



Australian Government  
Department of Social Services



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

August 2020



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## 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.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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.

In the following table, Short-to-medium term reform options are covered in *Chapter 7*, while Longer-term reform options are covered in *Chapter 8*.

**Table 1. Overview of reform options**

Theme	Short-to-medium term	Longer-term
<b>Theme 1: Improve cohort targeting</b>	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.	<ul style="list-style-type: none"><li>• 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.</li><li>• Consider alternative segmentations of participants (e.g. based on needs, disability type, etc.) and look to create a more differentiated service model.</li></ul>

Theme	Short-to-medium term	Longer-term
<b>Theme 2: Re-align incentives to enhance employment outcomes</b>	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.	<ul style="list-style-type: none"> <li>• Conduct an end-to-end redesign of the provider incentive structure, fee levels and metrics.</li> <li>• Cap education fees at a lower level and revert to pre-reform eligibility.</li> <li>• 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'.</li> </ul>
<b>Theme 3: Improve program management with informed decision making and oversight</b>	<ul style="list-style-type: none"> <li>• Establish an active performance management framework allowing for removal of under-performing providers.</li> <li>• Simplify how star ratings are calculated and the timeliness and process for communicating information on performance.</li> <li>• Improve the Department's data collection and reporting, analytics capabilities and decision-making speed.</li> <li>• Improve operations, design, and incentives associated with ESAs.</li> </ul>	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.
<b>Theme 4: Smooth provider ability to enter and exit the market</b>	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.



Theme	Short-to-medium term	Longer-term
<b>Theme 5: Encourage flexibility and innovation in support models</b>	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.
<b>Theme 6: Enhance provider productivity</b>	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.
<b>Theme 7: Unlock employer demand</b>	Seek to address common employer concerns around employing someone with a disability (e.g. risk, liability), accompanied by a communications and outreach effort.	<ul style="list-style-type: none"> <li>• Consider placing greater emphasis in policy mix on wage subsidies and other employer support.</li> <li>• Work with NDIA to improve deployment of NDIS funding to enhance employment and education outcomes through on-the-job and classroom support.</li> </ul>

*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 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 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

Table 2: Chapter 7 will cover proposed and possible discretionary changes

Theme	Recommendations
7.1 Improve cohort targeting	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 1:</u></b> 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.</li> <li>• <b><u>Recommendation 2:</u></b> The Department should restrict DES eligibility for voluntary participants to income support recipients and NDIS participants.</li> <li>• <b><u>Recommendation 3:</u></b> 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).</li> <li>• <b><u>Recommendation 4:</u></b> 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.</li> <li>• <b><u>Recommendation 5:</u></b> The Department should explore ways to increase the engagement of DES with school-aged participants.</li> <li>• <b><u>Recommendation 6:</u></b> 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.</li> </ul>

Theme	Recommendations
<b>7.2 Re-align incentives to enhance employment outcomes</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 7:</u></b> 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.</li> <li>• <b><u>Recommendation 8:</u></b> The Department should restrict the course types funded by DES to those that include a work placement component.</li> <li>• <b><u>Recommendation 9:</u></b> 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.</li> <li>• <b><u>Recommendation 10:</u></b> The Department should complete the recalibration of the risk-adjusted funding tool that is currently underway.</li> <li>• <b><u>Recommendation 11:</u></b> 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.</li> <li>• <b><u>Recommendation 12:</u></b> 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.</li> </ul>

<p><b>7.3 Improve program management with informed decision making and oversight</b></p>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 13:</u></b> The Department should develop a defined performance management framework, with clearly defined KPIs and metrics, and processes for discontinuing poor performance.</li> <li>• <b><u>Recommendation 14:</u></b> The Department should remove Education Outcomes from the current star rating calculation.</li> <li>• <b><u>Recommendation 15:</u></b> 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.</li> <li>• <b><u>Recommendation 16:</u></b> 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.</li> <li>• <b><u>Recommendation 17:</u></b> 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.</li> <li>• <b><u>Recommendation 18:</u></b> 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).</li> <li>• <b><u>Recommendation 19:</u></b> The Department should regularly produce estimates of the extent to which program outcomes represent an improvement above baseline.</li> <li>• <b><u>Recommendation 20:</u></b> The Department should include additional efficacy and efficiency metrics in its regular public reporting, including measures of the total average costs per employment outcome.</li> <li>• <b><u>Recommendation 21:</u></b> 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.</li> <li>• <b><u>Recommendation 22:</u></b> 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).</li> <li>• <b><u>Recommendation 23:</u></b> The Department should re-assess the total resourcing required to ensure effective program oversight.</li> <li>• <b><u>Recommendation 24:</u></b> The Department should continue to monitor the impact of the COVID-19 induced recession on the DES market and provider financial viability.</li> <li>• <b><u>Recommendation 25:</u></b> The Department should conduct a detailed review of Employment Service Assessments, assessing their</li> </ul>
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Theme	Recommendations
	accuracy, identifying opportunities for process improvement, and identifying options for reduce incentive misalignment.
<b>7.4 Smooth provider ability to enter and exit the market</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 26:</u></b> The Department should establish a mechanism for providers to apply for a new ESA outside the DES Panel Refresh processes.</li> </ul>
<b>7.5 Encourage flexibility and innovation in support models</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 27:</u></b> 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.</li> </ul>
<b>7.6 Enhance provider productivity</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 28:</u></b> 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.</li> <li>• <b><u>Recommendation 29:</u></b> 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.</li> </ul>
<b>7.7 Unlock employer demand</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 30:</u></b> 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.).</li> <li>• <b><u>Recommendation 31:</u></b> Once targeted messages are identified, the Department should design specific communication campaigns that target employers and promote the hiring of people with a disability.</li> <li>• <b><u>Recommendation 32:</u></b> The Department should conduct an end-to-end review of its employer engagement strategy.</li> </ul>

**Table 3: Chapter 8 will cover longer-term change opportunities**

Theme	Recommendations
Overall	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 33:</u></b> 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.</li> </ul>
8.1 Improve cohort targeting	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 34:</u></b> 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.</li> <li>• <b><u>Recommendation 35:</u></b> 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.</li> <li>• <b><u>Recommendation 36:</u></b> The Department should review whether the length of participant participation on the DES program is appropriate.</li> <li>• <b><u>Recommendation 37:</u></b> The Department should review the need for Extended Employment Assistance, and consider whether the assessment approach for Extended Employment Assistance is appropriate.</li> </ul>

