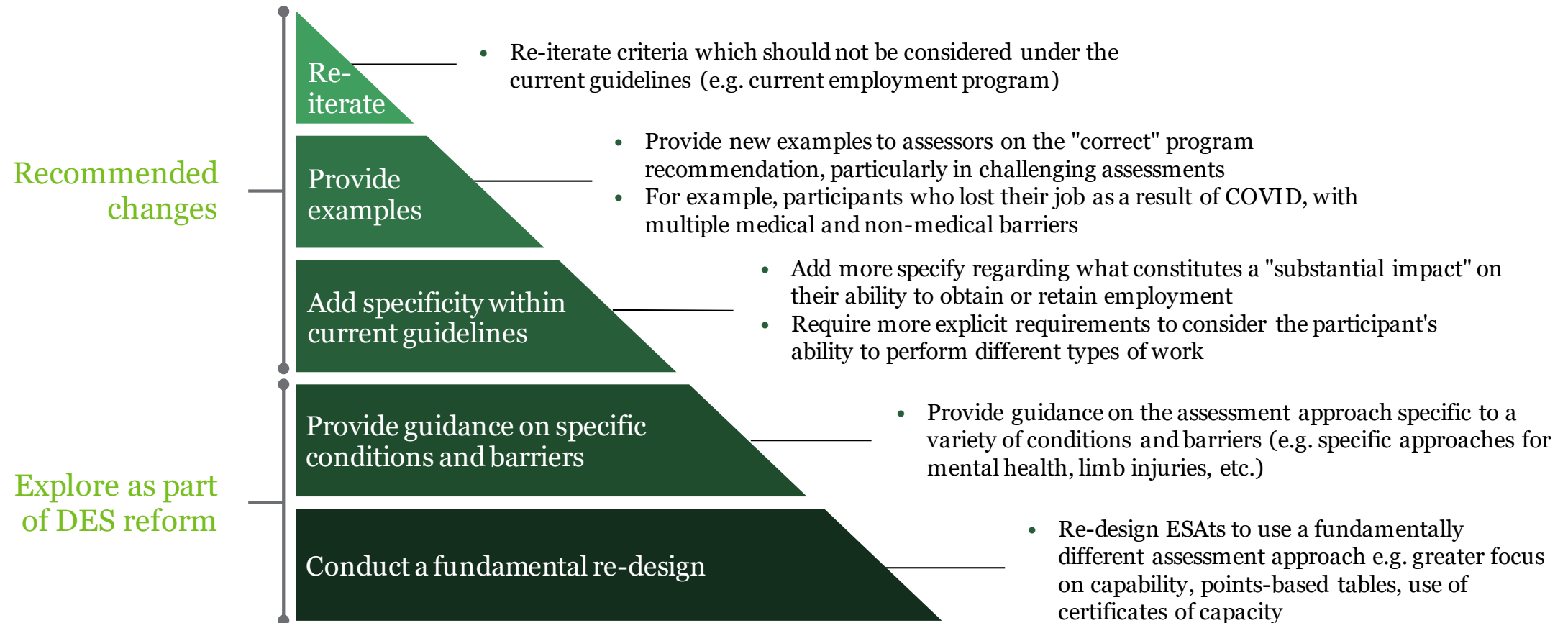
- Participant should be referred to ESS if it is expected that job seekers will require moderate or high ongoing support to maintain their job—i.e. a minimum of six contacts over each period of three months
- If the frequency of required support is unclear, the job seeker should be referred to Disability Management Service



- Emphasise that ESS eligibility should require **substantive reasons** to believe that a participant will **require moderate to high DES ongoing support** (rather than flexible ongoing support)
- Unless clearly evidenced, a future deterioration in the participant's medical condition(s) should not be assumed





Recommend changes to ESAt guidelines within current framework in the near term, explore alternatives as part of broader DES reform

Spectrum of options for clarifying ESAt guidelines



Providing assessors with additional examples could help clarify guidelines and improve consistency

Illustrative examples

				
Description	<ul style="list-style-type: none"> 61 year old male 	<ul style="list-style-type: none"> 53 year old female 	<ul style="list-style-type: none"> 33 year old male 	<ul style="list-style-type: none"> 58 year old female
Medical conditions	<ul style="list-style-type: none"> Back injury, which causes participant pain when undertaking labour based work (incl. in previous role) 	<ul style="list-style-type: none"> Chronic neck and back pain, which is medicated (can't perform manual labour) History of stomach cancer 	<ul style="list-style-type: none"> Severe depression and anxiety 	<ul style="list-style-type: none"> Hand surgery in 2016 (weak grip) Obstructive sleep apnea (treated by CPAP machine) Anxiety
Non-medical barriers	<ul style="list-style-type: none"> Limited educational history (completed year 10) 	<ul style="list-style-type: none"> Nil 	<ul style="list-style-type: none"> Long term unemployed Transient accommodation (moving between sister's and a friend's house) Limited education history (completed year 9) 	<ul style="list-style-type: none"> Limited educational history (completed year 11, undertaking Cert II)
Employment history	<ul style="list-style-type: none"> Worked in building maintenance for 13 years (incl. gardening, labouring, cleaning) Left job in Sep '19 to relocate to a regional area History of obtaining and retaining employment without assistance 	<ul style="list-style-type: none"> Worked in administrative roles as a contractor for 20 years Lost job as a result of COVID-19, unsuccessful in recent applications No history in employment services History of obtaining and retaining employment without assistance 	<ul style="list-style-type: none"> Performed various retail, hospitality and labour jobs Currently in Stream (for 18m) 	<ul style="list-style-type: none"> Employed from 2016-2019, including recent 12m in retail. Previous history from 2010-2015 Last participated in DES in 2016
Streaming Decision	?	?	?	?
Work capacity	?	?	?	?

Section 3.2

Quality assurance



Observations

Current QA processes appear effective, opportunities to increase focus to support other recommended changes

- Current processes appear to be working well, but adjustments may be needed to embed guideline changes
- Opportunities to learn from global best practice in other industries e.g. standardised testing across assess, using data to target QA on outlier assessors
- Services Australia have limited visibility over each assessor's long-run referral data, program-wide data or the cost of employment services



Recommendations

10. Use analytics to target assessor quality assurance activities (e.g. comparison to overall program results, regional results, or to expected results after normalising for other factors)
11. Conduct standardised testing across assessors using file assessments, with a focus on "borderline" decisions
12. Provide selective, data-based feedback to assessors to address bias. For example, this could be informed by comparison of individual assessor results to program level results
13. Collect data on actual hours worked (e.g. by work capacity band, disability type) to inform assessor training

Quality Assurance process appears effective, but recommend increasing focus to support other changes

Sampling method



Current approach appears suitable

- **Standardised QA sampling** of all experienced assessors
 - Overall QA target of 2 per cent of all assessments
 - Quality team observes a minimum of 2 assessments per assessor per quarter
 - New assessors have all assessments they conduct monitored by the quality team
- **Line managers** monitor performance each assessor



Opportunities to increase focus

- **Targeted sampling** based on data and analytics, to complement random sampling
 - At a minimum, review outliers compared to the average results (e.g., across all assessors, regionally)
 - Alternatively, statistical methods such as logistic regression or machine learning can be used
 - For example, targeted compliance is frequently for payment audits across financial services, healthcare and other industries

Test method

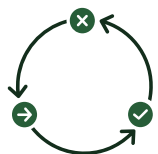


- Quality **team observes interviews**, focuses on ensuring decisions are justified and reasoned
- **Retrospective reviews** of ESAt reports



- Introduce **standardised testing** across all assessors to determine variability between assessors
 - For example, this could be performed by having all assessors perform an ESAt "file assessment" for the same participant

Assessor feedback



- Assessors receive **detailed qualitative feedback** from managers and quality team



- Provide selective, **data-based feedback to assessors** to address bias. For example, this could be informed by comparison of individual assessor results to program level results
 - For example, best-in-class recruitment functions analyse hiring information to minimise unconscious bias

Behavioural changes can improve outcomes in many different applications



Virgin Atlantic experiment reduced fuel costs by up to 10 per cent

- Virgin Atlantic behavioural experiments reduced pilot fuel consumption by up to 10 per cent, depending on the treatment
- Experiment tested three progressive treatments
 - i. Providing fuel use data to each pilot on a monthly basis
 - ii. Setting fuel use targets
 - iii. Donating to a pilot's chosen charity if they meet set targets
- Results shows all treatments were effective



Research showed recommendation engine increased bail sentencing accuracy

- US researchers examined how machine learning algorithms could improve bail sentencing decision making (whether a participant awaits trial at home or in jail, not the final case sentence)
- Judges were shown results of a recommendation engine after they had made decisions, and asked if they would change the results
- Policy simulation showed crime rates could be reduced by 25 per cent with no change in jailing rates; or jailing rates could be reduced by 42 per cent with no increase in crime rates
- Gains were possible while also significantly reducing the percentage of African-Americans and Hispanics in jail

5

principles
to realise
change

Update guidelines using **behavioural language** (use defaults, clear rules e.g. if X then Y) where discretion is not desirable.

- This could be supported by the Behavioural Economics Team of the Australian Government (BETA)

Test changes to guidelines and behavioural nudges before implementation. This can be done quickly e.g. 2 days

Create behavioural incentives, for example "nudging" outlier assessors

Reinforce changes through feedback and quality assurances

Target feedback based on desired outcomes. For example, target all assessors if consistency is desirable, specific segments if a particular outcome is undesirable

Section 3.3

Enforcement of ESAt results



Observations

ESAt referrals have not always been strictly enforced according to DES Grant Agreement Guidelines

- Guidelines specify that providers have the responsibility to exit participants if program services are no longer appropriate
- There is no automatic actioning of an ESAt referral or system checks, enforcement ESAt referrals requires provider action
- Providers do not always choose to action referrals to another program
- A preliminary estimate is that \$5-8m could be saved annually if all non-DES ESAt outcomes were actioned by providers



Recommendations

14. Examine opportunities to enforce Grant Agreement clauses regarding DES exits following an ESAt recommendation to another program

While ESAts during a period of service are binding under the Grant Agreement, provider action is required to enforce exits from DES

Rules surrounding ESAts and DES entry/exit:



During a period of service, there is no automatic actioning of an ESAt referral or system checks, providers have the responsibility to action

A valid ESAt is required upon entry into an Employment Services Program and participants will be granted entry to the program recommended by the ESAt assessment at the time. ESAts are valid for 2 years for the purposes of "assessing eligibility" however, are ongoing for the purposes of assessing work capacity

If an ESAt for a DES 18-Month Review recommends "that the Participant does not receive Extended Employment Assistance, then the Provider must perform a Provider Exit of the Participant" (DES Grant Agreement)



The outcome of this ESAt generally enforced

If an ESAt for a COCR recommends "that Program Services are no longer an appropriate service for a Participant, the Provider must perform a Provider Exit of the Participant" (DES Grant Agreement)



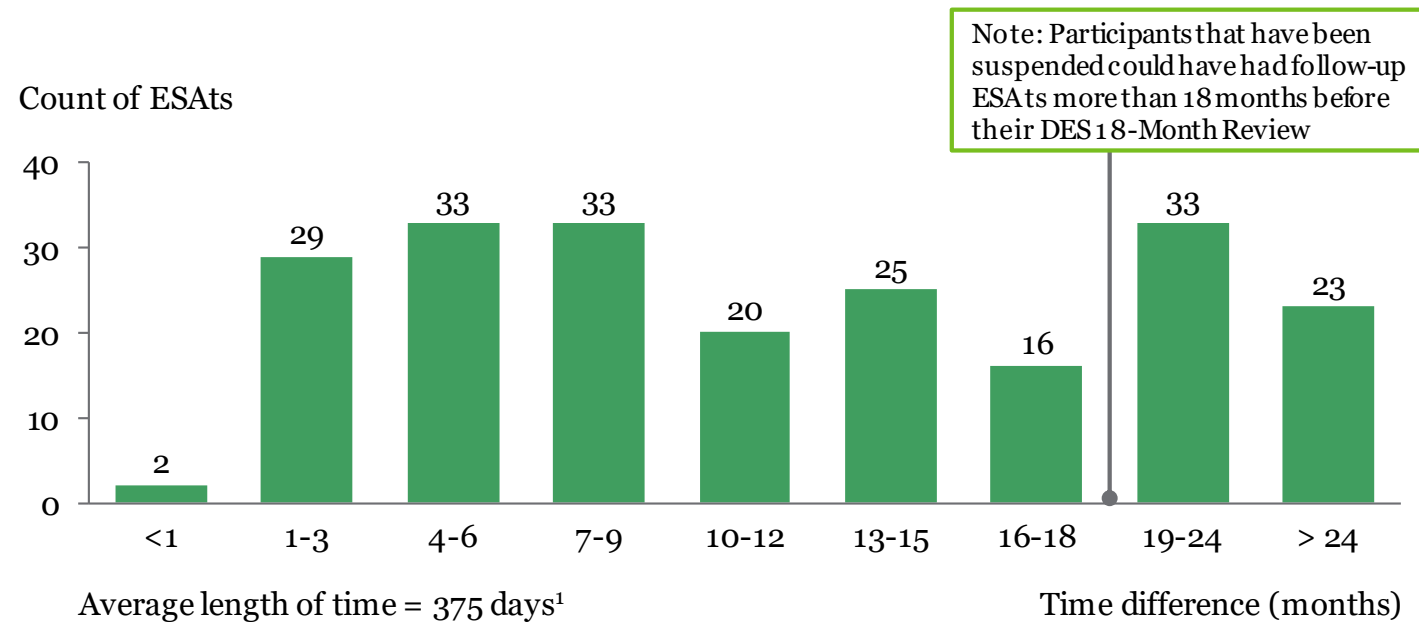
Exit only happens when provider chooses to action. Currently, 0.61 per cent of DES caseload¹ have an ESAt referral to another program

1. As of August 2020, this excludes pending and suspended participants
Source: DSS, DES Grant Agreement

Preliminary estimate suggests savings of ~\$5-8m annually in outcome and service fees if all follow-up ESAt referrals were enforced

Using the cohort who undertake 18-Month Reviews as a sample suggests a significant number have had non-DES recommendations months previously

Length of time between non-DES recommended ESAt and corresponding DES 18-Month Review (FY 20)



If the Grant Agreement clause that "the Provider must perform a Provider Exit of the Participant" when an ESAt has suggested "that Program Services are no longer an appropriate service for a Participant" was strictly enforced, ~\$5-8m could be saved annually

1. This does not take into account of suspension time (equivalent to 1,347) of caseload have commenced in DES but have referrals to other programs
Source: DSS, BCG Analysis

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Chapter 4 summary: Further opportunities for change

DSS can consider a suite of broader-reaching changes, including:

15. Conduct more extensive data-gathering to inform decision-making. This should consider the extent to which DES achieves outcomes above baseline for different cohorts, and the social value of employment outcomes, as per recommendations in the Mid-term DES Review. This will inform DES eligibility and ESAt design decisions. In addition, gathering data on work hours obtained by DES participants will inform assessments of the accuracy of work capacity decisions;
16. Reconsider ESAt policy in the context of broader DES re-design. The Mid-term Review recommended that a number of changes be made prior to mid-2021, with farther-reaching program re-design implemented when the DES Grant Agreement expires in mid-2023. The ESAt process should be included in this re-design. Options for consideration could include removing the reliance on work capacity as a funding mechanism. However, other programs (jobactive, CDP) would presumably continue to rely on work capacity assessments, complicating any such change.

Note that a number of issues relevant to effective ongoing management of ESAts were not investigated in detail as part of this review. This includes participant experiences, the balance of in-person interviews vs telephonic or other channels, and variations in ESAt effectiveness across geographies. The Department should continue to actively manage ESAts with respect to these and other issues going forward.

DES Review recommended consistent, systematic gathering of additional data, which would enable more effective decision-making on ESAts and eligibility

Several critical questions would be better informed by additional data-gathering

Theme	Question	Possible data	Data collected?	DES Review recommendation?
ESAt triggers <div style="border: 1px solid white; padding: 5px; margin-top: 10px;"> Design of triggers closely linked to question of which cohorts should be eligible for DES </div>	What would be the baseline employment outcome rates in the absence of DES?	Survey participants who obtain employment outcomes ("Is your employment attributable to your DES provider?")	No. Note similar data collected for jobactive	<i>Recommendation 18. The Department should conduct regular surveys of program participants to assess extent that DES participation improves ability to obtain employment outcomes...</i> <i>Recommendation 19. The Department should regularly estimate the extent to which DES outcomes are an improvement above baseline.</i>
	How should the benefits of achieving employment be defined?	Aggregated impacts on wellbeing, life outcomes, income supports... (by cohort)	No	<i>Recommendation 22. To further aid assessment of program performance, the Department should perform a quantitative assessment of the benefits of employment outcome achievement as a function of individual characteristics (age, experience, location, etc).</i>
	Which cohorts benefit most from participation in DES?	Combine observed employment rate improvements over baseline with benefits of employment (by cohort)	No	
	How much should the Commonwealth spend to support a given individual into employment?	Consequence of above estimates.	No	<i>Recommendation 1. As a general principle, DES should target cohorts where the impact of assistance (compared to baseline outcomes) will be greatest, and seek maximum possible benefit for every dollar spent.</i>
ESAt accuracy	Do work capacity assessments align with hours eventually worked by participants?	One-off or ongoing survey of employment outcomes (hours worked per week)	No	Not addressed by DES Review. ESAt Review recommends that the Department conduct the suggested surveys at regular intervals (e.g. six monthly) to aid assessor calibration.

Note: Phrasing of recommendations adjusted for brevity. Source: 2020 Mid-term DES Review, BCG analysis

Possible future changes to DES design could substantially impact design and function of ESAts

DES Review recommended head-to-toe program redesign

- Current DES Grant Agreement expires mid-2023
- Opportunity to substantially change program in coming years, ready to implement on grant expiry
- DES Review recommended including all aspects of program in re-design (eligibility, incentives, performance management...)



- Re-design could at least potentially have significant implications for DES's dependency on ESAts
- For example: a shift to alternative remuneration models for providers, based on e.g. payments for total hours worked, would reduce the need for work capacity assessments, by eliminating "full" and "pathway" outcomes
- However:
 - Other programs would likely still require work capacity assessments, e.g. CDP, jobactive
 - Some ongoing measure of severity of disability, judged qualitatively via interview, would almost certainly still be required
- Such issues highlight the complexity and care that must be taken with any DES re-design

Ongoing monitoring and management of ESAts required to ensure efficacy and efficiency

Various other concerns were raised during research for this Review. This includes:

- Participant experience. Recent research by Services Australia noted that for some participants, disclosing medical conditions (such as mental illness) to an ESAt assessor may be stressful or difficult, whether due to perceived stigma, cultural differences, or other reasons;
- Use of non-F2F channels:
 - Particularly following COVID, the reliance on telephony to conduct ESAts was seen as a concern by some interviewees, as a potential additional barrier to effective information-sharing;
 - Previous research has suggested that ESAts conducted by telephone continue to produce satisfactory results. However, ensuring that, at a minimum, a videoconferencing option is available may help balance overall program efficiency with the need to ensure a meaningful connection between assessors and participants.
- Regional variation. Experiences with ESAts for a CDP participant in a remote area may differ substantially from a DES participant in metro Sydney. Interviewees from the NIAA, for example, suggested that in remote regions there may be a greater tendency to over-estimate, rather than under-estimate, participant work capacity, partly due to the reasons outlined above.

These issues were not investigated in detail as part of this Review. However, the Department should continue to actively monitor and manage these topics, among others, going forward.

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix

Chapter 5 summary: Implementation and impact assessment

This Review's recommendations are aimed at ensuring the scarce specialist resources are targeted to those more in need of specialist support. This is particularly important given the impact of COVID-19 on unemployment rates.

