

an i-exchange analysis of the New Employment Services Model

Risks, Rewards and Reducing Red-Tape

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The Department of Education, Skills and Employment has released a Discussion Paper on the Proposed Licensing System for New Employment Services Model.

The team at i-exchange have reviewed the Discussion Paper and we present our thoughts and analysis to help providers plan their response.

The New Employment Services model represents the most significant change to the sector since outsourcing. New Employment Services Trial (NEST) sites have been operating since 2019 to test the Department's planned approach and, in response to COVID-19, the Department has also accelerated the transition to digital servicing across all Employment Regions.

Learnings and outcomes from these trials and the rapid move to broader digital servicing will continue to inform the new model, but there is already much for providers to consider.

The New Employment Services model presents an increased risk profile for providers.

Servicing only the most disadvantaged job seekers will likely mean higher servicing costs and slower speed to placement, particularly in a challenging post-COVID labour market. Although full details of the new payment structure are yet to be released, incumbent jobactive providers could estimate the impact by removing Stream A job seeker revenue and costs from their existing budgets - most business models will need to change.

Initial market share allocation and establishment fees will provide some certainty and working capital for providers. However, providers will need to adopt a risk-based approach and invest a portion of future outcome revenue in their job seekers to generate returns from outcome fees. This approach requires careful cashflow management and an ability to finance extended service provision to a job seeker between initial attachment and payment triggers.

Providers will need to demonstrate capacity to manage the risks associated with this heavily geared, outcome-based contract - with potentially smaller market share allocations, increased competition and shorter performance assessment periods. All this in a post COVID-19 environment which has impacted balance sheets and tightened the lending market. Organisations who require capital to support their bid and fund this investment approach should consider how lending institutions will assess their financial position and the new contract risk profile.

Service models must be flexible and responsive to economic conditions

For the first time in 20 years, employment service providers are likely to be bidding against the backdrop of an economy in recession. A flexible approach to service delivery will be required to maximise outcome rates, with providers well advised to consider short, medium and longer-term strategic approaches.

For example:

- Short Term – focus on training and skills development in a COVID-19 affected labour market
- Medium Term – focus on skills needs in sectors that are leading the recovery
- Longer Term – plan for a return to 'Work First' and a business as usual, growth economy

A new workforce strategy will be needed

Greater automation of compliance activities through a new IT system and a stronger focus on the most disadvantaged job seekers will require a workforce with a different skillset. Advisers will need to be creative problem solvers and willing and able to experiment with new approaches to assist the most disadvantaged. Non-vocational supports will also be in high demand and many providers may look to further incorporate Allied Health professionals into their workforce.

Government Re-enters the Market

The New Employment Services Model brings a new player to the market. For the first time in almost 20 years, Government is re-entering the employment services market taking on the role of servicing the most job ready job seekers with support from Workforce Specialists.

Providers should consider how these new dynamics are likely to impact existing relationships with employers and begin exploring options now.

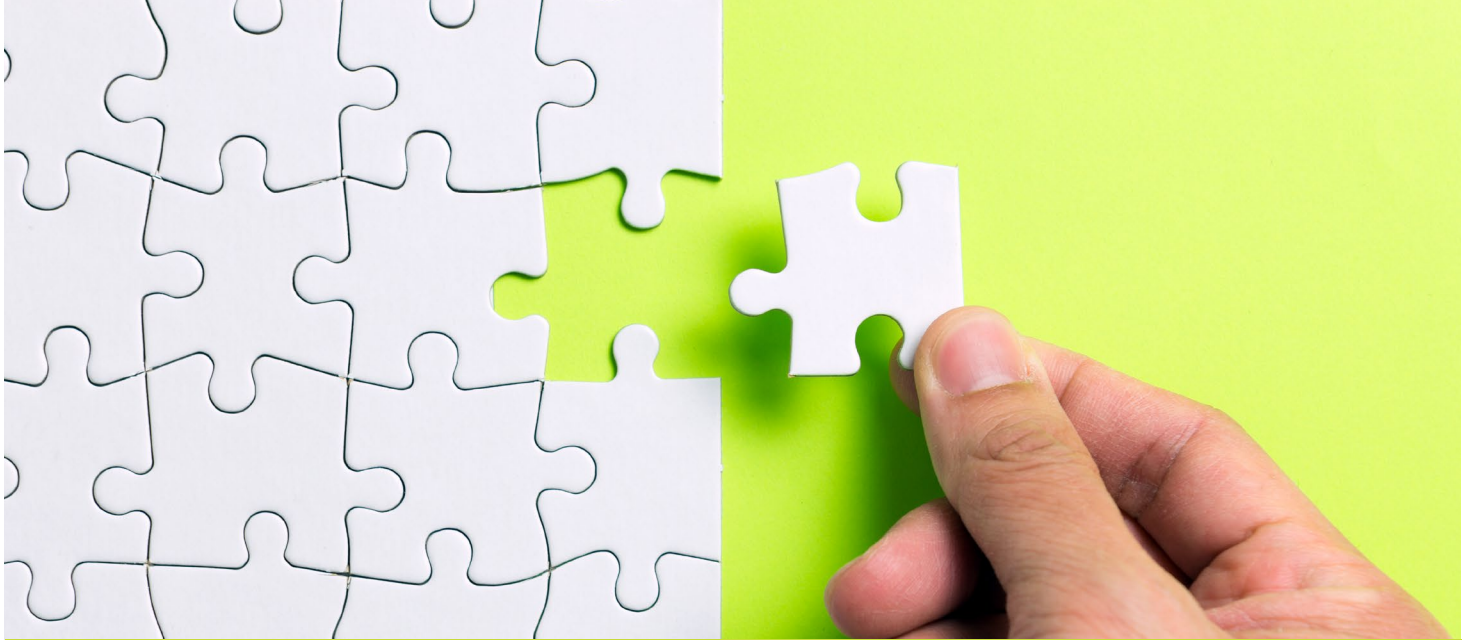
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The Missing Pieces