<p><b>8.2 Re-align incentives to enhance employment outcomes</b></p>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 38:</u></b> 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.</li> <li>• <b><u>Recommendation 39:</u></b> The Department should design a new incentive structure for the DES program.</li> <li>• <b><u>Recommendation 40:</u></b> The Department should consider trialling and testing shortlisted service models and incentive structures prior to implementation.</li> <li>• <b><u>Recommendation 41:</u></b> Education outcome payments should be reclassified as a type of service payment.</li> <li>• <b><u>Recommendation 42:</u></b> 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.</li> <li>• <b><u>Recommendation 43:</u></b> 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.</li> <li>• <b><u>Recommendation 44:</u></b> The Department should consider explicitly linking 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.</li> <li>• <b><u>Recommendation 45:</u></b> 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.</li> <li>• <b><u>Recommendation 46:</u></b> 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.</li> <li>• <b><u>Recommendation 47:</u></b> 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.</li> </ul>
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Theme	Recommendations
	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 48:</u></b> The Department should rebalance the frequency caps on employment outcome claims, for example by limiting to two of each duration per period of service.</li> <li>• <b><u>Recommendation 49:</u></b> 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.</li> <li>• <b><u>Recommendation 50:</u></b> 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.</li> <li>• <b><u>Recommendation 51:</u></b> The Department should allow for forms of 'gig economy' and self-employment in future program design.</li> </ul>
<b>8.3 Improve program management with informed decision making and oversight</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 52:</u></b> [REDACTED]</li> <li>• <b><u>Recommendation 53:</u></b> 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).</li> </ul>
<b>8.4 Smooth provider ability to enter and exit the market</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 54:</u></b> 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.</li> </ul>
<b>8.5 Encourage flexibility and innovation in support models</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 55:</u></b> The Department should engage an external, detailed assessment by appropriate specialists to identify opportunities for further simplifying system rules.</li> </ul>

Theme	Recommendations
<b>8.6 Enhance provider productivity</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 56:</u></b> 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.</li> </ul>
<b>8.7 Unlock employer demand</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 57:</u></b> The Department should explore greater reliance on alternative policy approaches which engage employers more directly (which may include, but is not limited to, more emphasis on wage subsidies).</li> </ul>
<b>8.8 Improve integration between DES and jobactive</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 58:</u></b> Government should consolidate oversight of DES and jobactive under a single Department.</li> <li>• <b><u>Recommendation 59:</u></b> 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.</li> </ul>
<b>8.9 Integration with the NDIS, and broader program strategy</b>	<ul style="list-style-type: none"> <li>• <b><u>Recommendation 60:</u></b> The Department should explore opportunities to work with the NDIA to develop a participant-centred approach to support people with disability into employment.</li> <li>• <b><u>Recommendation 61:</u></b> 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.</li> </ul>

## 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 1: Context for the Review

Part 1 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

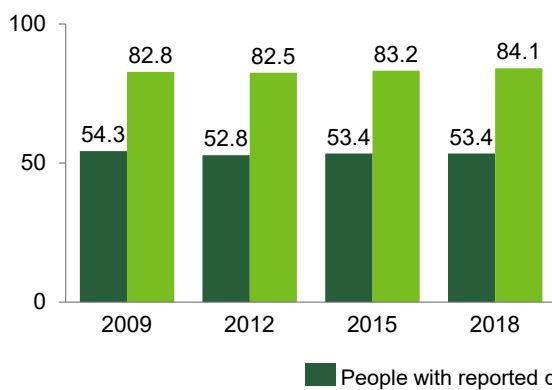
### 1.1. Program goals, approach, and composition

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

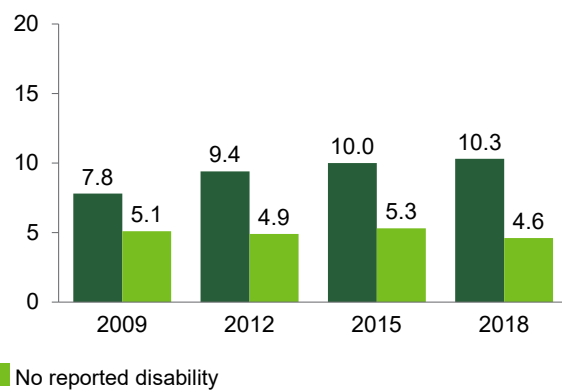
Labour force participation has remained stable for people with a disability, behind general population...

Labour force participation (%)



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

Unemployment rate (%)

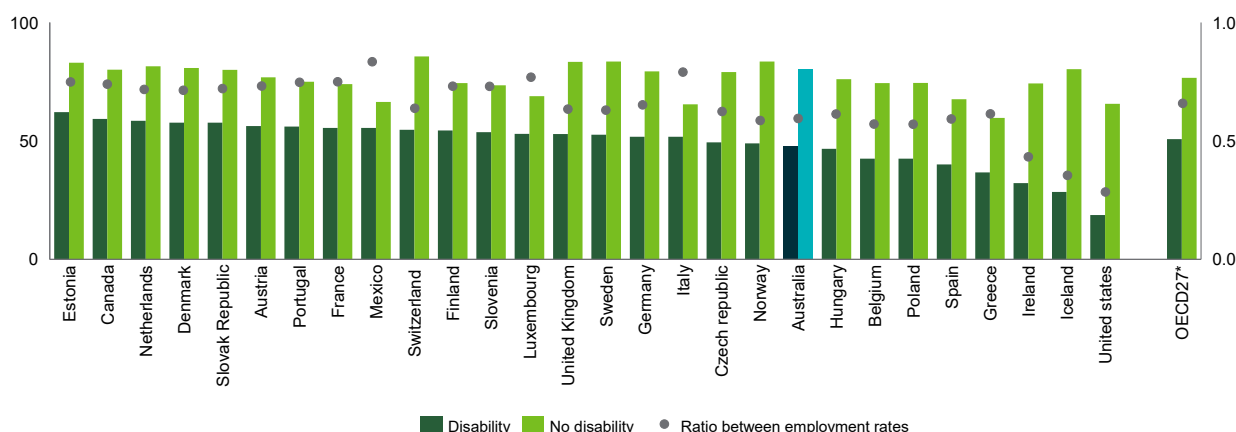


Source: ABS, Disability, Ageing and Carers, Australia; BCG analysis

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

## Exhibit 2. Employment 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.<sup>1</sup> With the intent of ensuring equitable access across the country, provision is divided into 111 Employment Service Areas (ESAs). Each ESA 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.