In addition, the changes will reduce the work effort required by Services Australia assessors, DES caseload and DES expenditure:

- Removing the DES 18-Month Reviews is expected to increase DES caseload by approximately 500 and costs by approximately \$3.0m/year, while reducing assessor work effort by approximately 7 per cent or \$3.1m;
- Changes to ESAt decision making criteria and quality assurance processes are expected to reduce the number of referrals to DES. However, quantifying this impact is difficult. As an example, a reduction in DES referrals of 2-7 per cent would reduce DES program expenditure by \$25-90m in 2022-23.

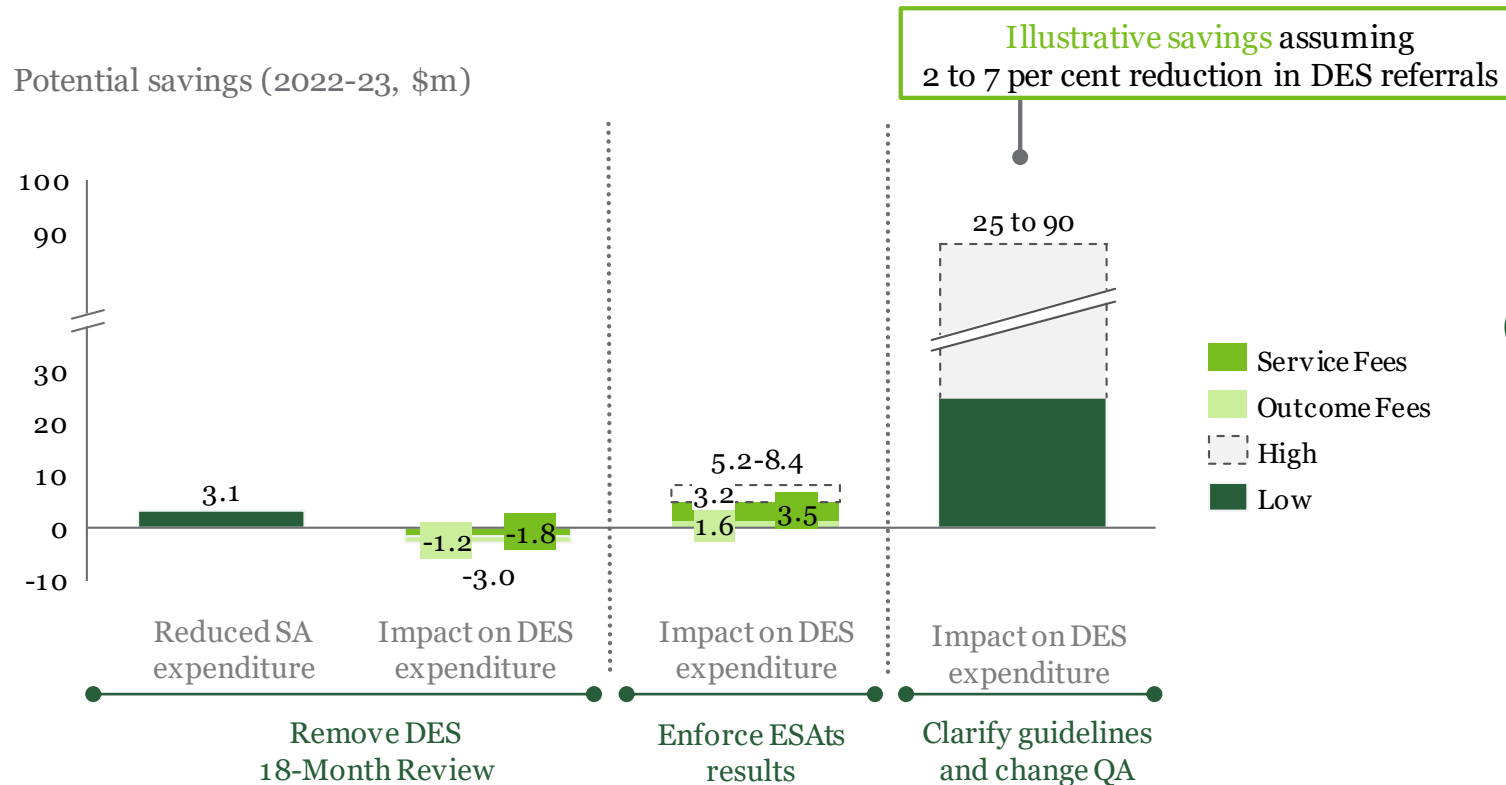
To realise these changes, the Department should incorporate best practices from behavioural economics, including testing changes prior to implementation and reinforcing them through feedback.

Each of the Review's recommendations will require approvals and consultation with a range of stakeholders, including DSS, Services Australia, DESE, NIAA, Government and DES providers. Detailed design and implementation should consider the complex interactions between assessments and employment programs, including the impact on minority groups.

Design work on the first set of changes (JSCI, 18-Month Review, ESAt guidelines) should start immediately, targeting full implementation by 1 April 2021. Later in 2021, the Department should proceed with medium-term improvements to the QA process and consider longer-term changes as part of broader reform to DES.

Recommended changes will have some impact on spend, but exact range is uncertain

Potential cost implications for removing 18-Month Review, enforcing Grant Agreement clauses regarding ESAts, clarifying DES referral criteria and changing QA processes



Potential savings is uncertain, depends on degree of change and strength of behavioural response

- Potential savings are inherently uncertain but can be firmed up through testing
- Changes to guidelines alone are likely to result in low, single digit changes in referral rates as they will likely still retain a degree of subjectivity
- Behavioural feedback can have a large impact, as people dislike being identified as outliers, however the strength of this response is uncertain

Changes could reduce DES referrals by 2 to 7 per cent, depending on degree of change






Reduction in DES referrals from changes to guidelines and QA

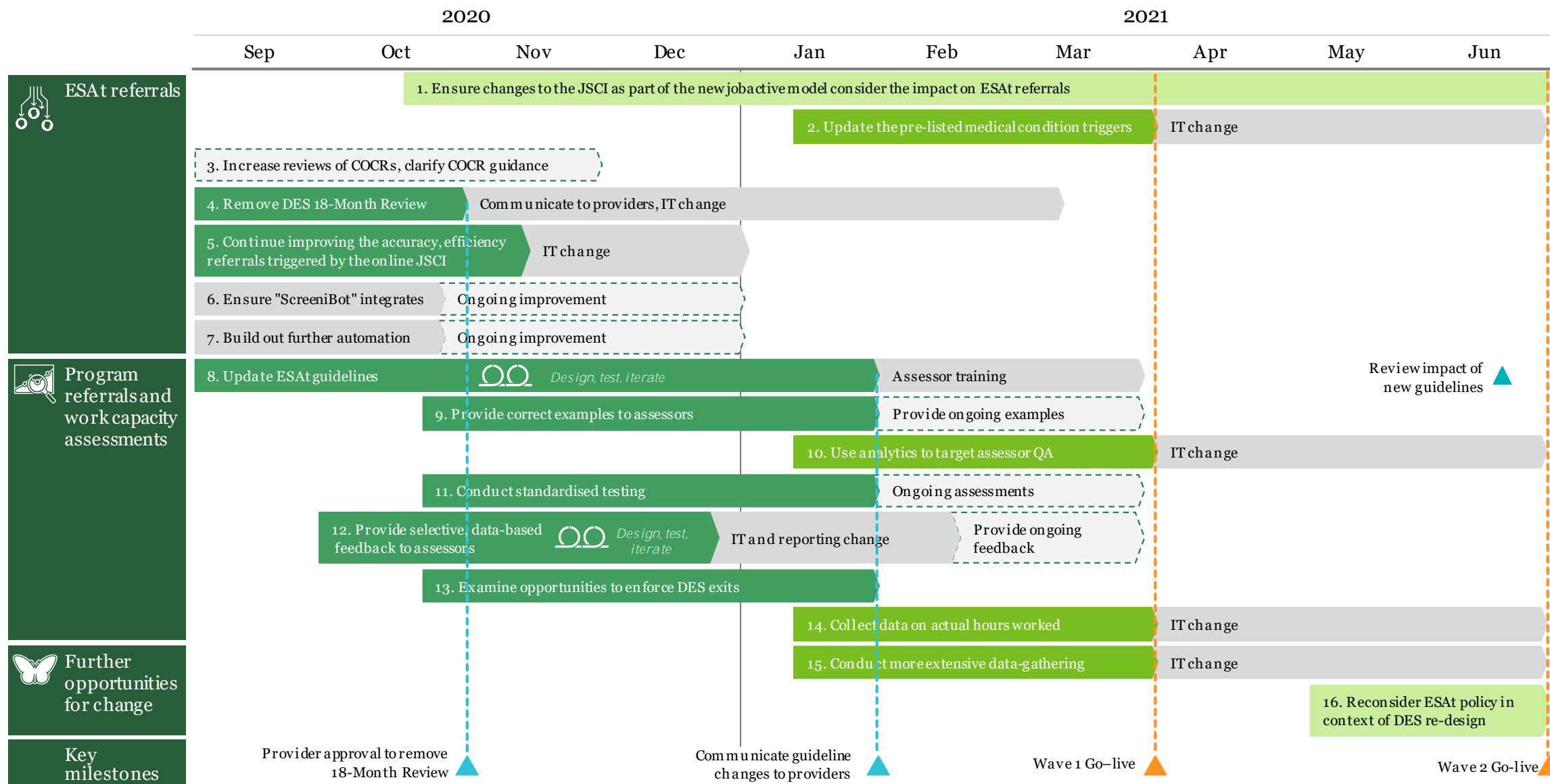
Range of impact should be determined through testing

- 1 **Research** shows behavioural changes can lead significant, but variable changes in outcomes (see back-ups)
- 2 By comparison, **regression results** shows participants are 2.3 per cent more likely to be referred to DES for every decade increase in age. This indicates a reduction in this factor (or similar) is likely to result in a small reduction in DES referrals)

Approvals and consultation needed across Government

Recommendation		DSS	Services Australia	DESE	NIAA	Government	Providers	IT Change	
 Referrals (triggers and triaging)	01 Ensure changes to the JSCI as part of the new jobactive model consider the impact on ESA ^t referrals	✓	✓	✓	✓				
	02 Update the pre-listed medical condition JSCI triggers	✓	✓	✓					
	03 Increase reviews of COCRs and clarify COCR guidance		✓						
	04 Remove DES 18-Month Review	✓	✓			✓	✓	✓	
	05 Continue improving the accuracy and efficiency of ESA ^t referrals triggered by the online JSCI	✓	✓	✓	✓			✓	
	06 Ensure "Screeni Bot" is effective and integrates well	✓	✓	✓	✓			✓	
	07 Build out complementary automations for ESA ^t booking and report writing			✓	✓			✓	
 Program referrals and work capacity assessments	08 Update ESA ^t guidelines to be clearer and have more specific criteria	✓	✓	✓	✓				
	09 Provide more examples of correct decisions	✓	✓	✓	✓				
	10 Use analytics to target assessor quality assurance	✓	✓	✓	✓			✓	
	11 Conduct standardised QA testing using file assessments	✓	✓	✓	✓			✓	
	12 Provide selective, data-based feedback to assessors to address potential bias	✓	✓	✓	✓			✓	
	13 Collect data on actual hours worked to inform training	✓	✓					✓	✓
	14 Examine opportunities to enforce Grant Agreement clauses regarding DES exits following alternate program referral	✓							
 Further opportunities for change	15 Conduct more extensive data-gathering	✓	✓					✓	
	16 Reconsider ESA ^t policy in context of DES re-design	✓	✓	✓	✓	✓		✓	

Implementation plan



Immediate next steps



Changes to program guidelines

- 1 By 15 September 2020, complete the **mobilisation** phase, including:
 - Standing up a dedicated team with DSS to implement changes to guidelines
 - Agreeing the scope of changes
 - Developing the project plan
- 2 By 30 November 2020, draft **minimum viable product** of changes to the ESAt guidelines to test with assessors. This should include:
 - Collaborating with Services Australia, the NIAA, DESE and other stakeholders
 - Working with BETA to draft changes using clear behavioural language
 - Obtaining guidance from BETA on how to test and iterate these with assessors
 - By 23 December, complete initial testing of new guidelines with assessors
- 3 By 31 January 2020, **finalise new guidelines** and update the operational blueprint
- 4 By 1 April 2021, complete assessor training and **launch the new ESAt guidelines**

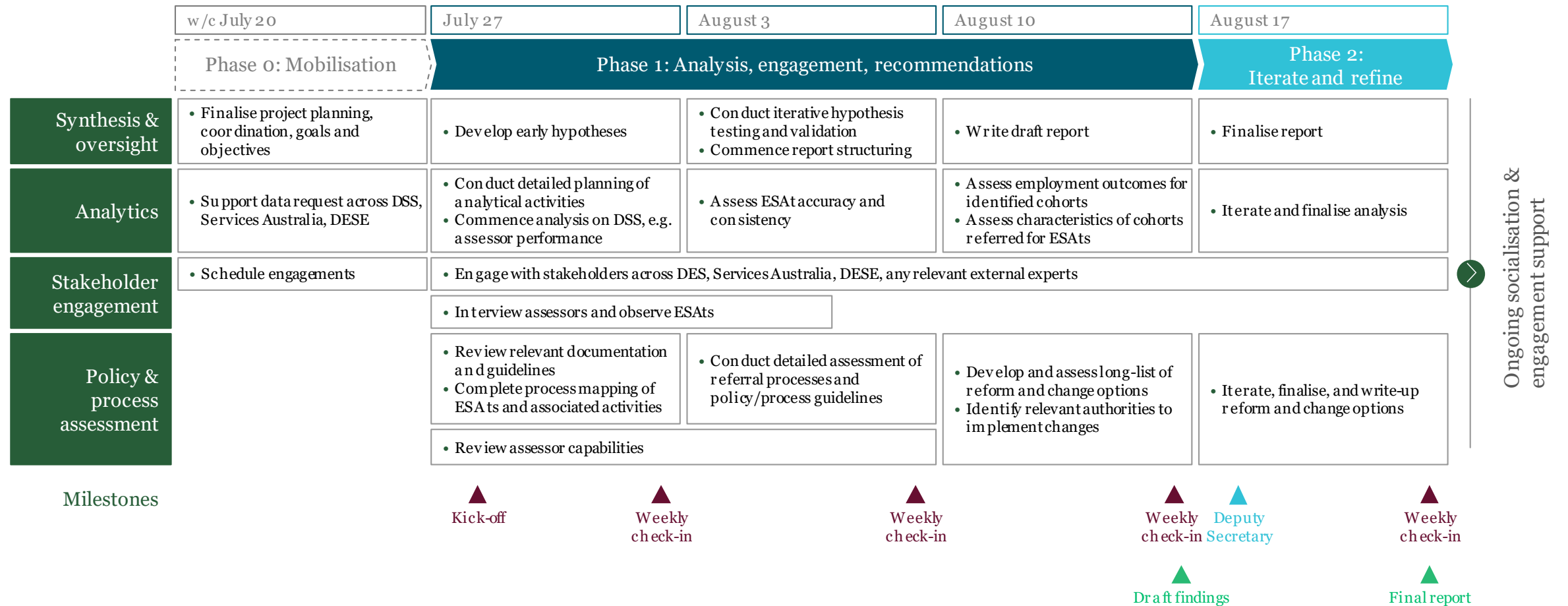
Other changes

- 5 By 31 October 2020, obtain **provider approval** to remove the DES 18-Month Review
- 6 By 15 November 2020, **test the provision of data based feedback** on ESAt outcomes to assessors (and their supervisors)
- 7 By 15 November 2020, finish designing improvements to the **process for ESAt referrals** resulting from the online JSCI, for implementation in January 2021
- 8 By 31 March 2021, implement high priority **changes to the QA process** (feedback, standardised testing)
- 9 By 30 June 2021, start conducting **targeted QA** based on analytics, update the **ESAt triggers** list and **collect additional data**

Table of contents

1	Executive summary Summary of recommendations List of terminology
6	Chapter 1: Context and introduction
32	Chapter 2: Referrals (triggers and triaging)
47	Chapter 3: Program recommendations and work capacity
75	Chapter 4: Further opportunities for change
80	Chapter 5: Implementation and impact assessment
87	Appendix






The ESAt Review was completed in four weeks over July and August 2020



Ongoing socialisation & engagement support

Backup: DES recommendations require assessor judgement on whether conditions "substantially" impact employment



ESAt guidelines for recommendation to employment services

Employment Service	Medical conditions	Other barriers	Support requirements	Work capacity	Other
 Streams A & B	<ul style="list-style-type: none"> Yes, if medical conditions don't impact ability to find employment 	<ul style="list-style-type: none"> Minimal to medium support to overcome barriers Consider other services if barriers are present 	<ul style="list-style-type: none"> No minimum requirement Job seekers may have short term support requirements 	<ul style="list-style-type: none"> May have a reduced work capacity Work capacity less than 15 hours may volunteer 	<ul style="list-style-type: none"> Stream Services job seekers are considered to be comparatively job ready (noting varying degrees of barriers)
 Stream C	<ul style="list-style-type: none"> May have unstable conditions which significantly impact ability to find employment 	<ul style="list-style-type: none"> Must have multiple and or complex non-medical barriers 	<ul style="list-style-type: none"> No identified employment support requirements 	<ul style="list-style-type: none"> May have a reduced work capacity Work capacity less than 15 hours may volunteer 	<ul style="list-style-type: none"> Primary focus on addressing complex non-medical barriers Participants not job ready until barriers addressed
 Disability Employment Service (DMS or ESS)	<ul style="list-style-type: none"> Temporary or permanent disability, illness or injury Condition results in substantially reduced capacity to obtain or retain open employment 	<ul style="list-style-type: none"> Sufficiently stabilised for participant to benefit from DES Not suitable for jobseekers requiring long term assistance, or with multiple or complex non-medical barriers 	<ul style="list-style-type: none"> DES participants receive 26 weeks post-placement support May require ongoing support to maintain employment 	<ul style="list-style-type: none"> "With intervention" work capacity above 8 hours per week or 8+ with DES on going support) 	<ul style="list-style-type: none"> Requires specialist assistance to gain or retain employment and/or to build capacity to work to their assessed future work capacity
 Australian Disability Enterprises	<ul style="list-style-type: none"> Severe medical conditions 	<ul style="list-style-type: none"> Severe medical barriers 	<ul style="list-style-type: none"> Requires a supported work environment 	<ul style="list-style-type: none"> "With intervention" work capacity of 0-7 hours in open employment, but 8+ hours in a supported work environment 	<ul style="list-style-type: none"> May require specialist assistance to gain employment
 Unable to benefit	<ul style="list-style-type: none"> Severe medical conditions 	<ul style="list-style-type: none"> Severe medical barriers 	<ul style="list-style-type: none"> Unable to work more than 8 hours (with support) 	<ul style="list-style-type: none"> "With intervention" work capacity of 0-7 hours per week 	<ul style="list-style-type: none"> Not suitable for ADEs or DES with ongoing support

Note: Referral to CPD is based on geographic location only
 Source: ESAt JCA Guide to Determining Eligibility and Suitability for Referral to Employment Services