We note the following omissions from the Discussion Paper:

The funding envelope and payment structure

Proposed service fees and outcome payments for providers have not been included in the Discussion Paper. Providers may refer to the forward estimates in the Federal Budget for insight and use the current NEST payment structure as a guide.

i-exchange asks:

- Will the Department release further details of the proposed payment structure ahead of the 2021 Exposure Draft?
- If not, can providers rely on the current NEST payment structures to plan?

Weighting of past performance

Past performance and provider star ratings have received significant weighting in previous procurement rounds. However the Discussion Paper is silent on panel and licensing arrangements for high performing incumbents and there is no indication or guarantee of an ITT process.

i-exchange asks:

- Can providers expect an ITT process as part of this procurement?
- Will providers get a return on investment from additional spending made now to meet an ITT hurdle?

Minimum caseload ratios

The Department has consistently indicated a preference for lower caseload ratios in the New Employment Services model. However, it's not clear if minimum adviser to job seeker ratios will be expected or required. This would have a significant impact on provider servicing costs.

i-exchange asks:

- Will the Department require providers to specify and maintain minimum adviser to job seeker ratios?

Subcontracting services

At present, many providers sub-contract some, or all, components of their delivery in particular Employment Regions. It is unclear whether the proposed licencing model will allow panel members to sub-contract to other suppliers.

i-exchange asks:

- Will sub-contracting arrangements still be permitted under the new model?
- Will providers have the option to vary their sub-contracting network once the panel is established?
- Will proposed sub-contractors need to be panel members in their own right?



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Unpacking the Discussion Paper

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Panel and Licensing Model - Not all Licences are Equal

The new model envisages a National Panel and Employment Region sub-panels to pre-qualify providers – but not all panel members will receive a licence to operate or a guarantee of caseload.

OPPORTUNITIES

Proposed Panel arrangement - successful RFP respondents will be placed on a National Panel for up to 6 years

National Panel members may be included on sub-panels established for each Employment Region

The Panel and Licensing model will lower the barriers to entry for new organisations.

It is intended that licensing would enable some providers to operate in smaller areas, rather than servicing an entire Employment Region.

Established Panel members may be used for other programs

The Department will undertake regular licence reviews, with longer extensions proposed for high performing providers

RISKS

This contract will present a completely new risk profile. Potential gains from outcome revenue will be higher, but exclusively servicing the most disadvantaged job seekers will put upward pressure on servicing costs.

Panel membership will not guarantee that a provider will receive a licence to operate or a flow of caseload.

Panel members without a licence will, nevertheless, need to maintain ‘operational readiness’, potentially at considerable cost.

The Department reserves the right to alter the composition of the panel and the number of available licences based on performance and labour market conditions.



1. The increased risk-profile of the contract. Higher costs associated with servicing the most disadvantaged and a slower rate of speed to placement will demand both rigorous attention to cashflow, and a new investment approach.
2. Have you factored the loss of Stream A job seekers to digital servicing into your budget? What can you learn from this recent change about how to adapt to the new model?
3. Can you afford not to be on the Panel if other major procurement opportunities are only offered to Panel members?
4. How would you manage the carrying costs of being a panel member without a licence or allocation of caseload?
5. How will you 'future proof' your licence and presence in the market? Upfront investment in performance from 2022 is likely to lead to a two-year extension, expanding the window for recouping costs and maximising returns on your investment.
6. Will your other contracts be at risk? jobactive has historically been an anchoring contract, with organisations relying on this infrastructure to subsidise other contracts. Providers should consider how to protect this capacity and the impact of any contract loss on other service delivery.