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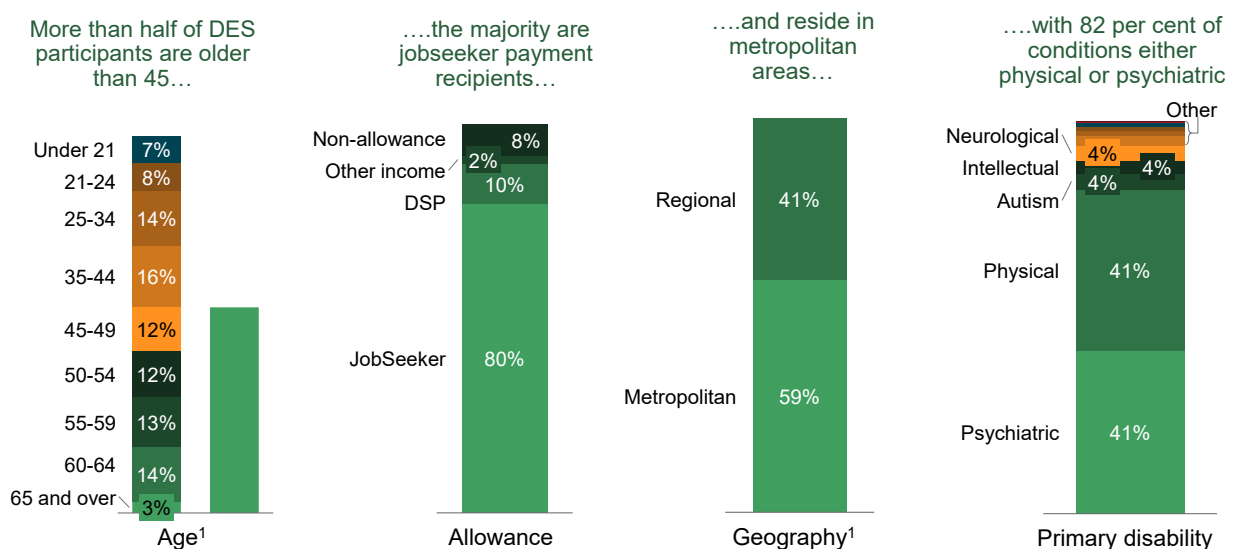
<sup>1</sup> Employment services for people with a disability in remote regions are provided by the National Indigenous Australians Agency (NIAA) via the Community Development Program (see Exhibit 67). Provider and site numbers based on DES Caseload Data as of March 2020.

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).

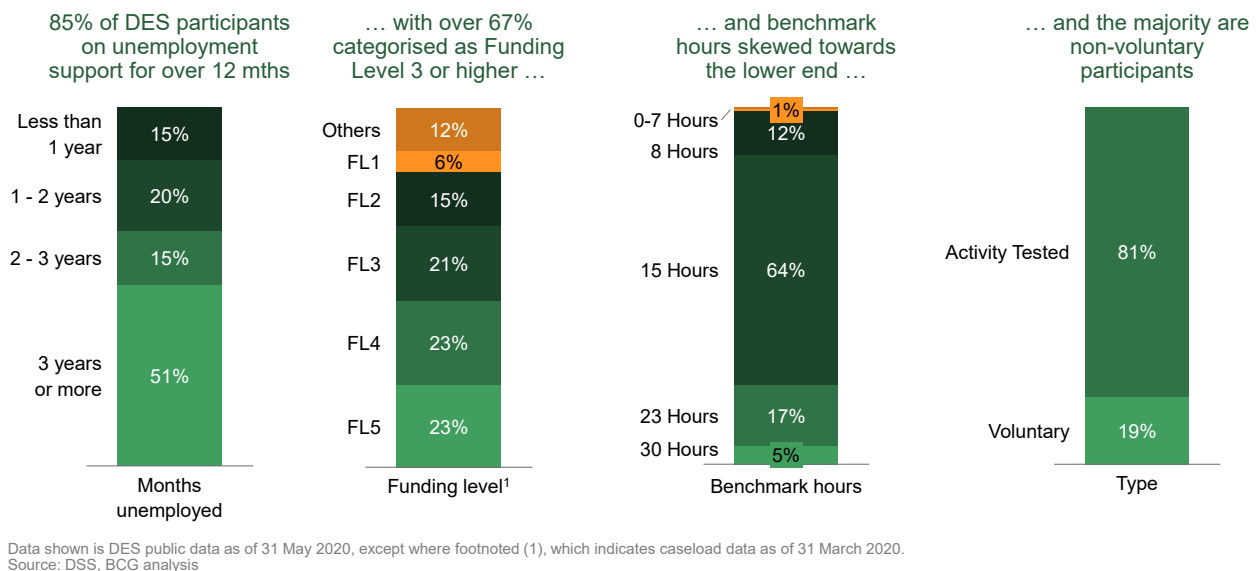
Regarding DES providers: around two-thirds of providers are not-for-profit, and a similar proportion is classified as generalists rather than specialists in a disability type (Exhibit 4). Providers are frequently engaged as providers for other government programs (e.g. jobactive, NDIS (National Disability 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.

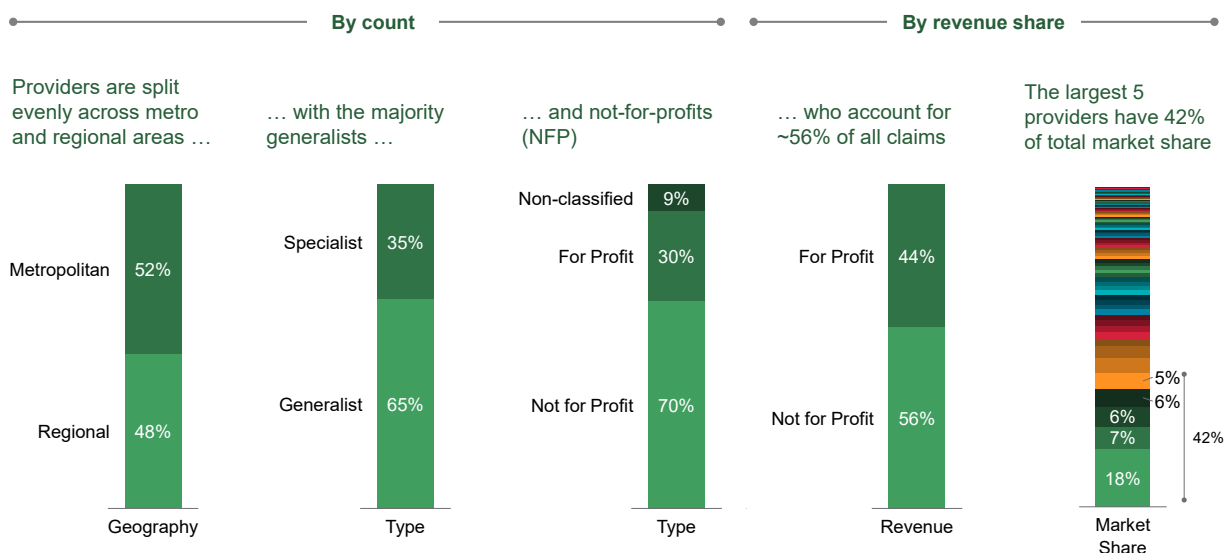
### Exhibit 3. Summary characteristics of DES participants