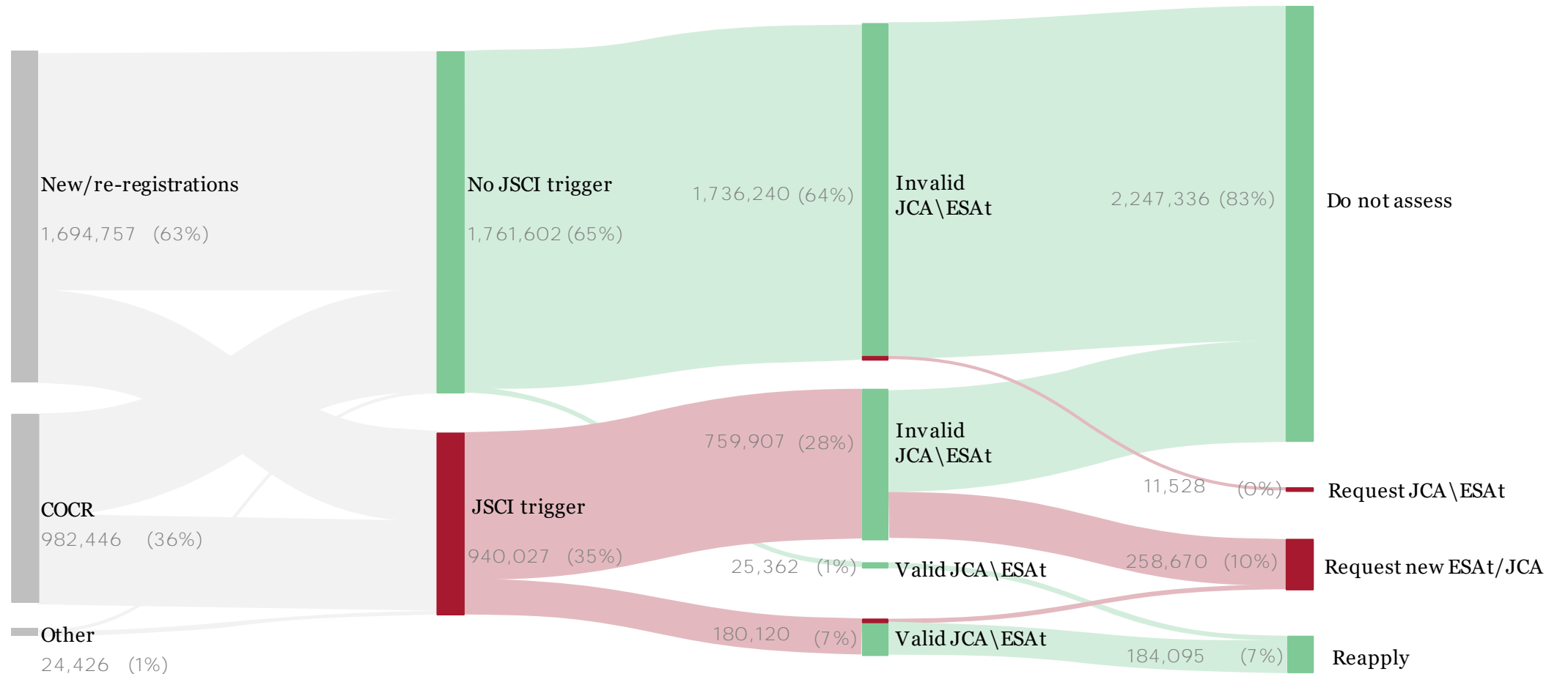
Backup: ESAts also recommend whether participant is streamed into DES-ESS or DES-DMS

ESAt guidelines for recommendation to employment services

Employment Service	Medical conditions	Other barriers	Support requirements	Work capacity	Other
 Disability Management Service (DMS)	<ul style="list-style-type: none"> • Temporary or permanent disability, illness or injury • Condition results in substantially reduced capacity to obtain or retain open employment 	<ul style="list-style-type: none"> • Sufficiently stabilised for participant to benefit from DES • Not suitable for jobseekers requiring long term assistance, or with complex or multiple non-medical barriers are not suitable 	<ul style="list-style-type: none"> • Participants require less than 6 instances of ongoing support per 6 months, or have unclear requirements • Participants who require "personal care" are not eligible for DMS 	<ul style="list-style-type: none"> • "With intervention" work capacity above 8 hours per week 	<ul style="list-style-type: none"> • Requires specialist rehabilitation assistance to gain or retain employment and/or to build capacity to work to their assessed future work capacity
 Employment Support Service (ESS)	<ul style="list-style-type: none"> • Permanent disability, illness or injury • Condition requires ongoing support to stay in open employment 	<ul style="list-style-type: none"> • As per DMS 	<ul style="list-style-type: none"> • Participants require at least 6 instances of ongoing support per six months 	<ul style="list-style-type: none"> • "With intervention" work capacity above 8 hours per week (incl. 8+ with DES Ongoing Support) 	<ul style="list-style-type: none"> • Require specialist assistance to build capacity to assist jobseekers to work to their assessed future work capacity

Approximately 10 per cent of JSCIs result in an ESAt/JCA referral

Observed flow of JSCI to ESAt referral (FY19-20)



Note: Not all ESAts are triggered through JSCIs
 Source: JSCI Data, BCG Analysis

Interpretation of results: Program recommendation and work capacity regressions

Interpretation of coefficients

- A logistical regression has been used to estimate the probability of a participant being recommended into DES, based on a range of characteristics
- Coefficients from this logistic model have been converted to be expressed as incremental changes in probability, for individuals for whom there would otherwise be a 50 per cent change of being recommended into DES
- All categorical variables have a reference category. The reference category is the "missing" category in the x-axis (e.g. the reference category for gender is female)
- For continuous variables such as age and months unemployed the coefficient is interpreted as incremental changes. Age is expressed in units of decades, months unemployed in 6 month increments, and time spent on Stream in years.
- For example, an incremental probability of 5 per cent implies that:
 - For binary variables, observing the variable given would be associated with a change in the estimate of the probability of being streamed into DES from 50 to 55 per cent
 - For continuous variables, a one-unit increase (e.g. one decade) would result in an equivalent increase in probability
- A similar model was used to calculate the incremental likelihood of being assessed as low work capacity.

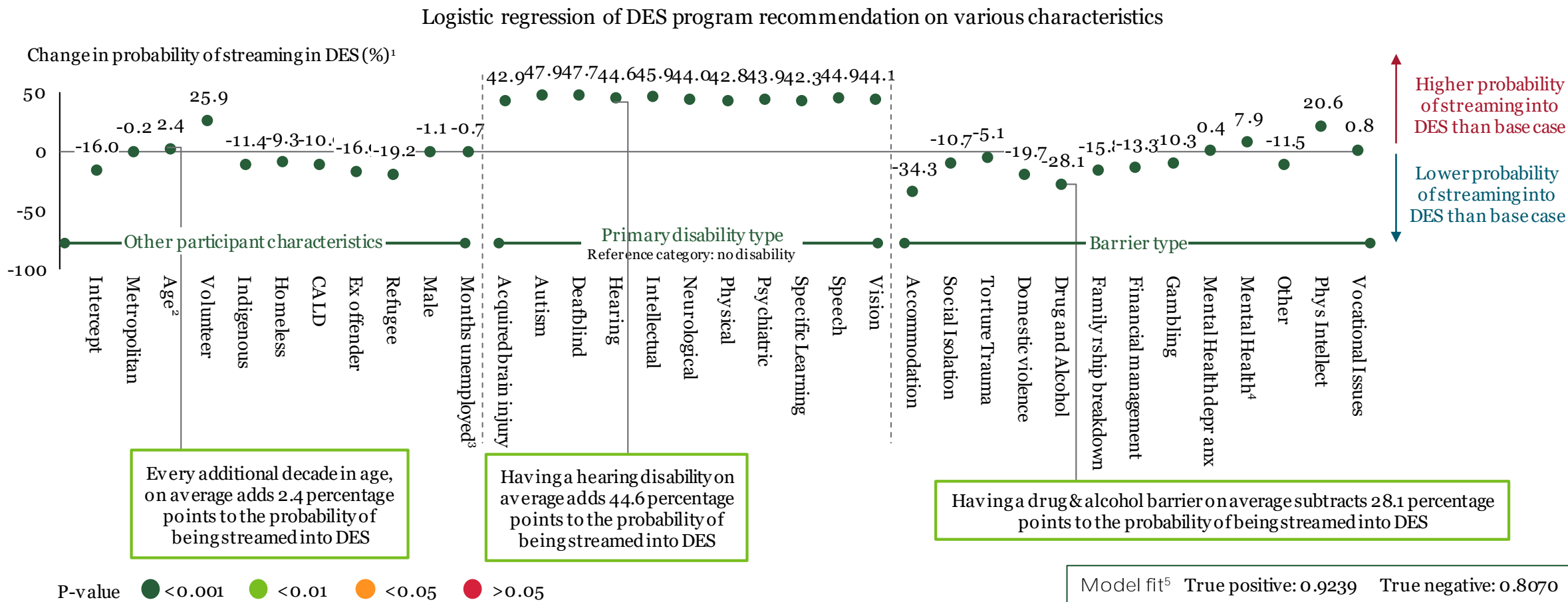
Interpretation of significance

- Statistical significance is, speaking roughly, the probability of observing the data given, if the true value of the coefficient governing the statistic relationship between the variables was zero
- In the following pages, variables that are flagged as insignificant do not appear to have a statistical relationship with DES streaming decisions.

Interpretation of model fit

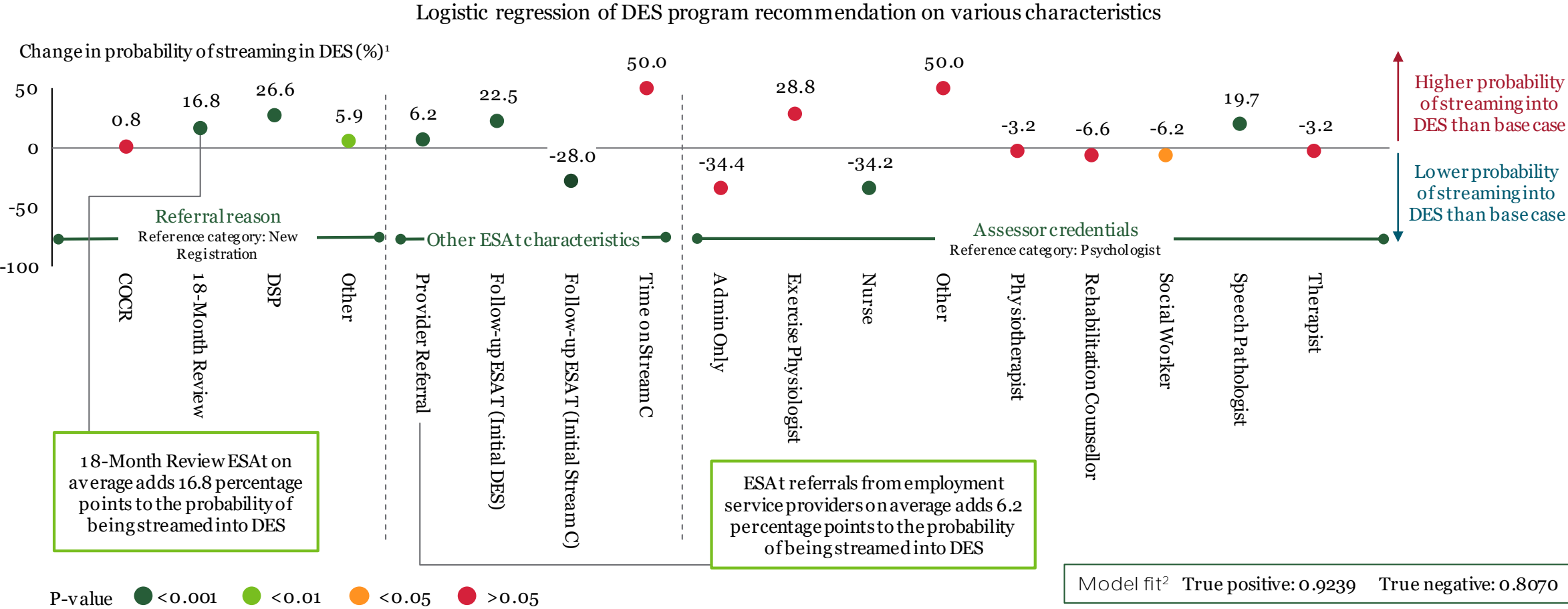
- True positive and true negative rates are measurements of well the model can predict the observed outcomes:
 - The true positive rate measures the proportion of "positive" results (e.g. recommending DES or low work capacity) that were correctly identified
 - Likewise, the true negative rate measures the proportion of negative results that were correctly identified
- Values closer to "1" suggest better performance. A positive prediction is taken as all those where the model's assigned probability was greater than 50 per cent
- Note that no out-of-sample predictions were made, a step that would be necessary to calibrate model performance before e.g. using a similar approach to support QA

Program | Deep-dive: regression results for participant characteristics



1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant. 2. Age has been converted to decades 3. Months has been converted to 6 months intervals 4. Anxiety & depression. 5. True positive is the ability of the model to correctly identify those referred to DES, whereas true negative is the ability of the model to correctly identify those not referred to DES. Note: n= 1.23m, only ESA outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

Program | Deep-dive: regression results for non-participant characteristics

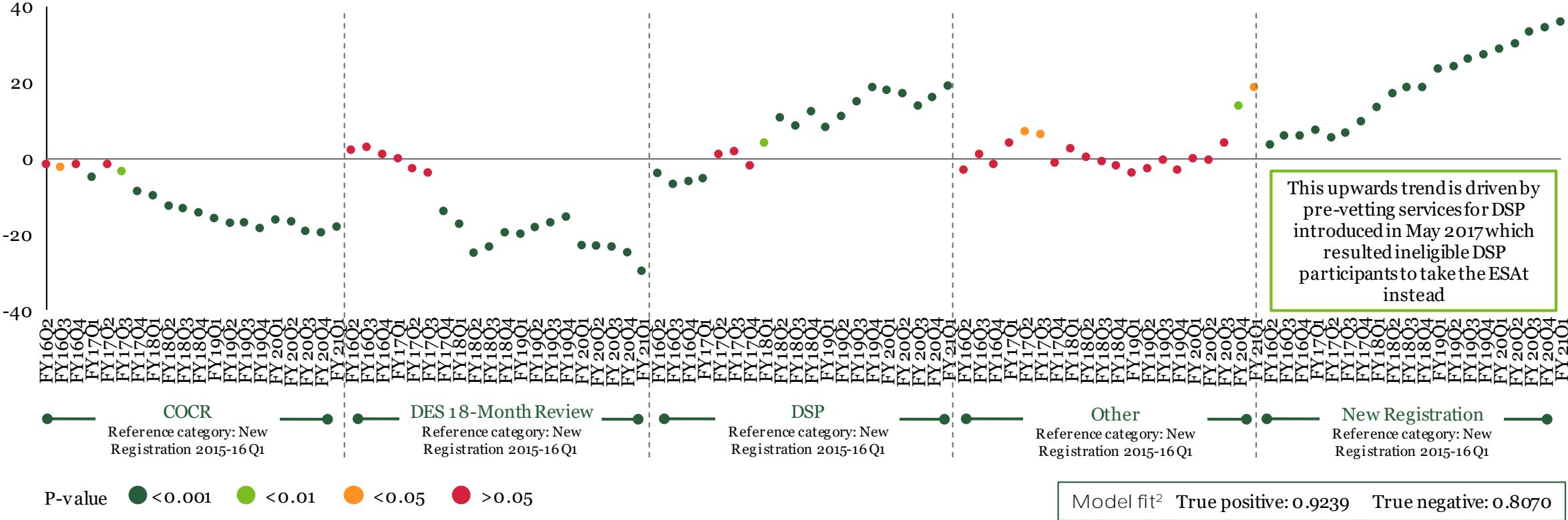


1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant. 2. True positive is the ability of the model to correctly identify those referred to DES, whereas true negative is the ability of the model to correctly identify those not referred to DES. Note: n= 1.23m, only ESAt outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
 Source: DSS; BCG analysis

Program | Deep-dive: regression results for time

Logistic regression of DES program recommendation on various characteristics

Change in probability of streaming in DES (%)¹

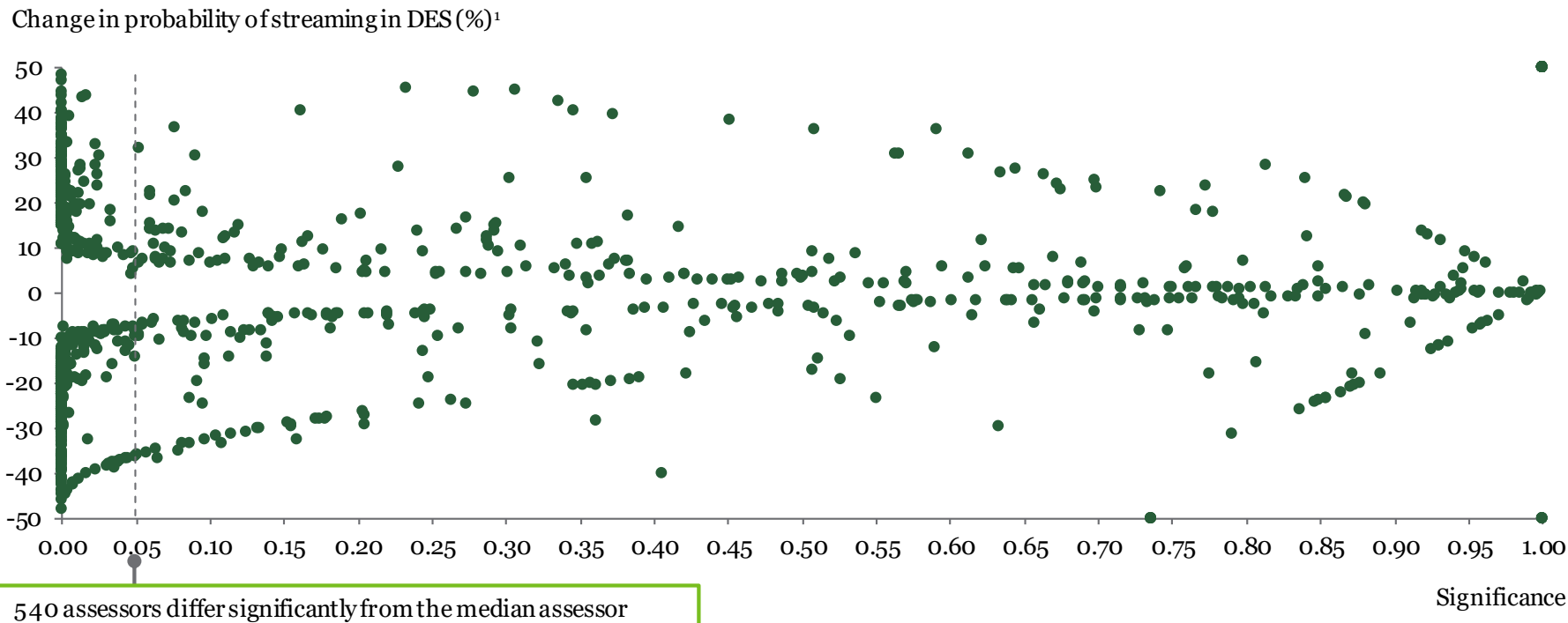


1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant 2. True positive is the ability of the model to correctly identify those referred to DES, whereas true negative is the ability of the model to correctly identify those not referred to DES. Note: n= 1.23m, only ESAt outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

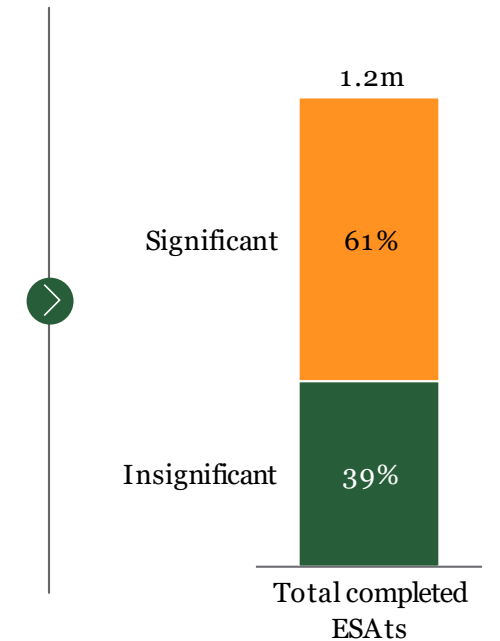
Program recommendation | Deep-dive: substantial variation in size and significance of "assessor effect"

Holding other variables constant, the assessor themselves vary in their likelihood of recommending DES

Distribution of assessor variation in recommending DES



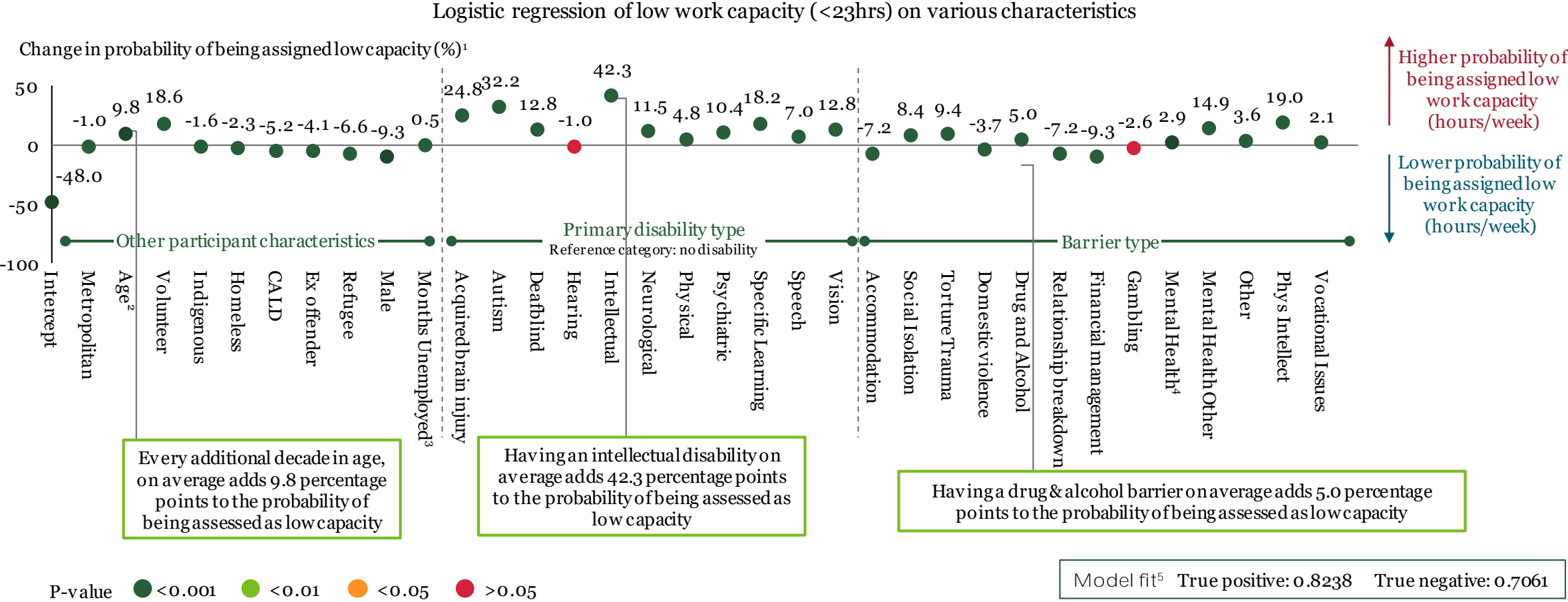
Majority of ESAs conducted by assessor who differed significantly from the median



1. Incremental percentage change from deviating from the median assessor (TB2720) assuming all other variables are kept constant. Note: n=1.23m, with 1,032 unique assessors from 2015-16 to 2019-20. Only ESA outcomes for DES DMS, DES ESS and Stream C have been included in this analysis.