New Government Initiatives

The Federal Government has introduced initiatives to create jobs in disadvantaged Employment Regions and those that have been heavily impacted by COVID-19.

Local Jobs Program - supports tailored approaches to accelerate reskilling, upskilling and employment in 25 regions across Australia. Recognising that regions have been impacted by COVID-19 in varying ways, the program will include a Local Jobs and Skills Taskforce and Local Jobs Plan for each region. Projects in each Region will be funded through a Local Recovery Fund.

Employment Facilitators - an on-the-ground presence that bring together key stakeholders including employers, employment service providers, and higher education and training organisations to work collaboratively and implement the Local Jobs First Program.

Providers should consider how they can work collaboratively with Employment Facilitators, become actively involved in their Local Jobs and Skills Taskforce and start evidencing these initiatives in preparation for the procurement phase.



Cohort Specialists – A Trip Down Memory Lane

The new model will place greater emphasis on Cohort Specialist providers.

OPPORTUNITIES

The reintroduction of specialisation creates a favourable environment for values-based organisations with demonstrated capacity and expertise supporting disadvantaged cohorts of job seekers.

Disadvantaged job seekers are expected to feel the impact of the challenging post-COVID economic environment most acutely and providers with a specialist skillset are likely to be highly regarded.

High performing specialist providers may find an operational ‘sweet spot’ of strong performance with low caseload volumes, lower fixed costs associated with a smaller footprint and high outcome revenue potential.

Specialisation may be attractive to new market entrants.

RISKS

Specialist licences will be limited by both demographics and population density and may be restricted to particular areas within an Employment Region.

Cohort Specialists will have lower potential caseload volumes, meaning greater exposure to fluctuations in market tolerance.

Generalist providers operating below their allocated market share will be motivated to compete for job seekers from specialist cohorts.

“..job seekers from a particular cohort would not be mandatorily referred to a specialist but could instead choose a generalist provider. If an eligible job seeker made no choice, the job seeker would be referred to a relevant cohort specialist provider by default”



1. Will specialist cohort caseload volumes be sufficient to support viable service provision in your identified Regions? Note that consumer choice will play a role and being a specialist provider in an area may not guarantee access to your identified cohort of job seekers. For example,
 - ex-offenders may not self-identify and may instead seek assistance from a generalist provider
 - 24 year old job seekers may not identify themselves as 'Youth'
2. How demographics and patterns of disadvantage will influence specialist servicing and capability requirements.

For example,

- more than 50% of the Aboriginal population in Australia is under 25 years of age and 28% of the adult prison population in Australia are Aboriginal or Torres Strait Islander. This suggests that specialist Aboriginal providers also require youth specialist capability and ex-offender specialists will also require significant capability servicing Aboriginal and Torres Strait Islander job seekers.

Australian Bureau of Statistics, Census 2016, www.abs.gov.au

Australian Bureau of Statistics, Prisoners in Australia 2019, www.abs.gov.au





Workforce Specialists – A Novel Approach

The Discussion Paper introduces a new type of specialist provider to the model – the Workforce Specialist - a single point of contact that is favoured by large employers. These providers would:

- Have no job seeker caseload or individualised case management responsibilities
- Be responsible for identifying workforce opportunities, sourcing vacancies, and assisting with the screening, shortlisting and preparation of job seekers to meet the recruitment needs of major projects and employers.
- Assist with post-placement support
- Be expected to operate across a large area eg. a whole state
- Specialise in a few industries and support cross-industry transition

OPPORTUNITIES

May assist both job seekers and providers to take full advantage of employment opportunities in major infrastructure projects and emerging industries as the economy recovers from COVID-19.

Incumbent providers with a large, well established footprint and a base level of engagement with major employers are likely to be well positioned for this role.

Organisations who can demonstrate previous collaborative work with multiple jobactive providers and expertise coordinating pre-employment programs are also likely to be well regarded.

RISKS

Workforce Specialists may present additional competition for providers in local markets - limiting access to large employers or risking employer fatigue through dual servicing.

Reciprocal outcome fee arrangements are not yet clear and providers will have to plan by making broad assumptions until further details emerge.