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



## Exhibit 4. Summary characteristics of DES providers



## 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 \$900m. 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:

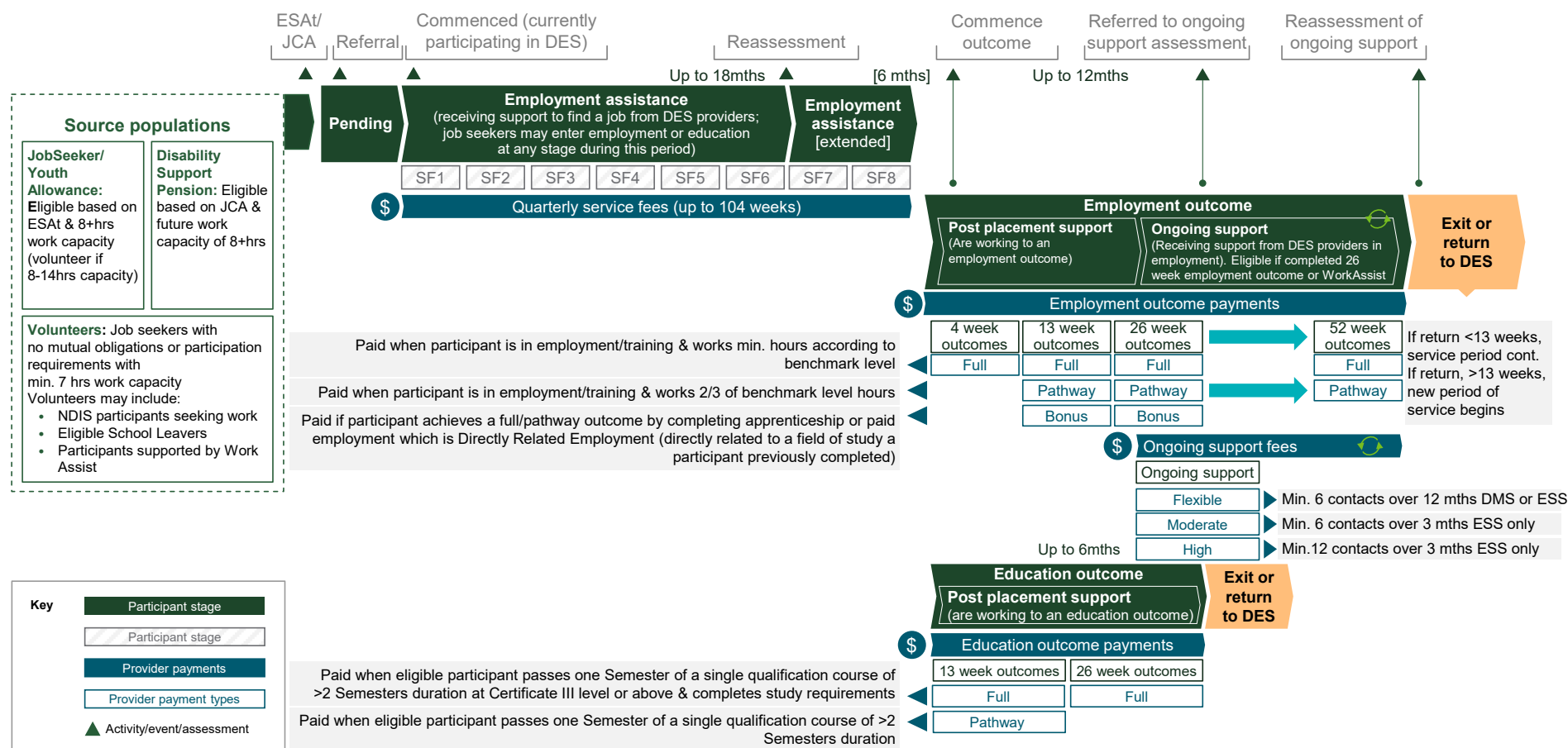
### **Expanded access to education outcomes**

- 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 are 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.

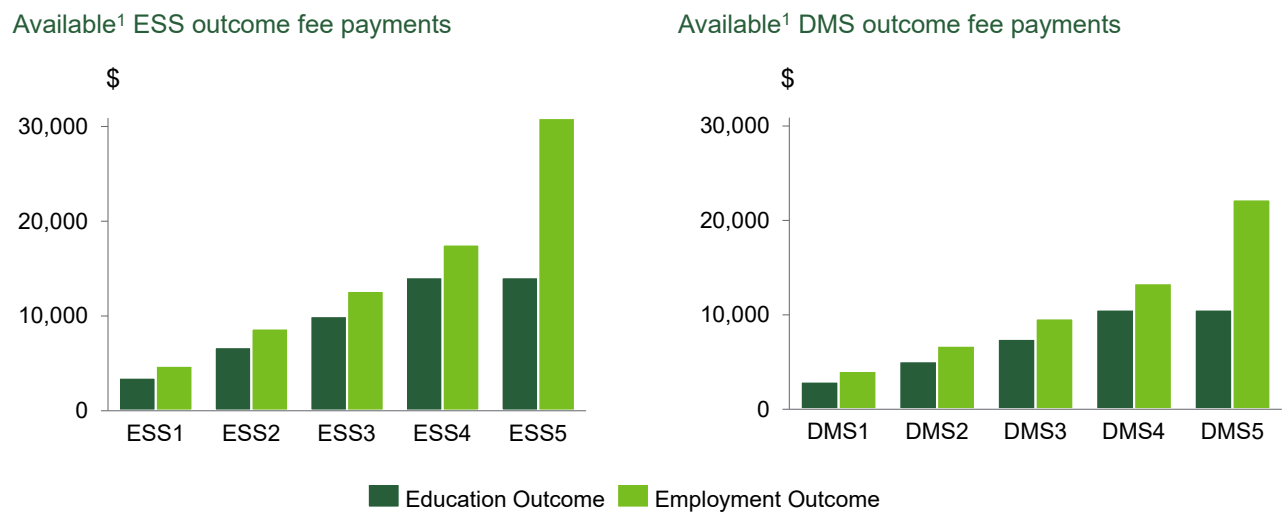
### **Introduction of a risk-adjusted funding model**

- 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 ESAs.