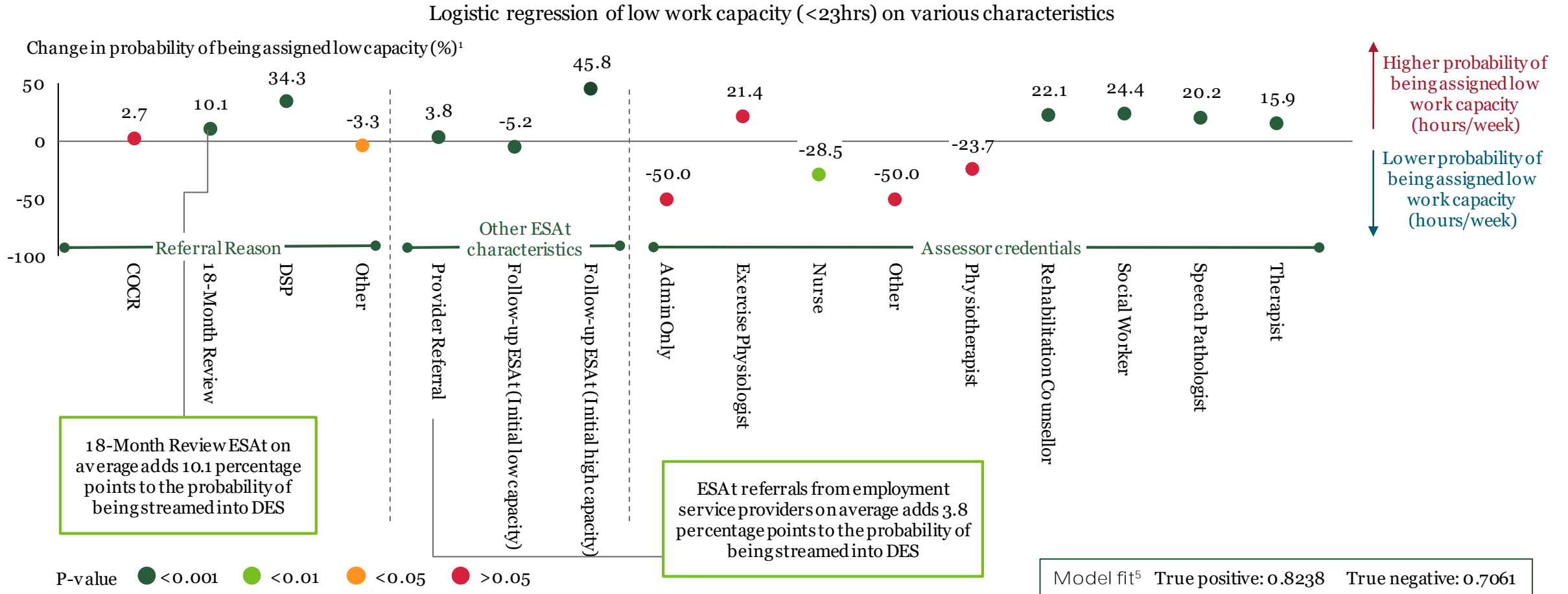
Source: DSS; BCG analysis

Work capacity | Deep-dive: regression results for participant characteristics



1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant. 2. Age has been converted to decades 3. Months has been converted to 6 months intervals 4. Anxiety & depression. 5. True positive is the ability of the model to correctly identify those assigned low work capacity, whereas true negative is the ability of the model to correctly identify those assigned high work capacity. Note: n = 1.23m, only ESA outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

Work capacity | Deep-dive: Regression results for non-participant characteristics

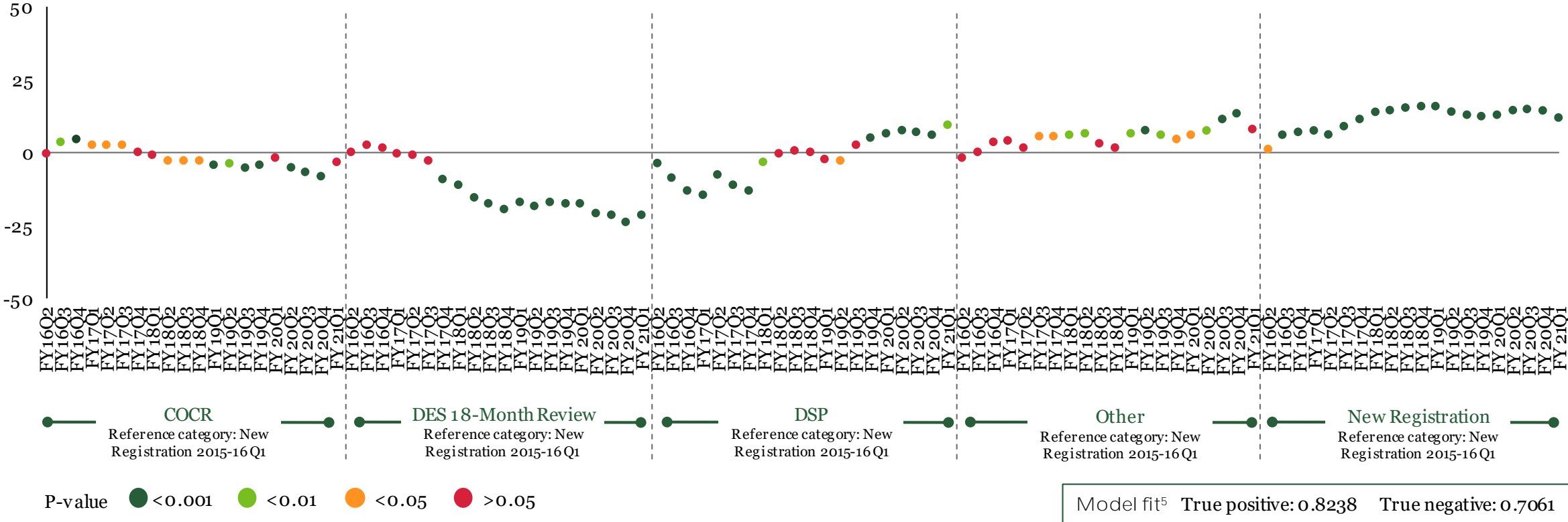


1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant. 2. Age has been converted to decades 3. Months has been converted to 6 months intervals 4. Anxiety & depression. Note: n= 1.23m, only ESA outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

Work capacity | Deep-dive: regression results for time

Logistic regression of low work capacity (<23hrs) on various characteristics

Change in probability of being assigned low capacity (%)¹

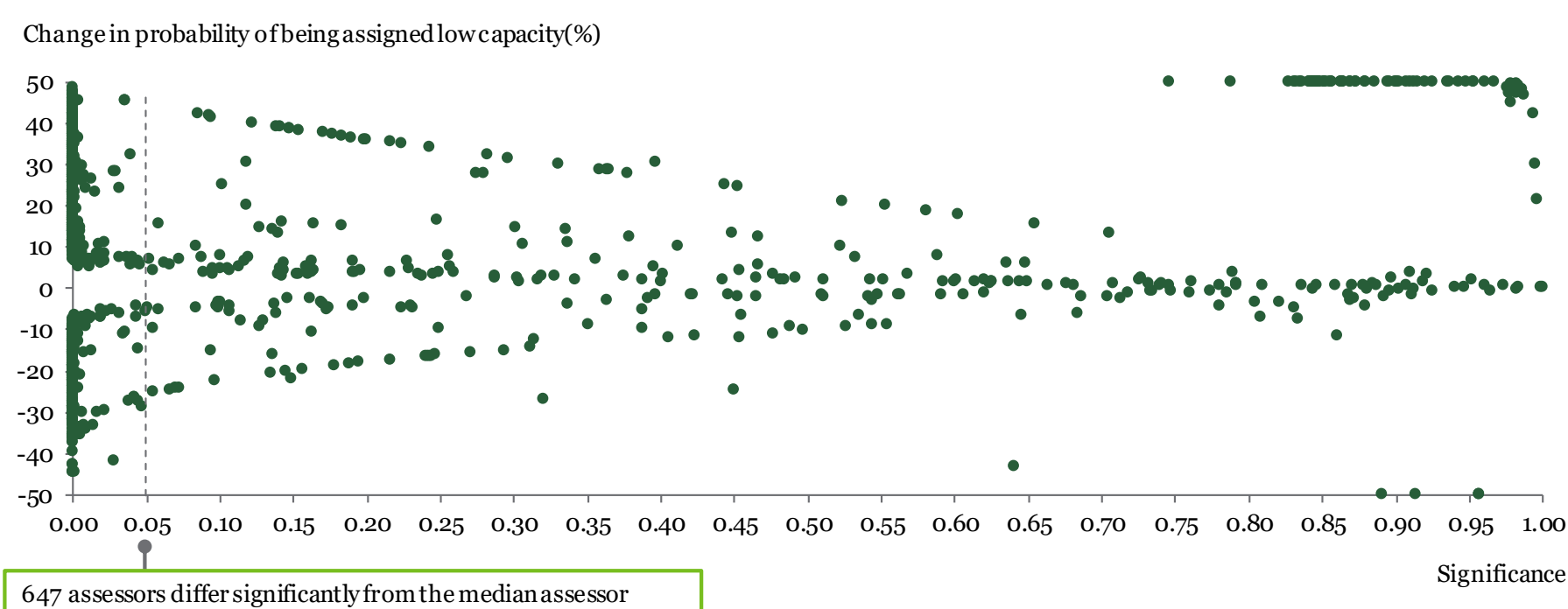


1. Incremental percentage change from deviating from the reference category assuming all other variables are kept constant. 2. Age has been converted to decades 3. Months has been converted to 6months intervals 4. Anxiety & depression. 5. True positive is the ability of the model to correctly identify those assigned low work capacity, whereas true negative is the ability of the model to correctly identify those assigned high work capacity. Note: n= 1.23m, only ESAt outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

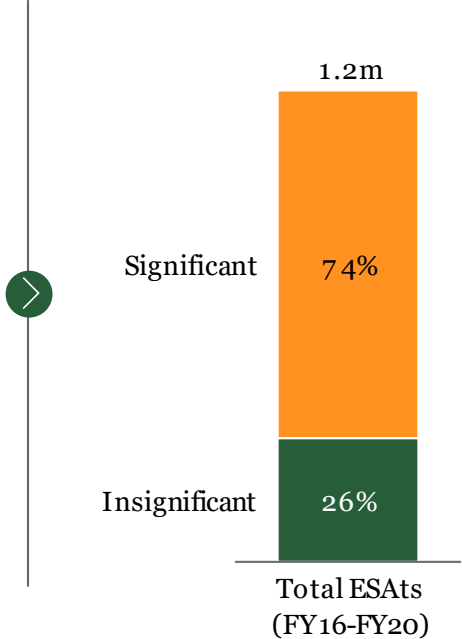
Work capacity | Deep-dive: substantial variation in size and significance of "assessor effect"

Holding other variables constant, the assessor themselves vary in their likelihood in assigning future work capacity

Distribution of assessor variation in assigning future work capacity



Majority of ESAts conducted by assessor who differed significantly from the median

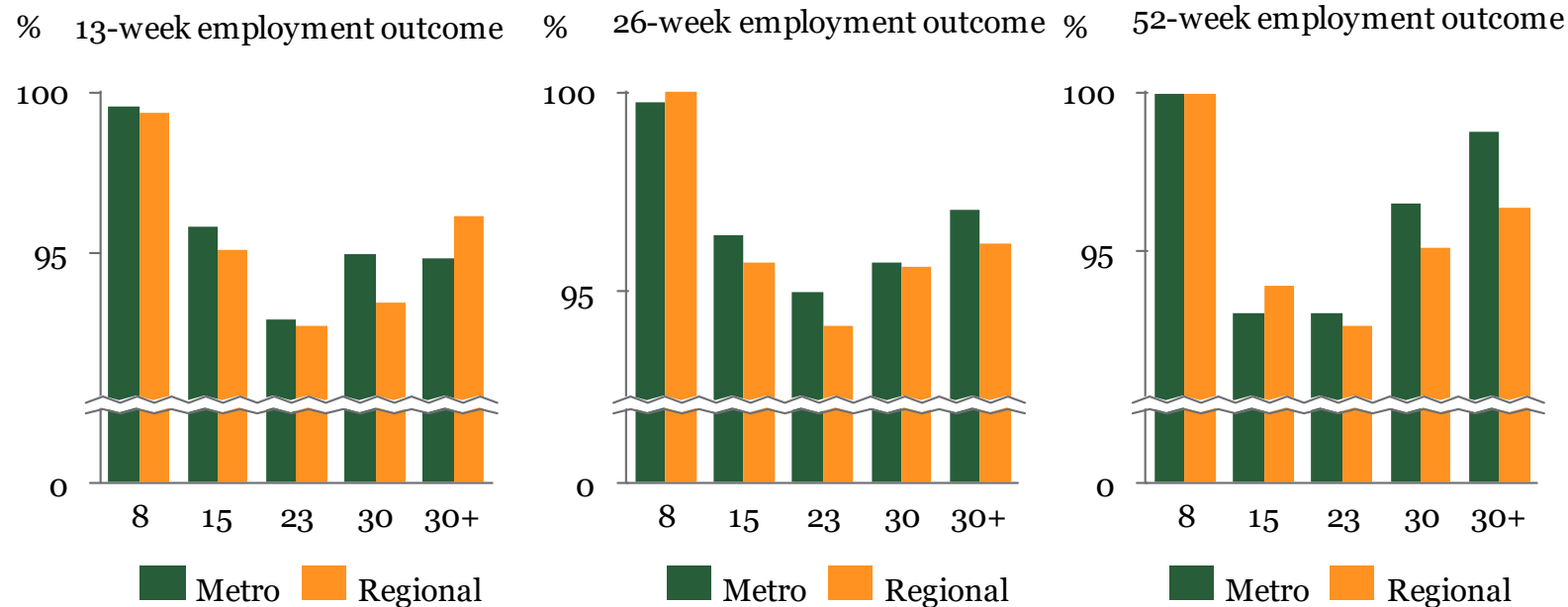


1. Incremental percentage change from deviating from the median assessor (AH0816) assuming all other variables are kept constant. Note: n = 1.23m, with 1,032 unique assessors from 2015-16 to 2019-20. Only ESAt outcomes for DES DMS, DES ESS and Stream C have been included in this analysis
Source: DSS; BCG analysis

Minor difference in attainment of full vs pathway outcomes in regional vs metro areas

Regional DES participants who achieve employment outcomes are slightly less likely than metropolitan counterparts to do so at their assessed benchmark hours

Full outcomes as a percentage of all outcome (Mar-19 to Mar-20)



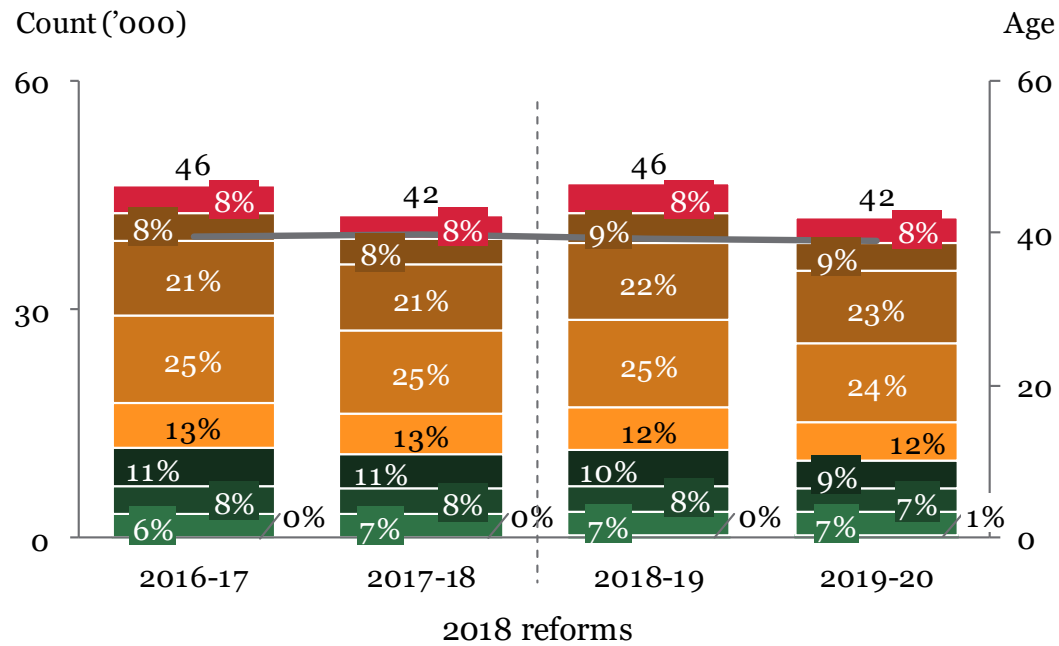
While assessed work capacity could be an accurate reflection of a participant's ability, the availability or seasonality of work in regional areas may make it more difficult for participants to work at or above their benchmark hours