1. How will a Workforce Specialist in your Employment Region(s) impact on existing relationships with large employers and direct access to jobs on major projects.
2. Linear projects, such as roads and railways, often traverse multiple communities and Employment Regions. Providers with the ability to collaborate with multiple agencies, providers and TAFE/RTO's will be highly regarded. Providers should start developing relationships early.
3. Many infrastructure projects provide ongoing opportunities post construction, with new jobs available in operating, maintaining and de-commissioning. Providers should consider the immediate job opportunities that infrastructure projects bring, as well as the ongoing opportunities and various skill sets required for the longer term. Preparing jobs seekers with transitional skill sets may yield more sustainable jobs and outcomes.





Market Share – The Tight Rope

The retention of market share is critical to the viability of the licencing approach.

OPPORTUNITIES

During the RFP process, providers will be able to specify their minimum and maximum market share range in each Employment Region.

Providers who obtain a licence will be guaranteed some market share within their tolerance range.

The number of licences will be capped within each Employment Region.

RISKS

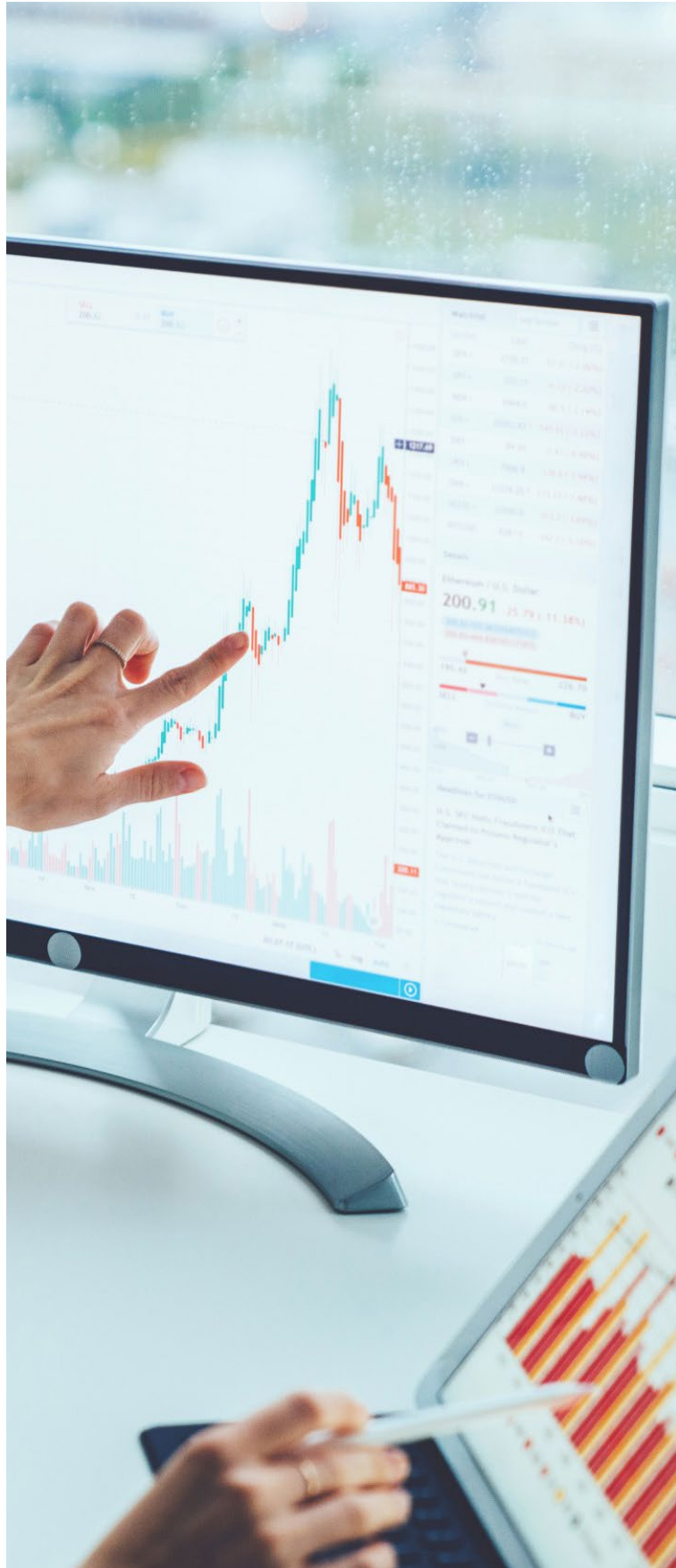
Market share allocation will cap the maximum potential contract value for each provider and significantly impact returns.

The minimum market share bid is crucial – a minimum bid that is too high might see providers miss out on a licence; a minimum bid that is too low may result in a licence that is commercially unviable.