**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)**

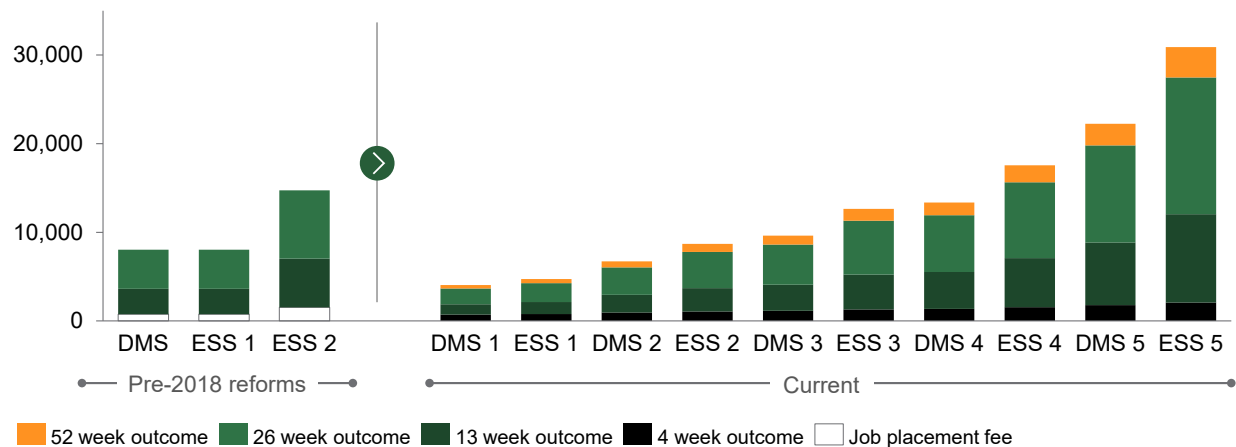


1. Total fee revenue including all available outcome payments across 4, 13, 26 and 52 weeks. Source: DES Grant Deed

**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**

Outcome payment (\$)



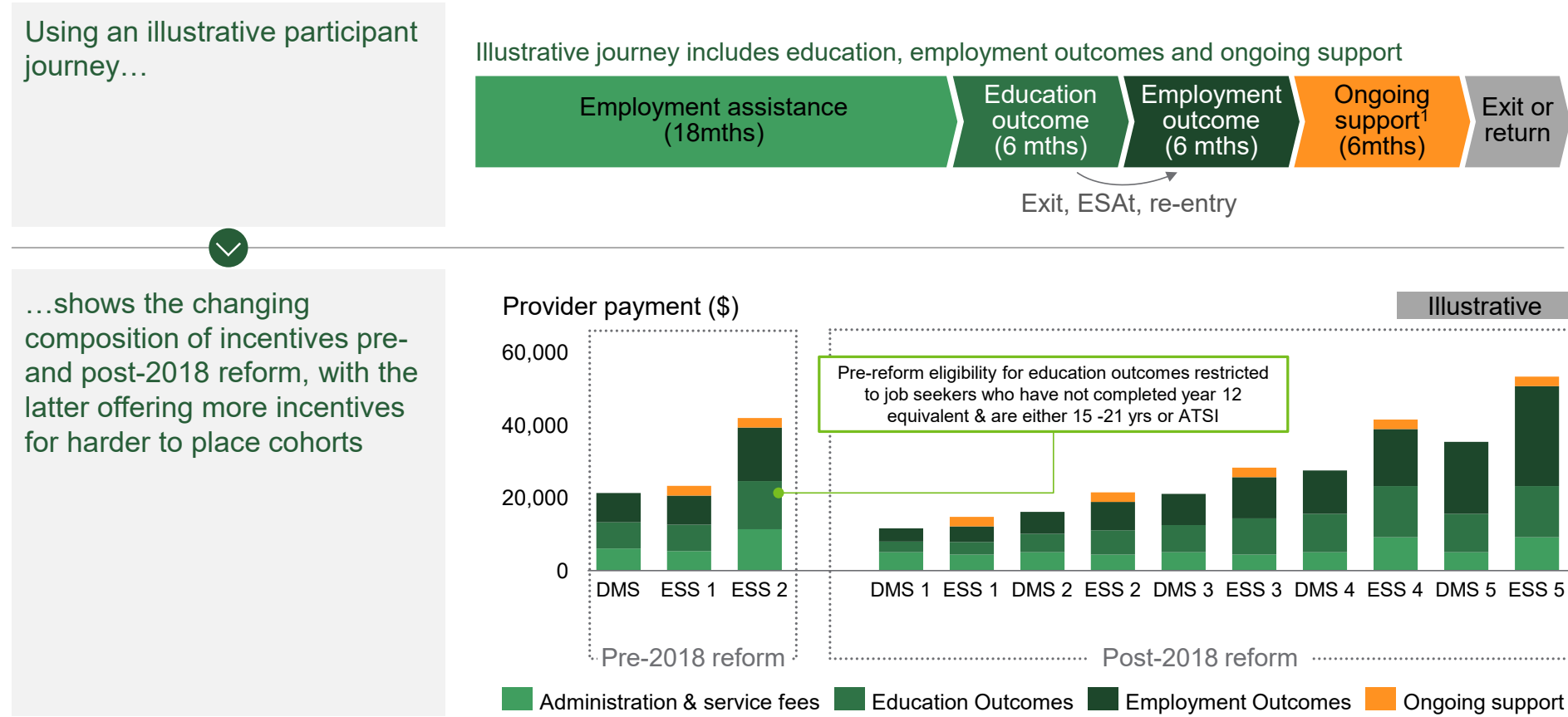
Source: DSS DES Grant Agreement 2018, DSS DES Deed 2015, DSS expert interviews

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.**



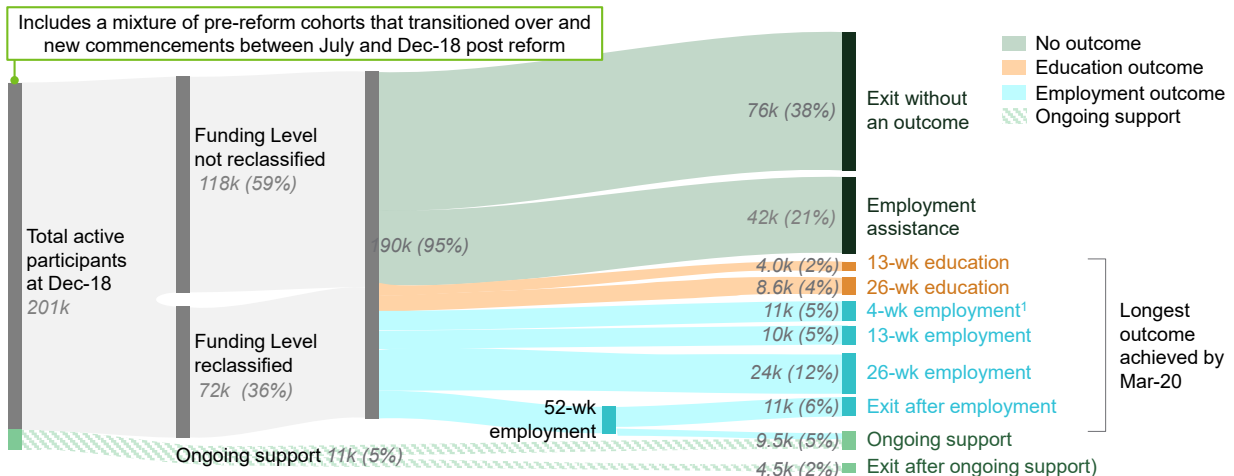
1. Ongoing support payment based on quarterly moderate ongoing support payment (min. 6 contacts over 3 mths, ESS only), participants may also receive flexible or moderate support  
Note: Illustrative pathway for a 26-week outcome not including bonus payments.  
Source: DSS DES Grant Agreement 2018, DSS 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. Includes 359 counts of other employment include internship outcome and work assistance outcomes  
Source: DSS DES data, BCG analysis