Participants referred to DES are increasingly older, compared to Stream C

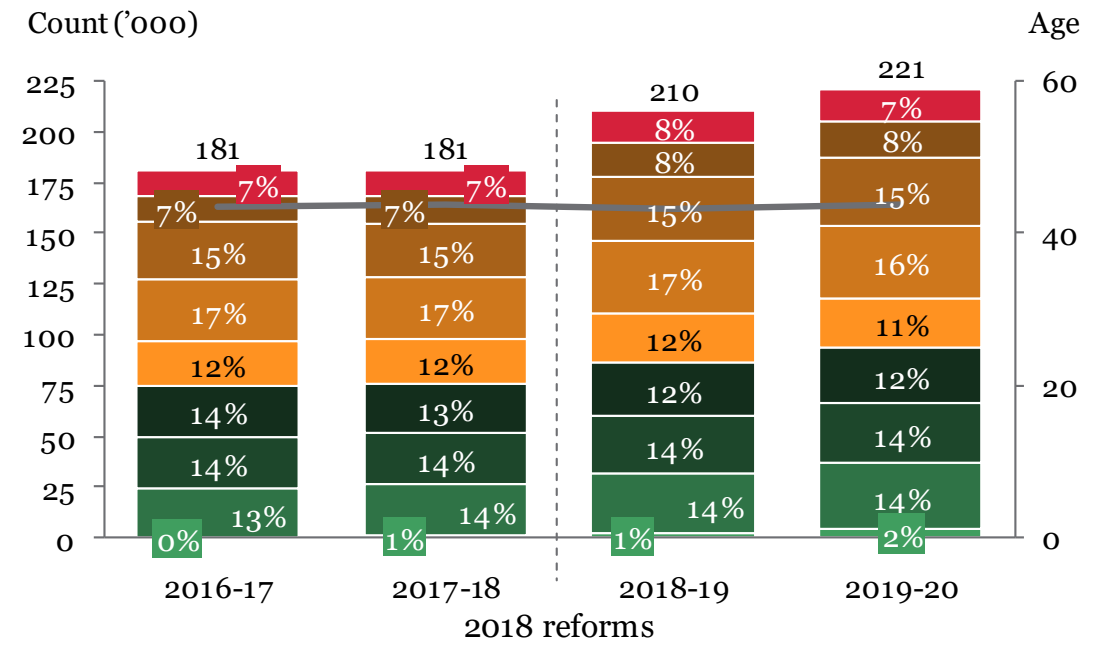
The average age of a participant referred to Stream C has fallen by 0.5 years since 2016-17

The average age of a participant referred to DES has increased by 0.4 years since FY17

Age of participants referred to Stream C



Age of participants referred to DES



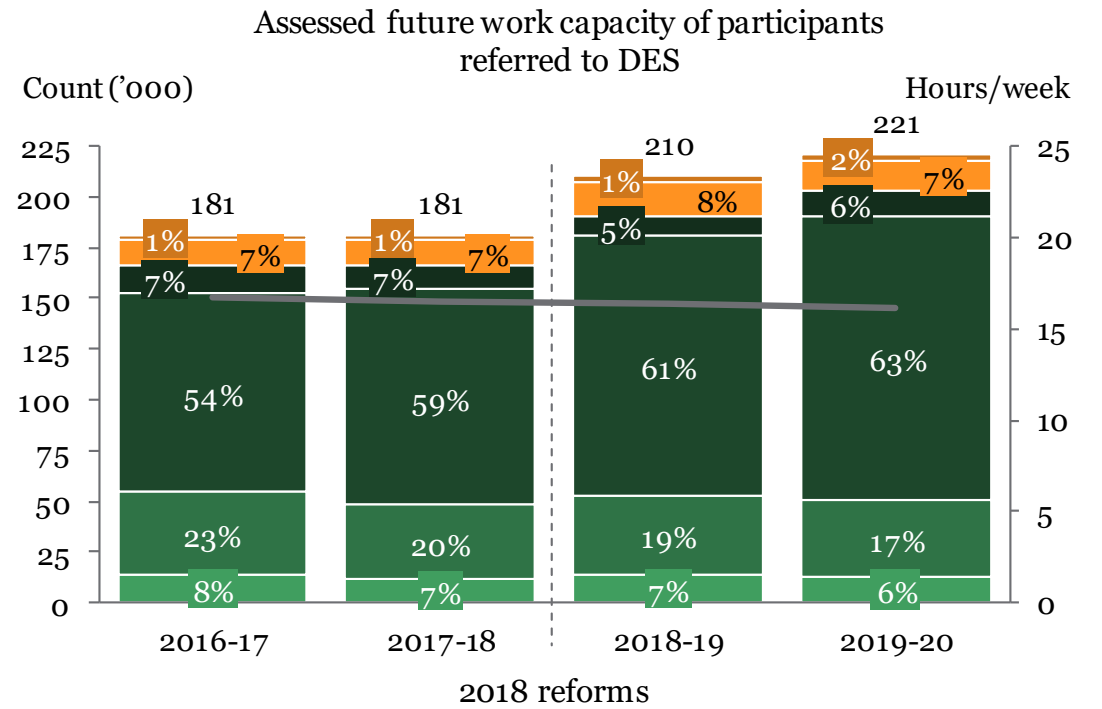
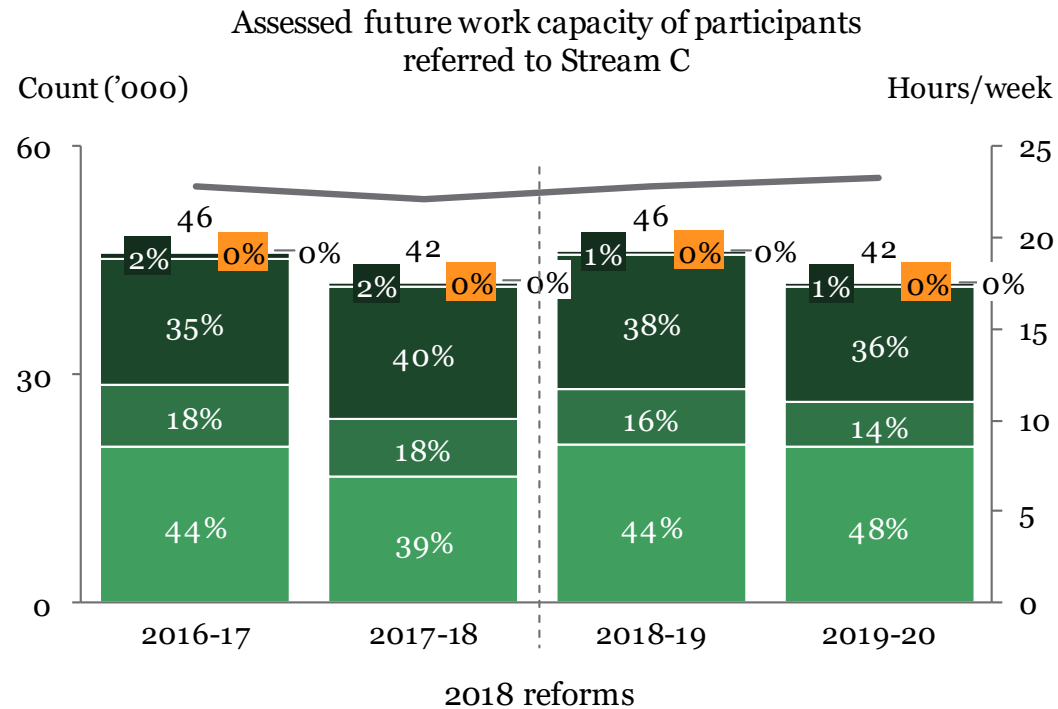
— Average ■ Under 21 ■ 21-24 ■ 25-34 ■ 35-44 ■ 45-49 ■ 50-54 ■ 55-59 ■ 60-64 ■ 65+

Note: Age refers to age at point of referral.
Source: DSS; BCG analysis

Participants referred DES are increasingly assessed as less capable of 23+ hours of work per week than previously

Share of referrals to Stream C assessed as capable of full-time work has remained broadly steady...

...while referrals to DES are increasingly dominated by the 15 – 22 hour bracket, with an overall fall in average hours



— Average 0-7 8+ 8-14 15-22 23-29 30+

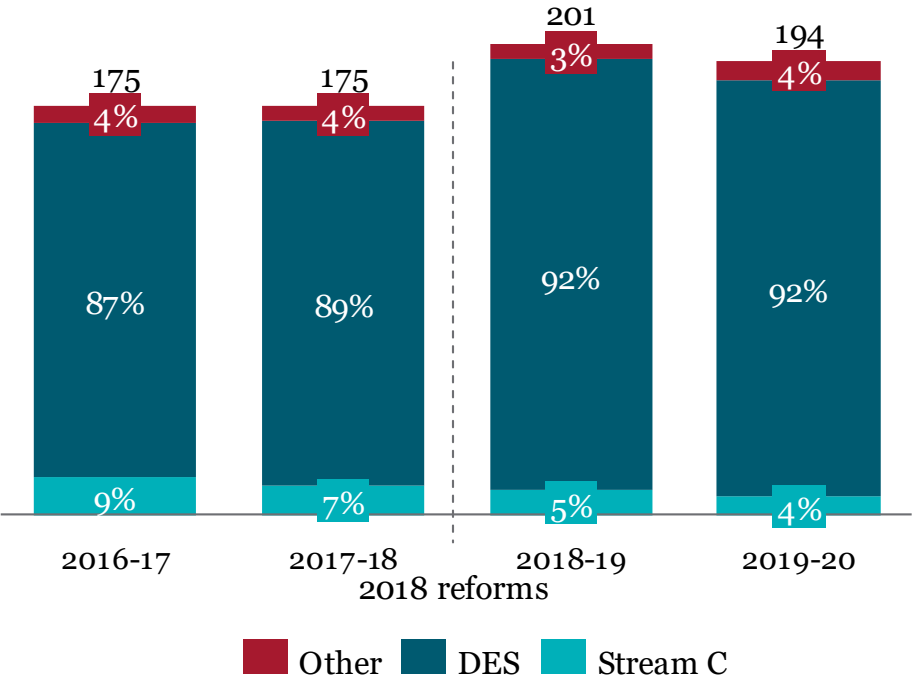
Note: Assumes NA = 30+ capacity. 8+ work capacity category is for DSP participants. Average hours is calculated assuming the lower end of the hours/week range
Source: DSS; BCG analysis

In particular, participants with a disability are increasingly likely to receive program recommendation for DES over Stream C

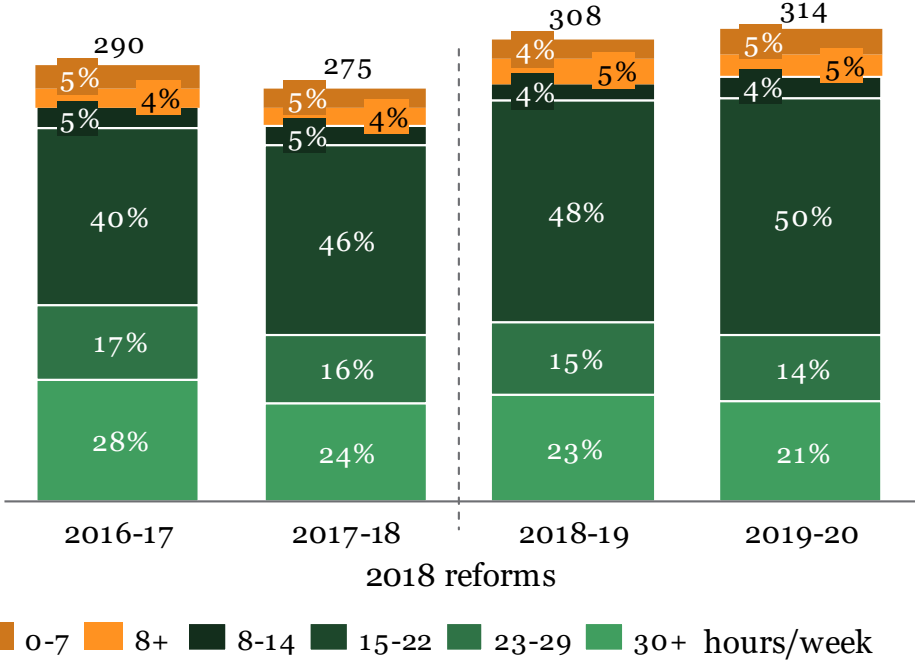
More participants with a disability receive a DES program recommendation...

...and participants are, on average, receiving lower estimated work capacity

Program recommendations for participants with an identified primary disability at time of assessment ('000)



Future work capacity assessment from ESAt/JCA ('000)



Note: Unable to be completed ESA ts have been removed from this analysis. Other refers to all other outcomes except DES and Stream C, such as Stream A & B, Unable to benefit, ADE, etc. Assumes NA is 30+ work capacity. 8+ is for DSP participants
 Source: DSS; BCG analysis

Disclaimer

This report has been specifically created for the Commonwealth Department of Social Services (DSS). The purpose of this report is to provide general and preliminary information, and its contents should not be relied upon or construed as such by DSS or a third party. The contents of this report are disclosed in good faith, and subject to change without notice. The report does not contain a complete analysis of every material fact on the subject matter, and all warranties, representations and guarantees pertaining to the reliability, timelines, suitability, accuracy or completeness of its contents are expressly disclaimed. BCG, its subsidiaries and affiliates disclaim all liability relating to or arising from access, use or reliance on this report. The DSS is solely responsible for its interpretation of, and decisions taken, based on this report. Except for claims which cannot be capped at law, in no event will BCG, its subsidiaries and affiliates be liable for direct, indirect, incidental, special or consequential losses arising from the information in this report, whether arising out of contract (including under an indemnity), tort (including negligence), statute, strict liability, third party claims or otherwise, resulting from or related to this report, whether or not such party knew or should have known of the possibility of any such damages.

Thank you



Request for Quotation – from Panel

Reference ID: 70013416

Request for Quotation (RFQ) under the Deed of Standing Offer for Business Advisory Services Panel dated November 2015 (the Deed).

The Commonwealth as represented by the Department of Social Services (the Customer) is seeking submissions for the provision of the services (the Requirement) as described in this RFQ.

This RFQ is for the provision of: professional services to conduct a mid-term review of the Disability Employment Services (DES) program and recommend options to improve the cost effectiveness of the program (the Review).

Statement of Requirement

A.A.1 Key Dates and Times

Event	Details
RFQ Closing Date:	31 March 2020
RFQ Closing Time:	6:00 pm AEDT
Industry Briefing, Canberra:	23 March 2020
Question Closing Date and Time:	Questions will be permitted up until 4:00 pm AEDT 25 March 2020
Expected Contract Execution Date:	28/04/2020
Expected Contract End Date:	The Contract will terminate on 30/10/2020
Contract Extension Option:	The Contract will include the following extension option(s): 1 x extension for 3 month
Site Inspection:	Unless otherwise notified by an addendum, there are no site inspections for this RFQ.

A.A.2 The Requirement

The Customer seeks a quotation from selected service providers from the Business Advisory Services Panel in accordance with the relevant Deed.

Background

The Australian Government is focused on increasing employment opportunities and improving employment outcomes for people with disability. Increasing access to employment is a key way to improve the economic security and personal wellbeing of people with disability and their families. There is also a recognised value proposition for organisations that are inclusive and diverse, and who employ people with disability, including improved productivity, performance and innovation and improved organisational reputation.

Notwithstanding the social and economic benefits, the labour force participation rate of people with disability has largely remained the same for over 20 years (53.4 per cent, compared to 84.1 per cent for people without disability). The unemployment rate for people with disability is approximately twice the national average.

The Australian Government provides a range of services to help people with disability to find and keep a job. The Disability Employment Services (DES) program, managed by the Department of Social Services (the department), plays an important role in improving employment outcomes for people with disability, injury or health conditions.

There are approximately 280,000 people registered on the DES program, which complements the mainstream employment service program, jobactive, managed by the Department of Education, Skills and Employment (DESE). People with disability, injury or health conditions are referred to the most appropriate program following an assessment of their vocational and non-vocational barriers to finding and maintaining employment, their work capacity and ongoing support needs.

On 1 July 2018, a suite of reforms were made to the DES program, including:

- improved choice and control for participants in the services they receive;
- increased provider competition and contestability;
- a new DES funding model, including risk-adjusted outcome fees based on the participant's probability of achieving an employment outcome.

It is anticipated that the findings of the Review will inform future policy decisions regarding the DES program.

The department requires provision of the Services described below, within the timeframe and in accordance with the specifications detailed below.

Requirement

The Customer is seeking quotations from Suppliers to undertake a mid-term review of the Disability Employment Services (DES) program.

A mid-term review of the DES program will evaluate the impact of the reforms and the performance of the program in relation to:

- delivering the Government's policy objectives to improve the employment outcomes of people with disability
- supporting people with disability to find and retain supported and/or open employment
- the full array of disability needs and supports, including episodic and psychosocial needs
- contestability of service delivery in regional and remote Australia
- other existing and complementary employment service programs, and
- national and international best practice.

It will include an assessment of whether the current model is an appropriate model for:

- **Participants**, to support them to identify and find sustainable employment suited to their skills and ability to work.
- **Employers**, to ensure there are appropriate supports, including from DES providers, to recruit and retain suitably skilled jobseekers with disability; and
- **Service Providers**, to ensure the focus is appropriately on the needs of participants and employers to maximise employment outcomes for people with disabilities.
- **Government**, by boosting the employment participation of people with disability, raising the productive capacity of the workforce and delivering a positive return on investment and value for money service.

The following questions are intended to guide the successful Supplier to undertake the Review, however they should not be taken as an exhaustive list:

1. How effective is the current program at helping people with disability to find and retain ongoing employment that suits their skills and ability to work?
2. How effectively are DES providers identifying labour market demand and matching participants to appropriate employment opportunities?
3. Is the current funding model providing value for money?
4. Is the DES program addressing the requirements for all disability types, including episodic or psychosocial conditions?
5. Have incentives in the program related to supporting education and training been effective in lifting employment outcomes?
6. What delivery mechanism is best suited for thin markets (ie. regional and remote areas)?
7. How does DES compare with other programs, nationally and internationally, in terms of value for money, appropriateness of criteria, and maximising employment outcomes for people with disability?
8. Are there opportunities to better integrate DES with other employment service programs, such as jobactive, other existing or complementary employment programs or projects, or with non-government services, such as Seek or JORA?
9. What alternative approaches are there to improve the employment outcomes for people with disability?
10. What factors impact on the efficacy of the DES program?
11. What other reforms could be made to the DES program to make it more efficient?

The successful Supplier will:

- (i) provide a detailed project plan of an approach and methodology proposed to meet the objectives of the Review;
- (ii) review and analyse literature, research, analysis and data. This includes information publicly available and available internally to the department;
- (iii) engage with relevant stakeholders, including employers and participants; employer, disability and provider peak bodies; DES providers and interested government agencies;
- (iv) provide preliminary findings from the Review to the department and key government stakeholders by 7 July 2020;
- (v) provide a final report on detailed findings and recommended options from the Review to the department and key government stakeholders by 2 October 2020.

To support the Review within the timeframe, the successful Supplier will be assisted by departmental subject matter experts and have access to readily available program and expenditure data, and recent research and analysis on the program.

In their response, suppliers should detail proposed requirements of the Customer and/or work that they propose be undertaken by the Customer during the course of the Review (for example provision of data, analysis of data, extraction of survey samples). The whole of life costs to be incurred by the Customer are included as one of the evaluation criteria (see Section A.A.6 below)

A.A.2(a) Standards

The Supplier must ensure that any goods and services proposed comply with all applicable Australian standards (or in its absence an international standard) including any requirements or standards specified in this Statement of Requirement. Potential Suppliers should note that they may be required to enable the Customer, or an independent assessor, to conduct periodic audits to confirm compliance with all applicable Australian or international standards.

Web Content Accessibility

The Supplier must ensure that any website, associated material and/or online publications (where applicable) complies with the Web Content Accessibility Guidelines available at:

<https://www.w3.org/WAI/intro/wcag>.

Publications

Publications and reports (if any) must be drafted to comply with the current version of the Commonwealth's [Style Manual](#).

Key Performance Indicators

None specified.