Strong performance will be the primary lever to increase market share in the years following the RFP. This requires ongoing investment.

To Consider

1. What is your optimum market share? Each provider will face a trade-off between job seeker caseload volume, geographical footprint and cost of servicing. With Stream A job seekers removed, breakeven caseloads will likely be higher than under the current jobactive contract.
2. Position your minimum viable bid based on total available caseload in the Employment Region, the likely number of available licences and market tolerance. Bidding for a viable minimum market share may be your most valuable marketing spend.
3. Be wary of subsidising one licence with another. Ideally, your minimum viable bid in each Region should stand alone and not depend on gaining market share or maintaining performance in another Region.
4. Can you take a new approach to footprint and will the Department be willing to procure in this way? Historically, footprint has been associated with a fixed presence in a geographical area, however the COVID-19 experience has shown that footprint and reach may not have to equal 'bricks and mortar'.





Red Tape Reduction – The Devil is in the Deed

Incumbent jobactive providers know the cost of red tape and we note that the current Targeted Compliance Framework (TCF) will remain.

OPPORTUNITIES

The streamlined application process and licencing model is expected to encourage diversity and make market entry easier for small organisations.

Providers will have access to the Department's IT system, reducing the need for investment in third-party systems.

The Department plans to use digital technology to simplify and target communications and reduce manual administrative processes for providers.

The Indigenous Procurement Policy will apply to the New Employment Services contract - Indigenous owned businesses are more likely to employ Indigenous job seekers.

RISKS

Government intentions to reduce red tape are often at odds with the reality of contract compliance and reporting requirements. Previous contracts with a similar intention to 'reduce red tape' have seen an increase in compliance costs for providers.

The Department's IT system is designed to meet Government reporting requirements, rather than management reporting and system integration needs.

Providers who fail to demonstrate credible relationships and supply chains to meet Indigenous Procurement Policy requirements may be unsuccessful and may miss out on opportunities to generate outcome revenue.



1. Workforce Strategy - greater automation of compliance and a stronger focus on the most disadvantaged job seekers will require a workforce with a different skillset. Advisers will likely need to focus less on compliance and be creative in planning career paths for job seekers.
 - Does your current workforce have the right mix of skills to deliver the new model?
 - How can you encourage staff to experiment with new approaches for your most disadvantaged job seekers now?
 - Will your organisation's environment, culture and service delivery model attract creative Advisers who can problem solve and experiment with new approaches to assist the most disadvantaged?
 - Should you look to in-source key support services eg. Allied Health, or formalise partnerships with credible providers?
2. Third Party IT Systems may continue to offer value, but we have observed significant risk associated with changing IT systems at the same time as contract renewal. If you plan to stay with your current Third Party IT provider, or move to a new provider, consider your options now and invest in change management early.
3. Do you have a supply chain in place to meet the requirements of the Indigenous Procurement Policy? If not, what action can you take now to start building these networks?





Performance Framework and Security – The Pointy End

A more comprehensive performance framework is proposed to replace the Star Ratings system.

OPPORTUNITIES

Performance assessment will include service quality metrics around job seeker and employer satisfaction.

All providers would have an equal ability to succeed under the Provider Performance Framework

Providers would receive data on their performance at regular intervals in addition to the formal Licence Reviews.

Providers will have access to more detailed underlying data about their own performance on a more frequent basis.

RISKS

Providers may face tension between maintaining job seeker satisfaction and enforcing mutual obligation requirements.

The Department proposes to adopt the Right Fit for Risk approach, based on a customised ISO 27001 Standard.

To remain on the Panel, providers will need to ensure that their ICT systems remain fully compliant with the Department's standards. This requirement extends to providers who have not been granted a licence or case load.

To Consider

1. How would your current services fare in a quality assessment? Can you look at implementing regional benchmarking and quality monitoring in your existing services to assess and demonstrate performance against the new standards.
2. Review your ICT systems, processes and practices now. In particular, providers should review any security gaps that may have emerged as a result of the rapid adaptation to COVID-19 eg. potential informal use of messaging Apps and social media.
3. Ensure that you factor in the costs of remaining compliant with the Department's ICT Standards, including in the event that your organisation is not granted a licence.
4. If you're planning to use a Third Party IT System, ensure that your provider can guarantee and warrant compliance with the Department's standards.





Next Steps

The i-exchange team are specialists in employment services and have substantial experience in designing and bidding for outcome-based contracts.

We help organisations navigate the risks and maximise the rewards from outcome-based contracts and have proven success supporting effective and profitable operational delivery.

Talk to i-exchange today to discuss this paper in more detail, or to explore broader opportunities in Government outsourcing at both State and Federal level.

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