## 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.

The Review, the Review recommendations and the associated financial modelling were 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

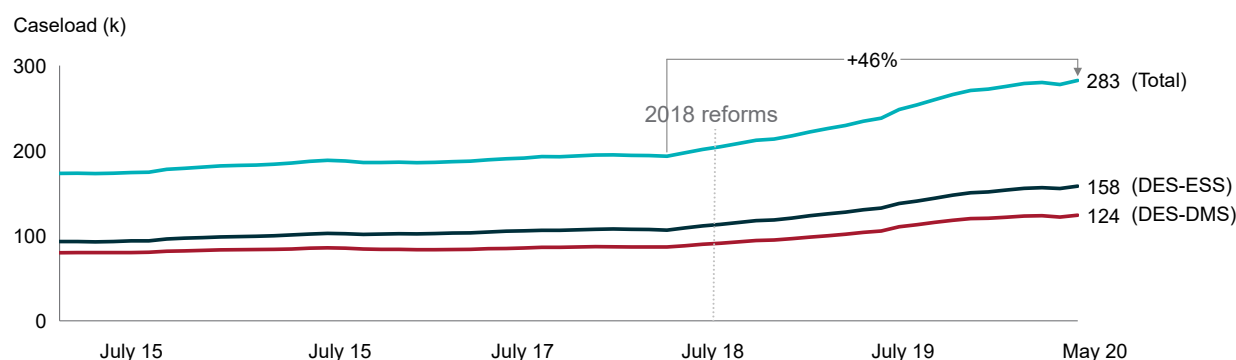


Stakeholder group	Stakeholders
Commonwealth agencies	<ul style="list-style-type: none"> <li>Australian Government: Department of Social Services.</li> <li>Australian Government: Department of Employment, Skills, Small and Family Business.</li> <li>Australian Government: Services Australia.</li> <li>Australian Government: Department of Finance.</li> <li>Australian Government: Comcare.</li> </ul>
Disability peak bodies	<ul style="list-style-type: none"> <li>First Peoples Disability Network Australia.</li> <li>People with Disability Australia.</li> <li>Disability Advocacy Network Australia.</li> <li>Inclusion Australia.</li> <li>National Ethnic Disability Alliance.</li> </ul>
Provider peak bodies	<ul style="list-style-type: none"> <li>National employment services association.</li> <li>Jobs Australia.</li> <li>Disability Employment Australia.</li> <li>National Disability Services.</li> </ul>
Employer peak bodies	<ul style="list-style-type: none"> <li>Australian Chamber of Commerce and Industry.</li> <li>Australian Network on Disability.</li> </ul>
Other	<ul style="list-style-type: none"> <li>Seek.</li> <li>Year 13.</li> <li>Alffie EML.</li> <li>Esther House.</li> <li>Med Health.</li> <li>Randstand.</li> <li>DXC technology.</li> </ul>

## 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**



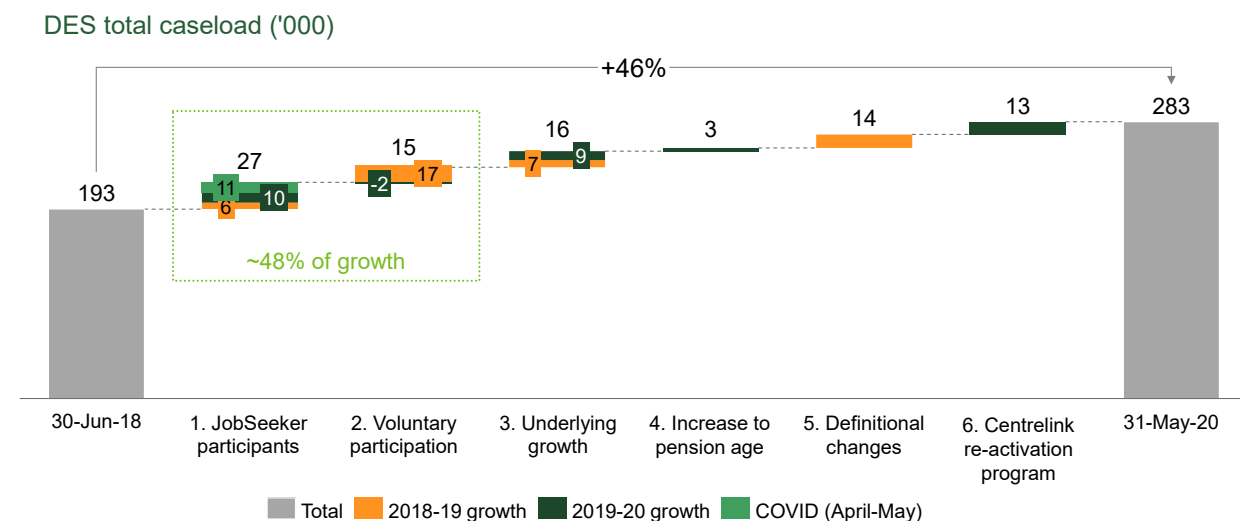
Note: Includes participants who are commenced, suspended, and referred but not yet commenced.  
Source: DSS, BCG analysis

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

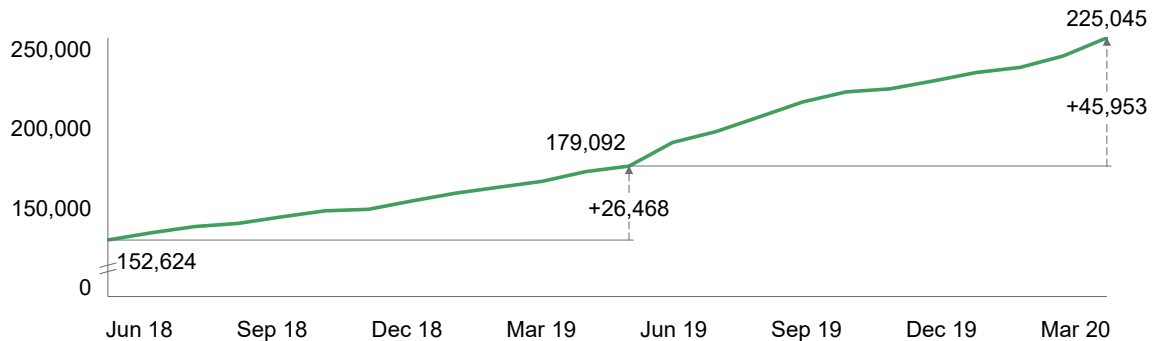
The number of JobSeeker Payment recipients<sup>2</sup> and Youth Allowance recipients in the DES program rose from 152,624 on 30 June 2018 to 225,045 on 31 May 2020. Most of this growth occurred in 2019-20 (Exhibit 13), and is 30,569 above forecast once other factors are accounted for (Section 2.2 and 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.