A.A.2(b) Security Requirements

Security Requirements include:

- All Personnel and Subcontractors who will or may have access to official information to execute a conflict of interest declaration; and
- All Personnel and Subcontractors who will or may have access to official information to obtain a security clearance to, at minimum, the Baseline level.

The cost of obtaining each security clearance will be borne by the Supplier. The Supplier must ensure that its Specified Personnel promptly provide to the Customer relevant details to assist with the security clearance process, and the Supplier must notify the Customer promptly in writing of any change in circumstances which is likely to affect the Customer's assessment of the Specified Personnel's entitlement to hold a security clearance.

Current AGSVA Vetting Fees and Charges can be found at <http://www.defence.gov.au/AGSVA/corporate-industry-policy.asp>.

A.A.2(c) Workplace Health and Safety

Prior to commencement of the Contract, the Customer's Contract Manager and the Supplier's Contract Manager will identify any potential workplace health and safety issues anticipated to arise during the term of the contract and assign management of each issue identified to the party best able to manage it. The Supplier will provide the Customer with a plan for approval.

A.A.2(d) Delivery and Acceptance

The Customer must accept or reject any deliverables under the Order in accordance with the Deed.

Milestone Description	Delivery Location	Due Date
Project Inception Meeting	Canberra	29 April 2020
Project Plan (including a stakeholder engagement strategy in collaboration with the department)	Canberra	15 May 2020
Review of survey / focus group instruments	Canberra	29 May 2020
Fieldwork, research & analysis		9 June – 31 July 2020

Presentation of preliminary findings from fieldwork, research and analysis to departmental stakeholders	Canberra	7 July 2020
Draft Review Report submitted to department for comment	Canberra	31 July 2020
Presentation of key findings for component projects to departmental stakeholders	Canberra	19 August 2020
Final Review Report submitted to department	Canberra	2 October 2020

A.A.2(e) Meetings

The Supplier will be required to attend meetings with relevant representatives of the Customer throughout the Review, as part of managing the process, as well as to meet the Requirement of this RFQ.

The Supplier may liaise with the Customer to arrange any required meetings.

A.A.2(f) Facilities and Assistance Offered by the Customer

The Customer will make any facilities or assistance available to the Supplier as required to perform the Review as outlined in the Supplier's Response to this RFQ.

A.A.2(g) Customer Material

The supplier will have access to program and expenditure data, and recent research and analysis on program developments. This will include a data set containing information on providers, their client characteristics and service and outcome fees/payments.

A.A.3 RFQ Distribution

Email Distribution

Any questions relating to this RFQ must be directed to the *Customer Contact Officer* at A.A.5. Updates to this RFQ will be distributed via email.

A.A.4 Lodgement Method

Email

Responses should be lodged via email to DESReview@dss.gov.au quoting reference number 70013416 by the closing time specified above.

Response File Format, Naming Convention and Size

The Customer will accept Responses lodged in the following formats:

- Word Doc (.docx)
- Rich Text Format (.rtf)
- Excel Workbook (.xlsx)
- PDF (.pdf)

The Response file name/s should:

- a) incorporate the Potential Supplier's full legal organisation name; and
- b) reflect the various parts of the bid they represent (where the Response comprises multiple files).

Response files should not exceed 20 pages and a combined file size of 10 megabytes per email.

Responses must be completely self-contained. No hyperlinked or other material may be incorporated by reference.

A.A.5 Customer's Contact Officer

For all matters relating to this RFQ, the Contact Officer is:

Name/Position: s47E [REDACTED], Disability Employment Taskforce

Email Address: DESReview@dss.gov.au

Note: Question Closing Date and Time is set out at item A.A.1 [Key Dates and Times].

A.A.6 Evaluation Criteria (weighted equally)

Number	Evaluation Criteria
1.	<p>Demonstrated ability and experience in project delivery.</p> <ul style="list-style-type: none"> Organisational ability, experience and track record of effectively and successfully managing and delivering projects of similar size, scope and complexity.
2.	<p>Demonstrated understanding of the required services.</p> <ul style="list-style-type: none"> Suitability of proposed methodology in meeting the requirements of the RFQ and to inform the overall assessment of DES against its objectives (e.g. research type, subject matter, cohort, sensitivities, etc.) Understanding of the required services and relevant issue(s), context and policies Clear understanding of the requirements of the RFQ.
3.	<p>Demonstrated capacity to deliver the required services.</p> <ul style="list-style-type: none"> Resourcing to be allocated as part of the services, including backup staff. Suitability of proposed methodology in meeting the requirements of the RFQ within the given timeframe, including contingencies. Reports of nominated referees on the supplier's experience, competence and capability
4.	<p>Technical skills and knowledge to successfully deliver the required services.</p> <ul style="list-style-type: none"> Individual proposed project team members' demonstrated knowledge, experience and qualifications in relation to the methodology and requirements of the RFQ. Methodology demonstrates ability to provide the services in a manner that is technically sound, rigorous, practical, ethical and appropriate to the cohort/subject matter.
5.	<p>Strong stakeholder engagement capability.</p> <ul style="list-style-type: none"> Ability to understand, negotiate and operate within a range of contexts - political, social, cultural, geographical and personal. Ability to successfully identify and effectively engage with a broad and diverse range of stakeholders, including DES participants, DES providers, employers and, representatives from key Australian Government agencies and peak bodies, to deliver the required services.
6.	<p>Ability to deliver clear and high quality reports.</p> <ul style="list-style-type: none"> Clarity and quality of information (consistency, spelling, grammar, departmental information represented, acronyms explained) as demonstrated by the response to the RFQ. Accessibility of information by technical and non-technical audiences as demonstrated by the response. Ability to comply with WCAG 2.0 requirements.
7.	<p>Whole of life costs to be incurred by the Customer.</p> <ul style="list-style-type: none"> An assessment of the costs that the Customer will incur as a result of accepting the Potential Supplier's Response. These additional costs arise from the Supplier's requirements for work to be undertaken by the Customer. Note reverse scale: i.e. no cost = 10, highest customer cost = 0)

If requested by the Customer, the Potential Supplier must be able to demonstrate its ability to remain viable over the Contract Term and must promptly provide the Customer with such information or documentation as the Customer reasonably requires.

The Customer reserves the right to contact the Potential Supplier's referees, or any other person, directly and without notifying the Potential Supplier.

The Customer will notify unsuccessful Potential Suppliers of the final decision and, if requested, will debrief Potential Suppliers following the award of a contract.

RESPONSE

Specific questions about this RFQ should be directed to the *Customer's Contact Officer* [Item A.A.5].

If successful your organisation will be offered a contract which includes the Terms and Conditions under the Deed.

Submit the form as required in *Lodgement Method* [Item A.A.4].

You **MUST** use this form to submit your Response. The form is set out to facilitate evaluation of responses.

Participation in this ATM is at your sole risk and cost. This is a competitive process, and you should note that your organisation may incur costs in responding, if you are unsuccessful you will be unable to recoup these costs.

Be as **concise** as possible while including all information that your organisation wants the evaluation team to consider. Do not assume that the evaluation team has any knowledge of your organisation's abilities or personnel.

Before completing your Response read the Customer's Request for Quotation (RFQ) distributed with this Response form and decide whether your organisation has the **necessary skills and experience** to meet the Customer's requirement.

The Customer will evaluate all valid Responses received by the Closing Time [Item A.A.1] to determine which Potential Supplier has proposed the best value for money outcome for the Customer.

The successful Supplier will have demonstrated its ability to provide the best value for the Customer. This will not necessarily be the lowest price.

If your organisation is **unsuccessful** with this submission, you may request feedback to assist with future submissions. The Customer's Contact Officer [Item A.A.5] can arrange this for you.

Part 1 – Potential Supplier's Details

DRAFTING NOTE

The following details will appear in the Order should your Response be successful.

Full Legal Organisation Name as per Deed of Standing Offer:	
Australian Business Number (ABN)	
Has your organisation ever had a judicial decision about employee entitlements or engaged in practices that have been found to be dishonest, unethical or unsafe?	<input type="checkbox"/> Yes, see below. <input type="checkbox"/> No
If yes , what was the date of discharge? <i>The Supplier acknowledges that the giving of false or misleading information to the Commonwealth is a serious offence under section 137.1 of the schedule to the Criminal Code Act 1995 (Cth).</i>	(dd-mm-yyyy) <i>Note: The Customer cannot enter a contract with a supplier who has an undischarged judicial decision relating to employee entitlements.</i>

Contact Officer

For matters relating to this Response contact:

Name	
Position Title	
Telephone	
Mobile	
Email Address	
Postal Address	

Address for Notices (if different from the Contact Officer)

DRAFTING NOTE
 Complete with "AS ABOVE" if same as Contact Officer.

Name	
Position Title	
Email Address	
Postal Address	

Contract Manager (if different from the Contact Officer)

DRAFTING NOTE
 Provide the requested details of the person you propose will be the Contact Manger if your Response is successful and a contract is awarded.
 Complete with "AS ABOVE" if same as Contact Officer.

For matters of a general nature, including acceptance and issuance of written notices contact:

Name	
Position Title	
Telephone	
Mobile	
Email Address	
Postal Address	

Part 2 – Executive Summary

DRAFTING NOTE

You may find it useful to complete this section after you have completed your response.

Provide a brief (less than one page) summary of your Response highlighting its key features. The Executive Summary should not merely replicate information provided elsewhere in your Response. This section brings together all aspects of your proposal and is your opportunity to “sell” its unique features.

Part 3 – Ability to Meet the Requirement

Detailed Proposal to Meet the Customer’s Requirement

DRAFTING NOTE

Your response should address each aspect of the Requirement and explain/demonstrate how your response/solution meets the Requirement.

Provide a detailed description of your proposal to supply the Customer’s requirement, including any delivery methodology. This is your opportunity to convince the evaluation team that your organisation understands the requirement and can deliver it to a high standard. Do not provide general marketing material.

Highlight your competitive advantage as well as special or unique features of your proposal. Depending on the requirement, your response may propose a detailed project plan including project milestones and completion dates, timeframes, quality standards or performance indicators. It may also detail critical issues or key delivery risks of which the Customer should be aware.

If meeting the Customer’s requirement involves reporting, travel or attendance at meetings, you should clearly identify how you will meet these requirements, including details of personnel involved. Do not include any pricing or pricing information in Part 3. You should ensure that you clearly address any costs in your response to Part 5.

Do not rely on your organisation’s reputation. The evaluation team can only consider information you provide in this submission.

Standards

DRAFTING NOTE

Potential Suppliers must provide full details and evidence of compliance with all applicable Australian standards (or in its absence an international standard), and any standards and requirements specified in the Statement of Requirement. Where you do not propose to comply with a standard which has been included in the Statement of Requirement, propose an alternative standard and justify your reasons.

Where no standard has been specified, list any applicable standards with which you propose to comply.

Key Performance Indicators

DRAFTING NOTE

Propose Key Performance Indicators that will clearly demonstrate your performance and progress against the Contract.

The following Key Performance Indicators are proposed:

Part 4 – Potential Supplier’s Demonstrated Capability and Capacity

Statement of Skills and Experience

DRAFTING NOTE

The information you enter here will be used to evaluate your organisation’s proven capacity to meet the customer’s requirement.

Provide clear, concise details of your relevant abilities to deliver what you have proposed.

This is your opportunity to highlight any unique capabilities and prove to the evaluation team that you can meet the requirement to a high standard.

Depending on the requirement, this could include a detailed description of recent relevant experience in successfully supplying a similar requirement. It could also include your organisation’s expertise in this field, brief information on relevant personnel (highlighting relevant expertise and experience), details of relevant intellectual property or unique products used.

You may also attach brief supporting information specific to the requirement including tailored CVs for Specified Personnel.

Do not include any pricing or pricing information in this Part. All pricing information should be included in Part 5.

Specified Personnel

DRAFTING NOTE

Only propose Specified Personnel where your proposal has referenced the skills of specific personnel and you reasonably expect them to perform the roles nominated. Include their role, the percentage of the project they will complete, and if relevant, their current Commonwealth Government security clearance. Add extra lines to the table as required.

Where there is a number of staff who could perform a particular role, include details of the position/role and the percentage of project time which this role will perform. In these circumstances it would not be necessary to name the person.

Include details for subcontractor personnel if applicable. You will need to give additional details for subcontractors in the next section.

If no Specified Personnel are proposed, insert “Not Applicable”.

Name	Position/Role	Current Security Clearance Level [#]	Percentage of Total Project Time
Total personnel time			100%

if requested at A.A.2(b)

Subcontractors

DRAFTING NOTE

The Customer is required to publicly disclose information about subcontractors. Provide details for each subcontractor organisation you will use below.

If no subcontractors are proposed insert "Not Applicable"

Full Legal Name:	
Postal Address:	
ABN / ACN / ARBN:	
Is this subcontractor registered on Supply Nation or 50% or more Indigenous owned?	

Scope of Works to be subcontracted

DRAFTING NOTE

If no subcontractors are proposed insert "Not Applicable".

Provide details of the roles (or specific parts of the contract) each subcontractor will perform.

The Supplier is solely responsible for all obligations under the contract, including subcontractor performance and management. The Supplier must ensure that any subcontract arrangement that is entered into imposes necessary obligations on the subcontractor.

Conflicts of Interest

DRAFTING NOTE:

Public officials have an obligation to disclose conflicts of interest under section 29 of the [Public Governance, Performance and Accountability Act 2013](#) (PGPA Act). Suppliers to Commonwealth entities need to assist the Customer to meet its obligations by complying with the same standard of conduct.

Conflicts can be actual, perceived or potential. The perception of a conflict can be just as damaging to public confidence in public administration as an actual conflict based on objective facts.

It is important that if, after the response has been submitted or during the Contract period, any actual, perceived or potential conflicts arise they are reported to the Customer without delay.

If you are aware of a conflict (real or perceived) that could arise as a result of entering into a contract with the Customer (and Subcontractor where applicable) include full details and strategies to manage below, or for complex issues, attach a Conflict of Interest Management Plan detailing your proposed approach.

If no conflicts of interest were identified, type "Nil".

Pre-existing Intellectual Property of Potential Supplier

DRAFTING NOTE

List your pre-existing Intellectual Property (if any) noting that:

The Supplier grants to, or in the case of Third-Party Material, must obtain for, the Customer a non-exclusive, irrevocable, royalty-free, perpetual, world-wide licence (including the right to sub-licence) to exercise the Intellectual Property Rights in all Pre-existing Material and Third- Party Material incorporated into the Material to enable the Customer to receive the full benefit of the Goods and/or Services and the Material and to exercise its rights in relation to the Material.

If no pre-existing Intellectual Property is proposed insert "Not Applicable".

Confidentiality of Potential Supplier’s Information

DRAFTING NOTE

Identify any aspect of the Response, or any aspect of the proposed Contract, that you consider should be kept confidential, with reason.

The Customer will only agree to treat information as confidential in cases that meet the Commonwealth’s guidelines and which the Customer considers appropriate. In the absence of the Customer’s agreement, the Customer has the right to disclose any information contained in the Contract.

Add extra lines to the table as required.

Information to assist you to assess whether the Customer is able to treat particular information as confidential is available at: <http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/contract-issues/confidentiality-procurement-cycle/practice.html>.

If none, type "Not Applicable".

Information to be kept Confidential	Reasons for Confidentiality Request

Proven Ability to Meet Regulatory Considerations

DRAFTING NOTE

Provide a brief statement of how you propose to comply with all relevant regulations (including but not limited to labour and ethical employment practices, workplace health and safety, and environmental impacts). Alternatively, you can attach any relevant policy documents or plans which demonstrate your organisation’s ability.

Part 5 – Total Costs to be incurred by the Customer

DRAFTING NOTE

The information you provide in this section will be used to assess the total costs the Customer will incur under your proposal.

Pricing

Fixed Price (including all expenses)

DRAFTING NOTE

Complete the following table including fixed prices for each item. Fixed prices must include taxes, duties and other government charges which may be imposed or levied in Australia and overseas, and all other costs associated with providing the services, including delivery fees where applicable.

Make sure you include, costs of any reporting and attending necessary meeting as well as any travel, accommodation and associated costs.

Add additional lines to the table as required.

Due Date	Item Description	Quantity	Unit Price GST Exclusive	Total Price GST Exclusive	GST Component	Total Price GST Inclusive
Total Fixed Price for Goods						

Due Date	Milestone Description	Total Price GST Exclusive	GST Component	Total Price GST Inclusive
Total Fixed Price for Services				

Proposed Payment Schedule

DRAFTING NOTE

Complete the table below if you propose that progress payments be made.

Do not propose a payment schedule that reflects more than the value of the milestones or deliverables you have delivered at any stage.

This payment schedule is for the Fixed Fees and Charges portion of the arrangement only. Variable costs will only be reimbursed after they have been incurred and invoiced.

Note: The Customer may propose alternative payment arrangements.

If you are not proposing any progress payments type "Not Applicable".

Due Date	Milestone Description	Total Price (GST Exclusive)	GST Component	Total Price (GST Inclusive)
Total Milestone Payments				

Additional Facilities and Assistance

DRAFTING NOTE

Should you require the Customer to provide facilities and assistance, in addition to that stated at *Facilities and Assistance Offered by the Customer* [Clause A.A.2(f)], provide details here. If no additional facilities or assistance required insert "Not Applicable".

If the pricing provided above is based on the provision of Additional Facilities and Assistance this should be stated below.

- 5 MAR 2020



Australian Government
Department of Social Services

Ref: EC20-000203

MINUTE

SECRETARY

Through:

Catherine Rule, Deputy Secretary, Disability and Carers

Catherine Rule 5/3/2020

Cc:

Nathan Williamson, Deputy Secretary, Social Security
Shane Bennett, Group Manager, Participation Payments and Families
Andrew Harvey, Chief Finance Officer

SUBJECT: CONSULTANCY TO EVALUATE THE DISABILITY EMPLOYMENT SERVICES (DES) PROGRAM

Recommendations:

1. That you **agree** to the approach outlined in the Minute to undertake an evaluation of the efficiency, effectiveness and appropriateness of the Disability Employment Services program.

AGREED / ~~NOT AGREED~~

*See rpl.
Have we alerted MO?
We need to do that BEFORE we release the plan.*

2. That you **sign** the Procurement Plan at Attachment A to engage an independent consultant to undertake the review.

SIGNED / ~~NOT SIGNED~~

[Signature]
Secretary:..... 6 MAR 2020

Issues:

1. The Disability Employment Services (DES) program was reformed, with effect from 1 July 2018. While eligibility requirements were not changed, expenditure is exceeding initial estimates, largely driven by a significant growth in participants, up by 41 per cent (or 78,879 participants) from 1 July 2018 to 31 December 2019.
2. The other major factor responsible for the growth in expenditure has been a significant increase in the number and value of education outcomes, largely driven by an emerging trend where participants assigned to a higher funding level are being channelled into education activities as opposed to employment. This has resulted in an increase in expenditure on education outcomes from \$32.2 million in the 2017-18 financial year to \$101.8 million in the 12 months from 1 January 2019 to 31 December 2019 (when 26-week outcomes under the new program became available).

3. The Group has taken action on several fronts to remediate the increased expenditure. This includes tightening operational requirements and locking down IT systems to ensure providers cannot influence participant eligibility for education outcomes. The department is also undertaking targeted compliance activities to high-risk areas.
4. Several administrative actions are also being progressed following the deep dive with the Minister in January 2020. s47C [REDACTED]
5. Policy options to reform the program have also been costed. s47C [REDACTED] While such changes would reduce expenditure, there would be implementation risks. These include provider criticisms about policy changes so soon after significant reforms to the program, and the risk changes are seen as piecemeal and not part of a coherent strategy to improve the employment outcomes of people with disability.
6. Consequently, it is proposed the mid-contract evaluation, flagged as part of the DES reforms, be brought forward to be completed this calendar year, with the aim of informing the department's submission to MYEFO. This will enable a thorough assessment of the DES program reforms, including in the context of other government employment services, such as jobactive, and development of the Disability Employment Strategy. Findings from the evaluation would provide evidence to inform the design of a future disability employment services model.
7. The proposed Procurement Plan is included for your signature at **Attachment A**. Consultants to undertake the review would be engaged through a Request for Quote (RFQ) to providers selected from the Business Advisory panel.