<sup>2</sup> 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.<sup>3</sup> 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 ESAAt.** This Review has not included a detailed review of ESAAt 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 ESAAt 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,*

<sup>3</sup> DESE analysis 'Trends in DES and jobactive participants with disability'

*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".*

#### **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.

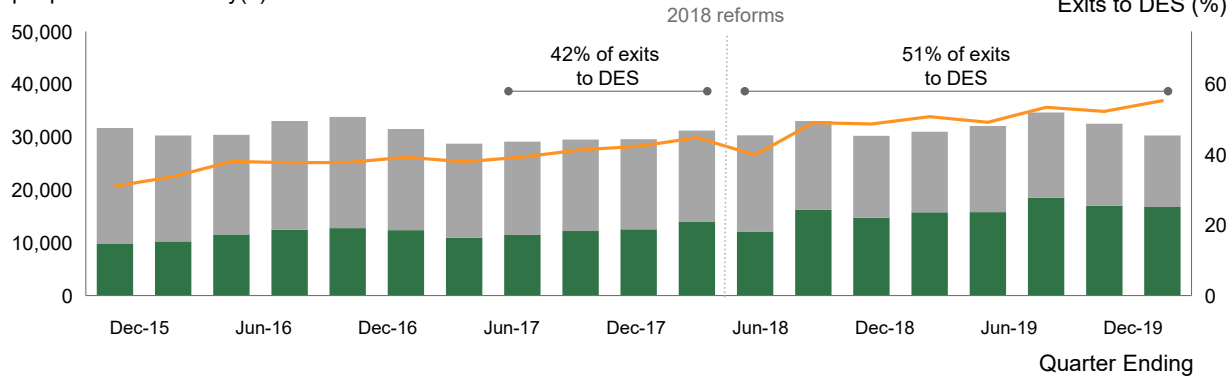
The rise in JobSeeker participants in the DES program has coincided with an increase in the proportion of jobactive participants with a disability who exit subsequently participating in DES, a trend which began prior to the reforms in July 2018 (Exhibit 14). This includes participants who did not immediately exit from jobactive to 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 that 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 subsequently<sup>1</sup> participate in DES

jobactive exits for  
people with a disability(#)



Exits from jobactive of people with a disability

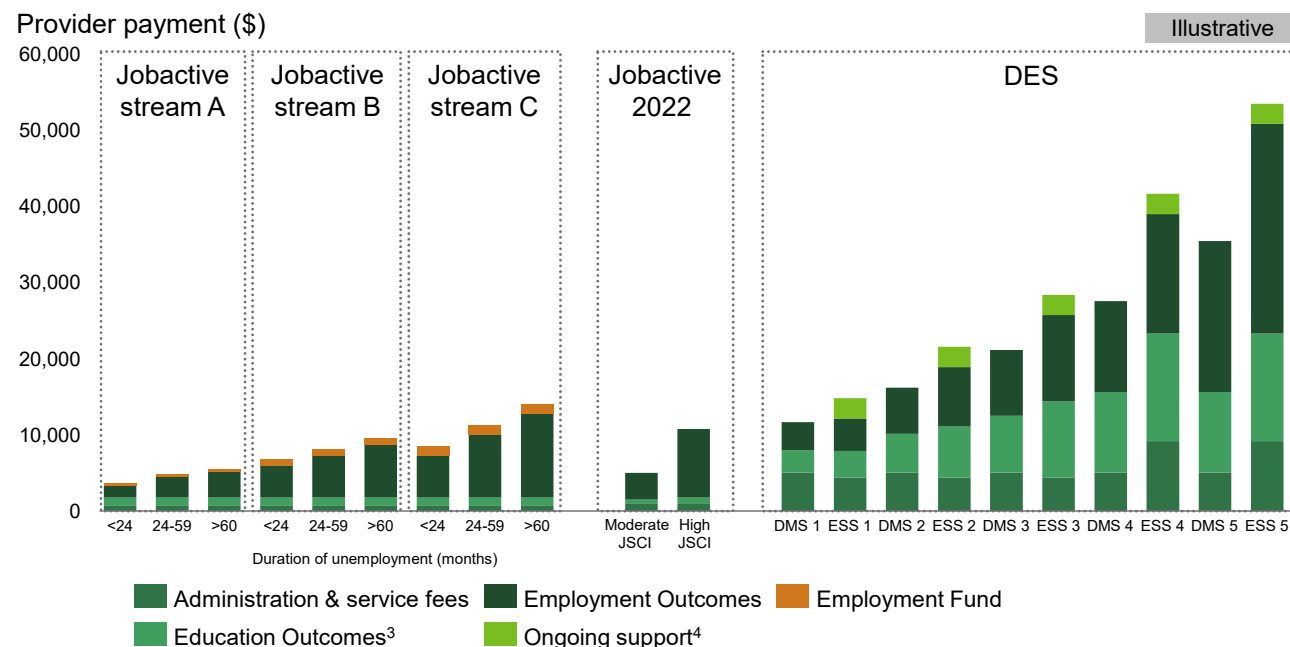
■ Exits to (subsequent DES participation) (#) ■ Exits (other reasons) (#) — Exits to DES (%)

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<sup>1,2</sup>



Above is a stacked column chart showing the provider payments resulting from different streams of jobactive and DES. The outcomes, mainly ongoing support, education and employment outcomes are higher in DES, as compared to those in jobactive stream A, B, C and, and expected payments in Jobactive in the future.