Background:

8. The last evaluation of DES covered the period 2010-13, cost \$1.6 million and was undertaken over three years.

Summary of Attachments:

A – Procurement Plan for independent review of DES.

Financial Implications:

9. The review is expected to cost around \$1 million (GST incl.) but may cost up to \$1.5 million. The Deputy Secretary will be involved in negotiations on the cost with the preferred supplier, with the aim to ensure the procurement is under \$1 million (GST incl.).
10. The Finance Group has been consulted. The DES appropriation has funds available for evaluation for the expected costs in the 2019-20 and 2020-21 financial years. A separate request is being put forward through the mid-year internal budget review process to use available department funds in 2019-20, and reduce the expected overspend on the DES administered appropriation.

Deregulation Impacts:

11. There are no regulatory impacts.

Consultation:

12. The procurement helpdesk has reviewed the attached Procurement Plan.
13. Officials from the Departments of the Prime Minister and Cabinet and Finance are supportive of bringing the review forward to inform deeper reforms to the DES program.
14. Consultation on the focus and scope of the review has been undertaken across the Disability, Employment and Carers Group, the Social Security stream and the Policy Strategy and Investment Branch.
15. The Department of Education, Skills and Employment (DESE) has also been consulted, and have highlighted that findings from the review, and any subsequent changes to the DES model, may potentially impact the mainstream New Employment Services Model currently scheduled to be rolled out nationally from July 2022.
16. The review will be managed by the Disability, Employment and Carers Group, engaging with stakeholders from within the department, DESE, the disability and employment sectors and the employment service provider sector.

George Sotiropoulos
Group Manager
Disability, Employment and Carers Group
March 2020



Procurement Plan – procurement from Panel

Procurement of: Consultancy services to conduct an independent review of the Disability Employment Services (DES) program and recommend options to improve the cost effectiveness of the program (the Review)

1. Procurement aim and justification

The Australian Government provides a range of services to help people with disability to find and keep a job. The Disability Employment Services (DES) program, managed by the Department of Social Services (the department), plays an important role in improving employment outcomes for people with disability, injury or health conditions. The DES program complements the mainstream employment service program, jobactive, managed by the Department of Education, Skills and Employment (DESE). People with disability, injury or health conditions are referred to the most appropriate program following an assessment of their vocational and non-vocational barriers to finding and maintaining employment, their work capacity and ongoing support needs.

The DES program was significantly changed and expanded in 2018 with the new arrangements applying for grants to providers for a five year period from July 2018. The major changes to the program were:

- improved choice and control for participants in the services they receive;
- increased provider competition and contestability, in particular by removing market share arrangements;
- improved financial incentives for providers through a new DES funding model with outcome fees based on the difficulty in placing the participant into sustainable employment; and
- indexation of provider payments to retain their real value.

Since the new arrangements were implemented, there has been very strong growth in participants and expenditure. However, employment outcomes have not kept pace with this growth. It is currently unclear what impact the new arrangements have had on employment outcomes for participants and the quality of services they receive.

A robust and independent Review of the program should assess how well DES is meeting its objectives, whether it is meeting Government and community expectations and whether the current model, and how it complements other employment service programs, is effective and appropriate to support people with disability to find and retain supported and/or open employment. The Review should also identify areas of good practice, nationally and internationally.

It is expected the Review findings will inform the future design of the DES program, with a focus on improving the employment outcomes of people with disability while demonstrating value for money.

The successful Supplier will be expected to work with the department to assess how well DES is meeting its objectives, identify areas of good practice and recommend options to improve the performance and cost effectiveness of the program.

It will include an assessment of whether the current model is an appropriate model for:

- **Participants**, to support them to identify and find sustainable employment suited to their skills and ability to work, while ensuring participants comply with their mutual obligations.
- **Employers**, resulting in mutually beneficial relationships with DES providers that encourages the recruitment of people with disability, supports the referral of suitably skilled jobseekers with disability to vacancies and provides appropriate support for employees with disability and their employers to facilitate the ongoing employment of people with disability.

- **Providers**, to ensure they focus on the needs of participants and employers to maximise employment participation by people with disabilities; conduct their role in supporting participants to meet their mutual obligations; and operate a sound business model.
- **Government**, by boosting the employment participation of people with disability and raises the productive capacity of the workforce, delivering a positive return on investment and value for money service.

The following questions are intended to guide the successful Supplier to undertake the Review, however should not be taken as an exhaustive list.

Effectiveness

1. How effective is the current program at helping people with disability to find and retain ongoing employment that suits their skills and ability to work?
2. How effectively are DES providers identifying labour market demand and matching participants to appropriate employment opportunities?
3. How cost-effective is the current funding model to meet the objective of improving employment outcomes for people with disability? How could the current funding model be made more cost-effective?
4. How does DES compare with other programs, nationally and internationally, in terms of cost-effectiveness, return on investment and maximising employment outcomes for people with disability? Are there opportunities to better integrate DES with other employment service programs, such as jobactive, or with non-government services, such as Seek or JORA?

Efficiency

1. Are there identifiable better practice approaches that increase success in securing income and employment for people with disability?
2. How could DES be transformed to make it more efficient?

Quality

1. What factors of a DES provider's business model impact the quality of services supporting people with disability to find and sustain suitable employment?
2. What factors influence the quality of relationships between DES providers, participants and employers?

The successful Supplier will:

- (i) provide a detailed project plan of an approach and methodology proposed to meet the objectives of the Review;
- (ii) review and analyse literature, research, analysis and data. This includes information either publicly available or -available to the department;
- (iii) conduct field studies, surveys and/or focus groups with relevant stakeholders, including DES providers and participants, peak bodies and interested government agencies;
- (iv) provide preliminary findings from the Review to the department and key government stakeholders by mid-July 2020;
- (v) provide a final report on detailed findings and recommended options from the Review to the department and key government stakeholders by late-October 2020.

To support the Review within the timeframe, the successful Supplier will be assisted by departmental subject matter experts and have access to readily available program and expenditure data, and recent research and analysis on the program.

2. Estimated procurement timetable

The timetable is designed to enable an approach to Government at Budget 2021-22.

Milestone (major procurement milestones highlighted)	Date, by
Secretary approval of spending minute and Procurement Plan	9 March 2020
Draft Procurement documents: <ul style="list-style-type: none"> • Short-list potential suppliers on the Business Advisory Services panel • Draft Risk Assessment • Draft Procurement Plan • Draft Request for Quotation (under Panel) • Draft Evaluation Plan 	9 March 2020
Distribution of RFQ to Selected Panel Members	10 March 2020
Briefing session for interested suppliers	18 March 2020
Cut-off date for questions from potential suppliers	20 March 2020
Final Departmental responses to questions from potential suppliers	24 March 2020
Closing Date and Time for RFQ Responses	6:00 pm 27 March 2020 (ACT local time)
Evaluation of Quotations commences – compliance check, initial assessment and detailed assessment	30 March 2020
Response Evaluation Completed	9 April 2020
Delegate to approve Evaluation recommendation	17 April 2020
Successful Supplier notified	20 April 2020
Negotiate and finalise Work Order	24 April 2020
Contract Start Date	28 April 2020
Project Inception Meeting in Canberra	29 April 2020
Project Plan finalised (including a stakeholder engagement strategy in collaboration with the department)	15 May 2020
Review of survey / focus group instruments	29 May 2020
Fieldwork, research and analysis	9 June – 31 July 2020
Presentation of preliminary findings from fieldwork, research and analysis to departmental stakeholders	7 July 2020
Draft Review Report submitted to department for comment	31 July 2020
Presentation of key findings for component projects to departmental stakeholders	19 August 2020
Final Review Report submitted to department	2 October 2020
Contract End Date	30 October 2020

Contract Term: 6 months

Extension Option: Up to 3 months

3. Detailed estimate of Costs

The estimated expenditure for the contract term is \$1,500,000 inclusive of GST. The proposed contract will include the potential for a three month extension of time to complete the project, if required.

The expenditure is proposed as follows:

Financial Year	Amount
2019-20	\$500,000.00
2020-21	\$1,000,000.00
Total Estimated Expected Maximum Value	\$1,500,000.00

The expenditure will be funded from:

Cost Centre Name: Disability Evaluation

Cost Centre Code: 4690

4. Indigenous Procurement Policy

The procurement is to be made through a panel arrangement that is specified as an exclusive purchasing arrangement.

5. Procurement method

The Goods and Services will be procured through a Request for Quotation from selected service providers from the Business Advisory Services Panel.

As the funding for this procurement exceeds \$200,000 and the services will not be delivered in a remote locality, the Indigenous Procurement Policy does not apply to this procurement.

The following supplier(s) will be approached. They have been selected based on their demonstrated experience in delivering similar strategically focused review activities across government and their anticipated ability to have the necessary resources required to undertake the review within the timeframe:

s47E

If no suitable responses are received, this Procurement Plan will be reassessed and an alternative process will be considered.

6. Stakeholder consultation

The Review will be managed by the Disability Employment and Carers Group in the department.

Key stakeholders with an interest in this procurement are:

- Minister for Families and Social Services
- Minister for Employment, Skills, Small and Family Business

- Minister for Government Services
- DES providers
- DES participants
- Employers
- Peak bodies for people with disability, employers and employment service providers
- Department representatives from disability policy, payment and evaluation areas
- Representatives from the Department of Education, Skills and Employment
- Representatives from Services Australia

7. Risk engagement

No outstanding or potential issues or risks requiring mitigation have been identified at this time. Risks will continue to be monitored and reported as appropriate.

8. Document distribution and receipt

Panel documentation will be distributed by email, and responses will be received via email.

9. Evaluation team

The Evaluation Team will assess responses to determine the best value for money outcome for the Commonwealth.

The Evaluation Team possess the necessary mix of technical/subject matter skills to effectively assess the submission. An evaluation report will be provided to the appropriate delegate.

The proposed Evaluation Team is as follows:

s47E



Specialist advice to assist the evaluation team may be drawn from the Department of Social Services, the Department of Education, Skills and Employment and Services Australia.

Evaluation Criteria (equally weighted)

Number	Evaluation Criteria
1.	<p>Demonstrated ability and experience in project delivery.</p> <ul style="list-style-type: none"> Organisational ability, experience and track record of effectively and successfully managing and delivering projects of similar size, scope and complexity.
2.	<p>Demonstrated understanding of the required services.</p> <ul style="list-style-type: none"> Suitability of proposed methodology in meeting the requirements of the RFQ and to inform the overall assessment of DES against its objectives (e.g. research type, subject matter, cohort, sensitivities, etc.) Understanding of the required services and relevant issue(s), context and policies Clear understanding of the requirements of the RFQ.
3.	<p>Demonstrated capacity to deliver the required services.</p> <ul style="list-style-type: none"> Resourcing to be allocated as part of the services, including backup staff. Suitability of proposed methodology in meeting the requirements of the RFQ within the given timeframe, including contingencies. Reports of nominated referees on the supplier's experience, competence and capability
4.	<p>Technical skills and knowledge to successfully deliver the required services.</p> <ul style="list-style-type: none"> Individual proposed project team members' demonstrated knowledge, experience and qualifications in relation to the methodology and requirements of the RFQ. Methodology demonstrates ability to provide the services in a manner that is technically sound, rigorous, practical, ethical and appropriate to the cohort/subject matter.
5.	<p>Strong stakeholder engagement capability.</p> <ul style="list-style-type: none"> Ability to understand, negotiate and operate within a range of contexts - political, social, cultural, geographical and personal. Ability to successfully identify and effectively engage with a broad and diverse range of stakeholders, including DES participants, DES providers, employers and representatives from key Australian Government agencies and peak bodies, to deliver the required services.
6.	<p>Ability to deliver clear and high quality reports.</p> <ul style="list-style-type: none"> Clarity and quality of information (consistency, spelling, grammar, departmental information represented, acronyms explained) as demonstrated by the response to the RFQ. Accessibility of information by technical and non-technical audiences as demonstrated by the response. Ability to comply with WCAG 2.0 requirements.
7.	<p>Whole of life costs to be incurred by the Customer.</p> <ul style="list-style-type: none"> An assessment of the costs that the Customer will incur as a result of accepting the Potential Supplier's Response. These additional costs arise from the Supplier's requirements for work to be undertaken by the Customer. Note reverse scale: i.e. no cost = 10, highest customer cost = 0)

Probity

Prior to the assessment of responses, Evaluation Team members will be briefed on their obligations with regard to evaluation of responses to the RFQ, with reference to the DSS Assessment Committee Briefing Guidelines. Evaluation Team members will sign a briefing acknowledgement to confirm this briefing.

A Probity Adviser will be available for the Evaluation Team and present at the Industry briefing.

All Evaluation Team members and others consulted during this process will complete a deed of confidentiality and conflict of interest forms that will be filed accordingly within **ARC ref: EF20/999**.

10. Contact officer

Date completed	Contact name	Position title	Group/Branch	Contact phone
4 March 2020	s47E		Disability Employment Taskforce	s47E

11. Endorsing Officer

Name: Kathryn Campbell

Position title: Secretary

Endorsed / ~~NOT Endorsed~~



Signature



Date



Australian Government
Department of Social Services



DES Review – Industry Briefing

Monday, 23 March 2020

DES Program Overview

Objective of DES

“to help individuals with disability, injury or health condition to secure and maintain sustainable employment in the open labour market”

Source: Disability Employment Services Grant Agreement, effective 1 July 2018

Who does DES help?

Newstart Allowance (NSA) - 76%

Disability Support Pension (DSP) – 11%

People not receiving income support - 11%

Parenting Payment and other allowees - 2%

Physical disability - 40%+

Psychiatric disability – 40%+

Intellectual disability - 4%+

Autism - 4%

DES has two sub programs but many shared eligibility criteria

- Have a disability, injury or health conditions
- Aged at least 14 yrs and under Age Pension age
- Be an Australian resident or eligible Visa holder
- Not studying full time
- Have a valid Employment Services Assessment (ESAt) recommending DES with a future work capacity of eight or more hours per week
 - Some exemptions e.g. Eligible School Leavers
- Not be working at or above assessed work capacity

Eligibility for the two DES streams

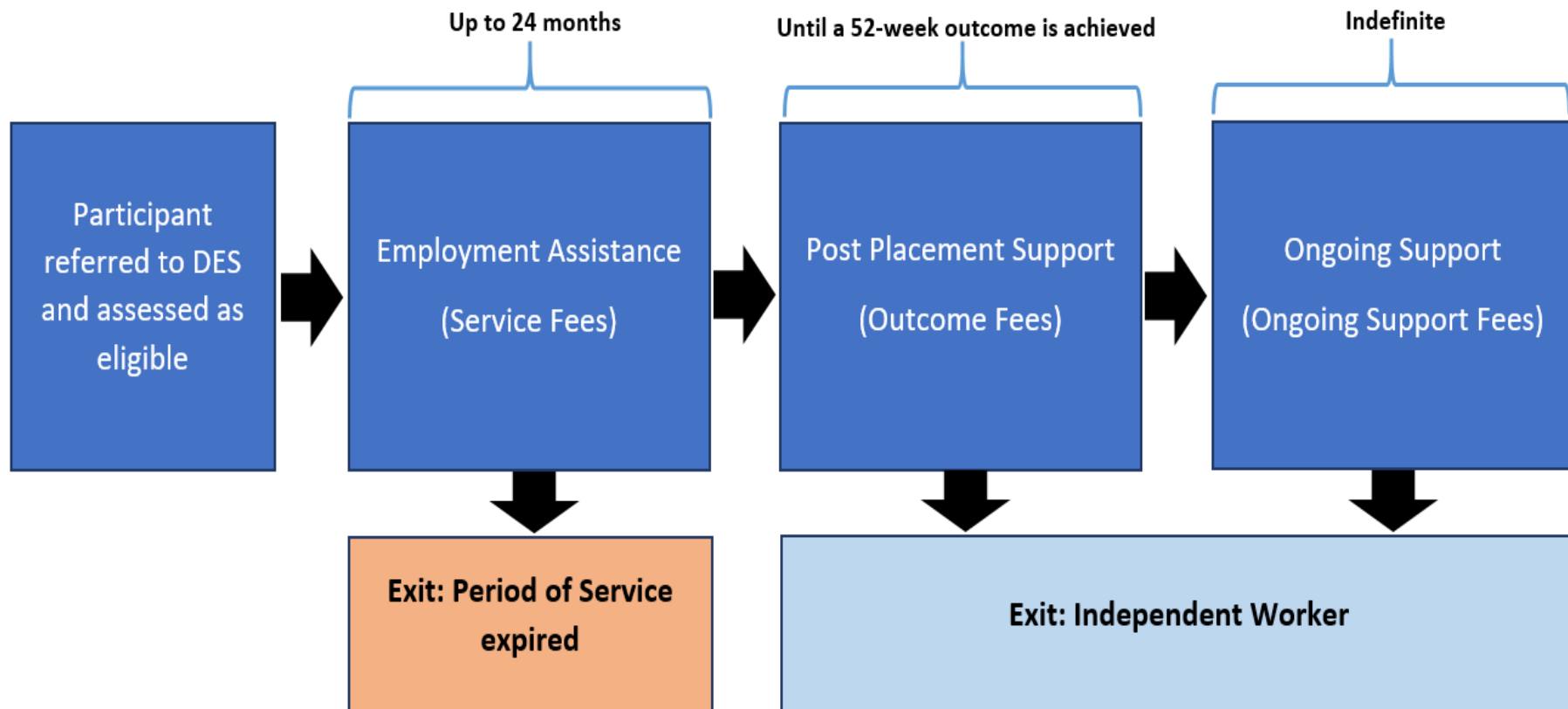
Disability Management Services (DMS) (formerly CRS)

- Job seekers with disability, injury or health conditions who are not expected to need long-term support in the workplace but may need irregular flexible support to keep a job
- Participants generally must be receiving qualifying income support payment

Employment Support Services (ESS)

- Job seekers with permanent disability and an assessed need for regular Ongoing Support in the workplace
- Participants do not have to be in receipt of an income support payment

Stages of assistance



Assessments and Referrals

Most participants required to have an ESAt

- usually conducted face to face with Services Australia

Results in:

- a recommendation about the appropriate service and if that is DES, the service (DMS or ESS) and level
- assessed **Work Capacity/Employment Benchmark**

Note that disability must be primary barrier to employment for a DES referral recommendation

- Otherwise jobactive

DES program services

DES providers required to deliver 'program services' to all participants referred or directly registered with the provider.

Grant Agreement, Chapter 5 discusses services in detail:

- specifies what providers must do with participants, esp. ***enforce participant's mutual obligations (MO)***
- details things a provider may do to help participants
- providing WorkAssist services to employees

MO relatively resource intensive

Provider delegates must receive training in, and fully understand, their delegated powers and functions to:

- accept appointments within two business days
- prepare, approve and vary Job Plans, including job search requirements
- determining if Job Plan requirements are met and identify failures
- record MO details and report MO failures in Departmental IT systems

At any one time, almost a quarter of DES participants are suspended*

*Data as at 30/06/2019

Age	
Under 21	8%
21 - 29	12%
30 - 39	17%
40 - 49	22%
50 - 59	28%
60 +	45%

Benchmark hours	
8 Hours	13%
15 Hours	29%
23 Hours	19%
30 Hours	15%
All participants	24%

***Suspended:** An activity tested participant is recorded as being suspended when they are granted an exemption from mutual obligation requirements or when a volunteer participant is unable to participate. Examples include suspension for medical reasons or on approved overseas absences.

DES sits in a complex and sensitive program environment

- Employment service programs include DES, jobactive, TtW, CDP and ADEs
- Providers utilise a range of separately funded programs (e.g. wage subsidy programs, the Employment Assistance Fund)
- Providers must work cooperatively with others
- Support for some groups is particularly sensitive or challenging
 - For example, changes that may disrupt services for young people with intellectual disability or assisting people with episodic conditions

July 2018 DES changes

- Improved choice and control for participants
- Increased provider competition and contestability - market shares removed
- Financial incentive improvements - outcome fees based on the difficulty in placing the participant into sustainable employment
- Indexation of provider payments to retain their real value

July 2018 fee changes

	Old program	New program
Service / Outcome fee split	60% service 40% outcomes	50/50 split
Funding levels	DMS – 1 level ESS – 2 levels	DMS – 5 levels ESS – 5 levels
1st outcome fee	Job Placement (based on work done over 2 wks)	Four-week outcome (based on work done over 4 wks)
Later outcome fees	13 & 26 week outcomes	13, 26 & 52 week outcomes
Indexation	None	Annually from 1/7/2019

Service fees in the Employment Assistance phase @ 1/7/18

	DMS All levels	ESS 1, 2 and 3	ESS 4 and 5
1st and 2nd Quarters	\$1,256	\$728	\$1,528
Subsequent Quarters	\$628	\$728	\$1,528

New Vs Old – Total DMS Outcome Fees

	DMS 1	DMS 2	DMS 3	DMS 4	DMS 5
New Total Outcome @ 1/7/2019	\$4,116	\$6,824	\$9,762	\$13,544	\$22,549
Old Total Outcome	\$8,030				

New Vs Old - Total ESS Outcome Fees

New Total Outcome @ 1/7/2019	ESS 1	ESS 2	ESS 3	ESS 4	ESS 5
	\$4,806	\$8,812	\$12,830	\$17,804	\$31,332
Old Total Outcome	ESS 1		ESS 2		
	\$8,030		\$14,740		

Other outcome payments

Education and pathway outcome fees

- Education outcome payments have risen, partly due to liberalisation of the payment's eligibility criteria
- Is the focus on long-term employment prospects?

Payments for participants with Moderate Intellectual Disability in ESS

- Paid in addition to the usual outcome payments where job is at least 15 hours per week
- For cost of assisting this group into 'open employment' (e.g. *JOBSUPPORT* est. 1986).

Extra payments for ESS participants with Moderate Intellectual Disability @ 1/7/18

ESS participants only	ESS - All levels
MID Payment – 4 Weeks	\$2,321
MID Payment – 13 Weeks	\$7,284
MID Payment – 26 Weeks	\$14,785
MID Payment – 52 Weeks	\$2,688
TOTAL	\$27,078

Ongoing Support phase @ 1/7/18

	DMS all levels	ESS all levels
Flexible Ongoing Support (per instance)	\$440	\$440
Moderate Ongoing Support (Quarterly)	N/A	\$1,320
High Ongoing Support (Quarterly)	N/A	\$3,300

Impact of 2018 DES changes

Participants: Over 279,000 participants in February 2020

- Up more than 44% since June 2018
- Some groups growing fast – e.g. volunteers and women

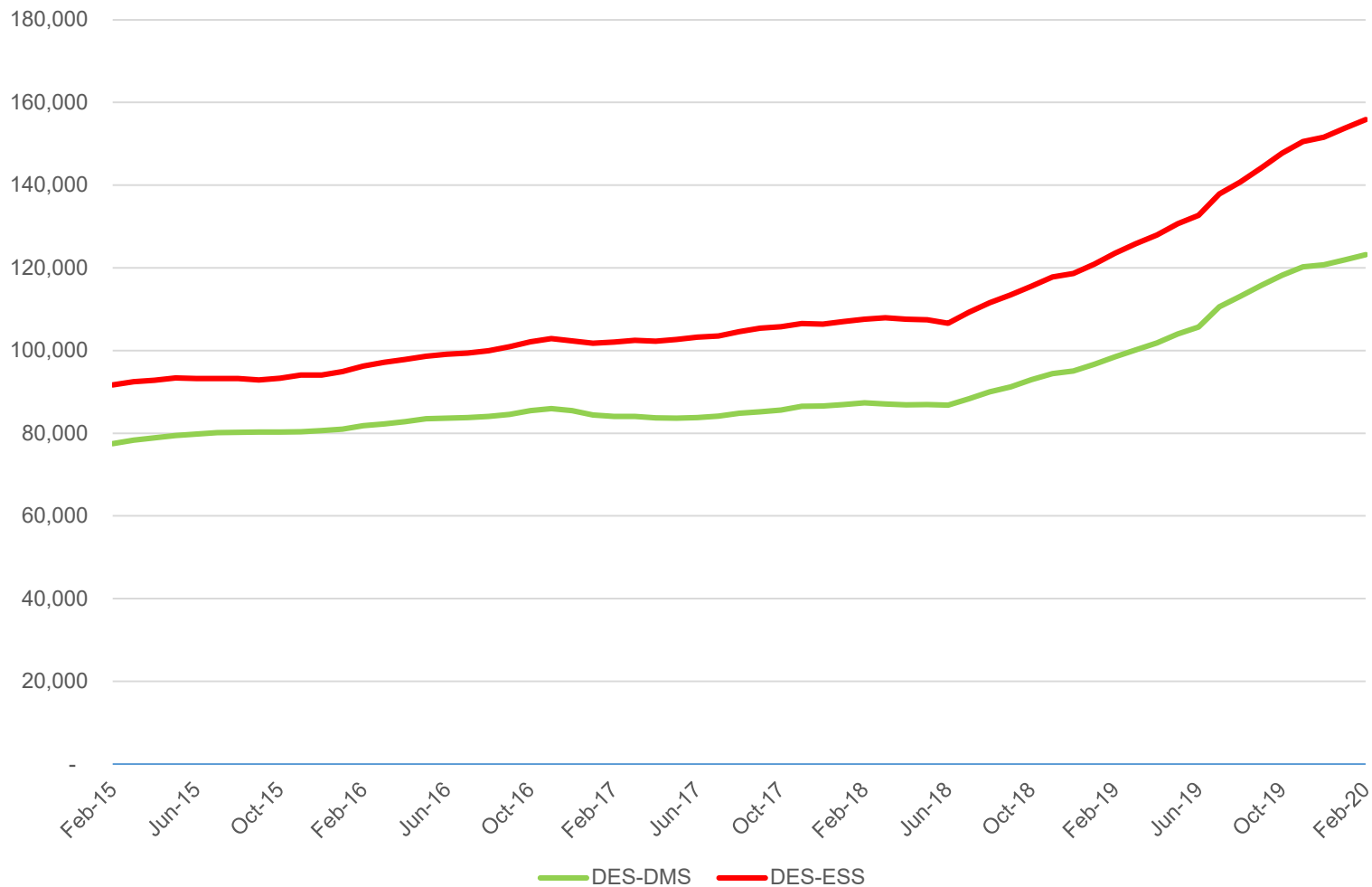
Provider sites: Over 3,800 sites

- Nearly double (up from 2000 sites)
- 200 newly served postcodes
- Provider numbers about the same (115)

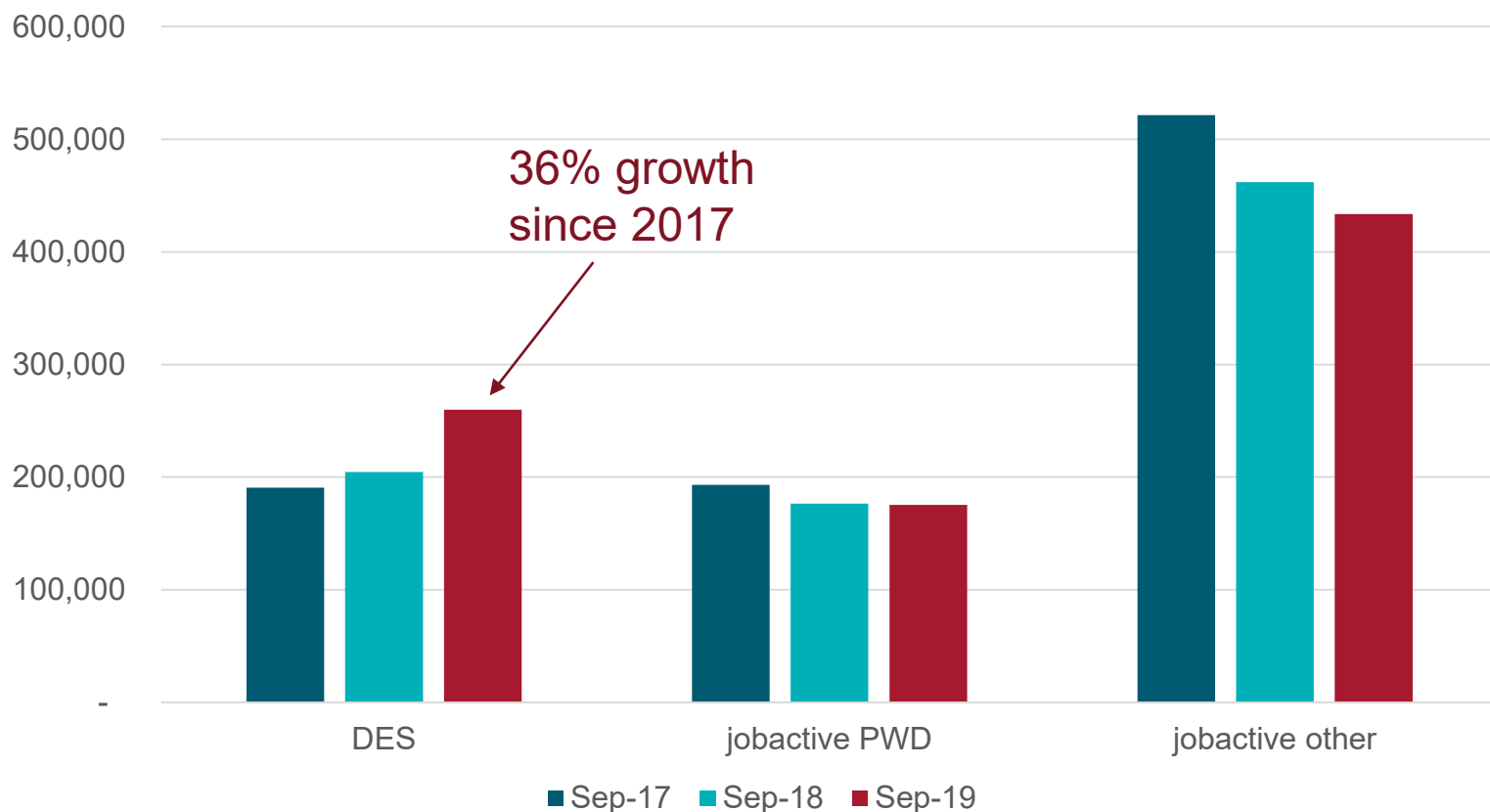
Program expenditure: Around \$1 billion

- Up by around 25% and rising

DES Caseload by Stream and Month



DES and jobactive participants as at Sept 2017, 2018 and 2019



DES employment outcomes Sept 2017 to Sept 2019



* Note data lags may affect results, esp. 26 week outcomes for Sept 2019.

Quality of providers

Providers must comply with:

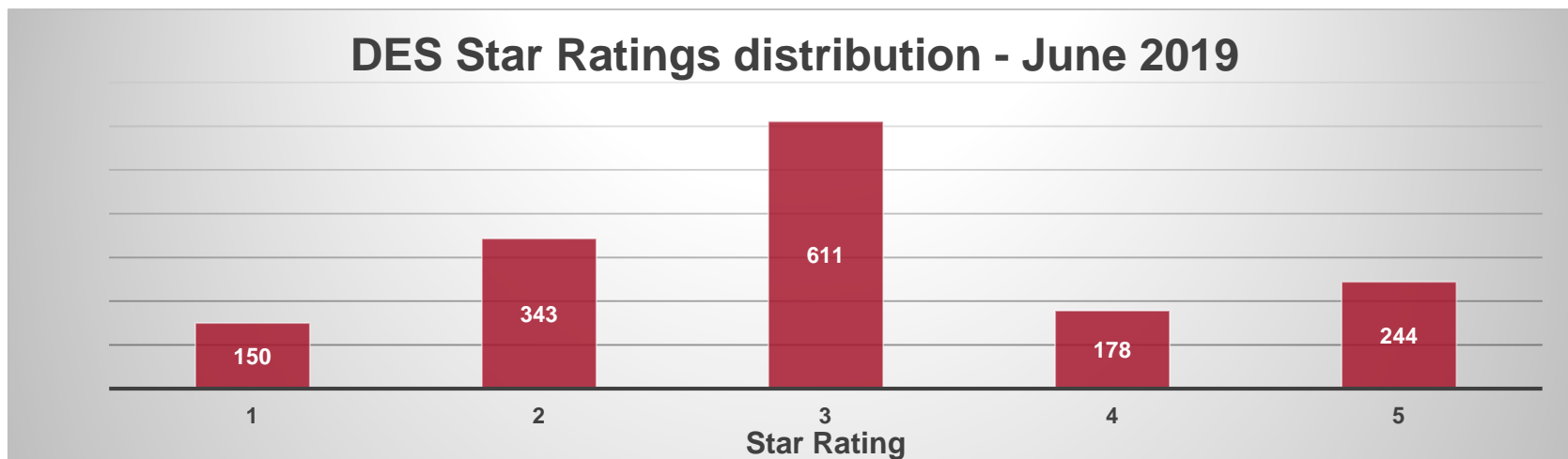
- National Standards for Disability Services;
- Employment Services Code of Practice
- DES Service Guarantee

No requirement for providers to have access to specialists (e.g. occupational therapists)

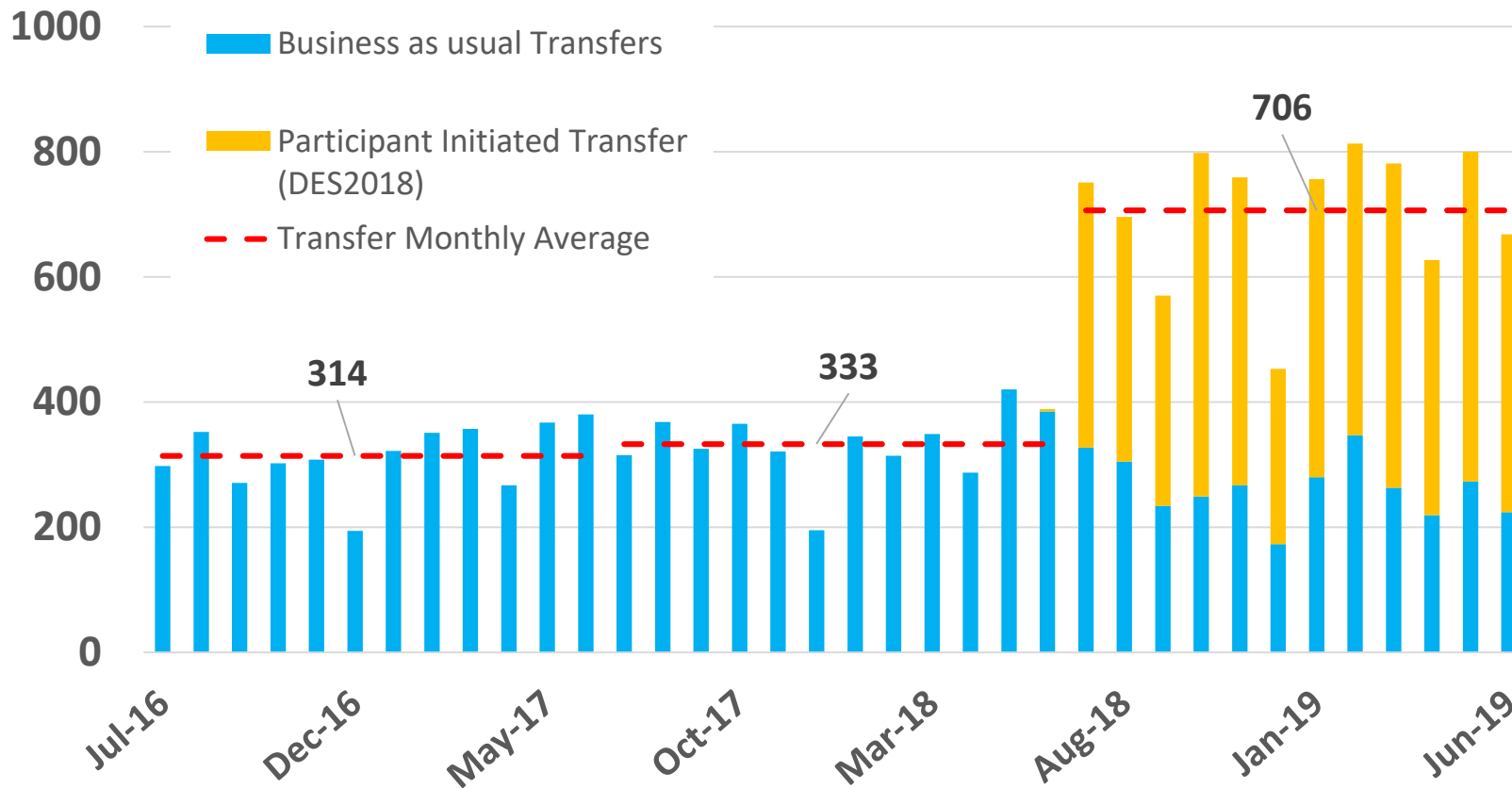
Participants are able to choose their provider and this choice is supported by the Star Rating system

Provider performance – Star Ratings

- Assesses relative performance of providers in achieving employment outcomes
- Measures actual performance against expected performance at both contract (ESA) and site (physical location) levels
- Five point scale – 1-star lowest to 5-star highest



Some participants are exercising choice and control



Objectives of the DES Review

DES Review - Objectives

- Evaluate the impact of the 2018 DES reforms; and
- Assess the performance of the program in relation to:
 - delivering the Government’s policy objectives to improve the employment outcomes of people with disability
 - supporting people with disability to find and retain supported and/or open employment
 - the full array of disability needs and supports, including episodic and psychosocial needs
 - contestability of service delivery in regional and remote Australia
 - other existing and complementary employment service programs, and
 - national and international best practice.
- Recommend options to improve performance and cost-effectiveness.

Impact of 2018 Reforms

Unpacking the causes of “growth”. For example:

- Volunteers
- Females
- Partial Capacity to Work
- Education outcomes
- Others

Assess performance of DES

Is the current model an appropriate model to meet the expectations of:

- Participants
- Employers
- Providers
- Government

Key milestones

Event	Time
Expected Contract Execution Date	28 April 2020
Project Inception Meeting	29 April 2020
Project Plan	15 May 2020
Review of survey / focus group instruments	29 May 2020
Fieldwork, research and analysis	9 June to 31 July 2020
Presentation of preliminary findings	7 July 2020
Draft Review Report	31 July 2020
Presentation of key findings	19 August 2020
Final Review Report	2 October 2020
Expected Contract End Date	30 October 2020
Contract Extension Option	1 x extension for 3 months

Information to support tender responses

DES – available program information

DES Grant Agreement and Guidelines:

<https://www.dss.gov.au/our-responsibilities-disability-and-carers/disability-employment-services-guidelines>

DES performance data:

<http://lmip.gov.au/default.aspx?LMIP/Downloads/DisabilityEmploymentServicesData>

<https://www.employment.gov.au/employment-services-outcomes-reports>

<https://www.dss.gov.au/disability-and-carers-programs-services-disability-employment-services/published-des-star-ratings>

Other publicly available information

- Audits and Evaluations
- Productivity Commission Inquiries – Mental Health Inquiry and Disability Care and Support Inquiry
- Senate Inquiries – DES purchasing, jobactive
- Discussion Papers – DES Reform, jobactive, National Disability Strategy (NDS)
- Strategies – NDS, APS, NDIS, National Disability Employment Framework
- Research and research projects

What support can DSS provide

- Advice and direction throughout the Review
- Feedback on approaches and preliminary findings
- Connections to key stakeholders across Government, peaks and the provider network
- Access to departmental data, research and analysis
- Monitoring project progress

Other related projects

- Services Australia research project around employment for people with disability
- The Collaborative Partnership to Improve Work Participation
- National Disability Strategy
- National Employment Services Trial

Q & A session