### 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

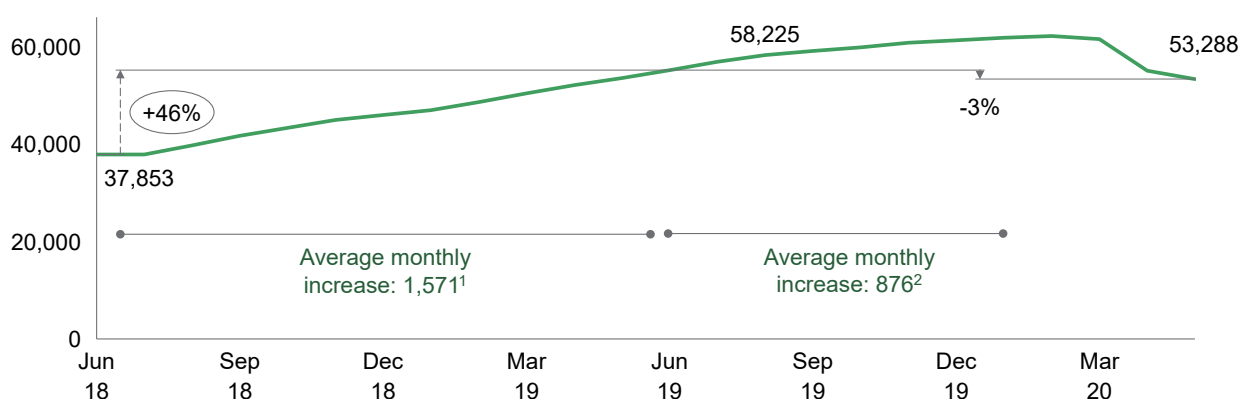
Source: DSS DES Grant Agreement 2018, DESE jobactive Deed 2015-2020

## 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

Number of voluntary participants in DES



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

This accelerated growth in voluntary participants is a direct result of the 2018 reforms, which removed the market share caps for DES providers in anticipation of an increased 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 voluntary participants fell 3 per cent in 2019-20. The cause is not certain but likely has two causes:

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

Three 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.<sup>4</sup> A similar rate of growth could have been expected following the reforms, however this 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 increasing by 4,166 between 30 June 2019 and 31 March 2020, compared to trend growth of 852 in 2018-19.<sup>5</sup>

### 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

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<sup>4</sup> DES Monthly Data report, 31 May 2020

<sup>5</sup> DES Monthly Data reports from 31 March 2020, 30 June 2019 and 30 June 2018

the IT systems. Twenty-five thousand jobseekers were processed around July 2019, with approximately 5,000 entered the DES program as a result.<sup>6</sup> Using these ratios for the remaining 41,000, another 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 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).

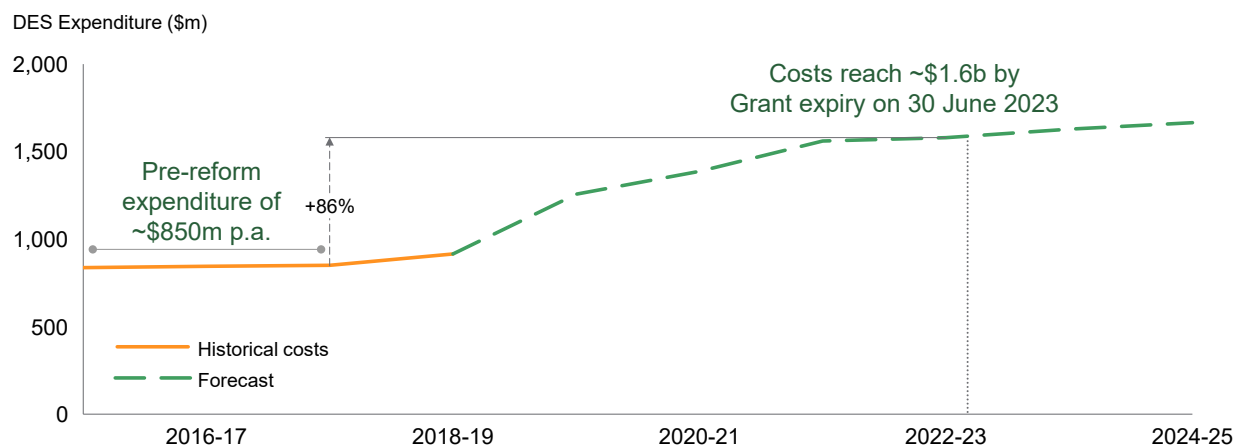
From 2022-23 onwards, cost increases are expected to be driven primarily by higher expenditure on employment outcomes as outcome rates recover to pre-COVID levels, and by inflation, rather than by volume growth.

The base case expenditure forecast developed by BCG for this report is summarised in Exhibit 17, below. The projections assume the risk-adjusted funding tool is recalibrated at 1 July 2020 and continues to be recalibrated annually.

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<sup>6</sup> Ernst & Young report to DSS, 'Disability Employment Services: Caseload and Cost Analysis Key Insights Appendix', 31 October 2019

**Exhibit 17. DES expenditure is 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

## Part 2: Review findings

Part 2 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 ESA 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 as 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 below.

### 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 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, where 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).

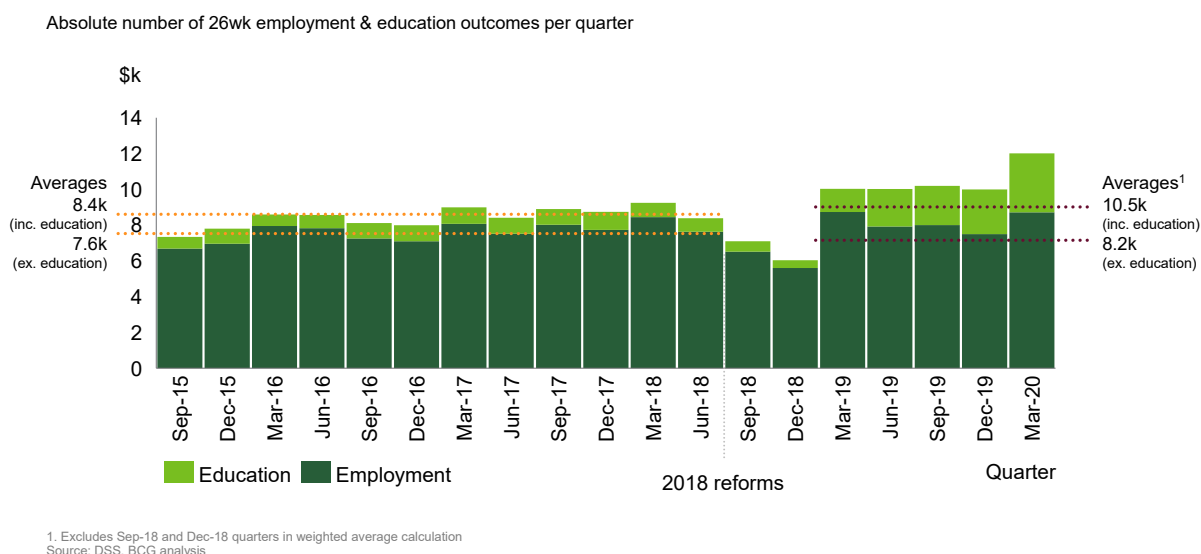
### 3.1.1. Headline outcome achievement rates

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:

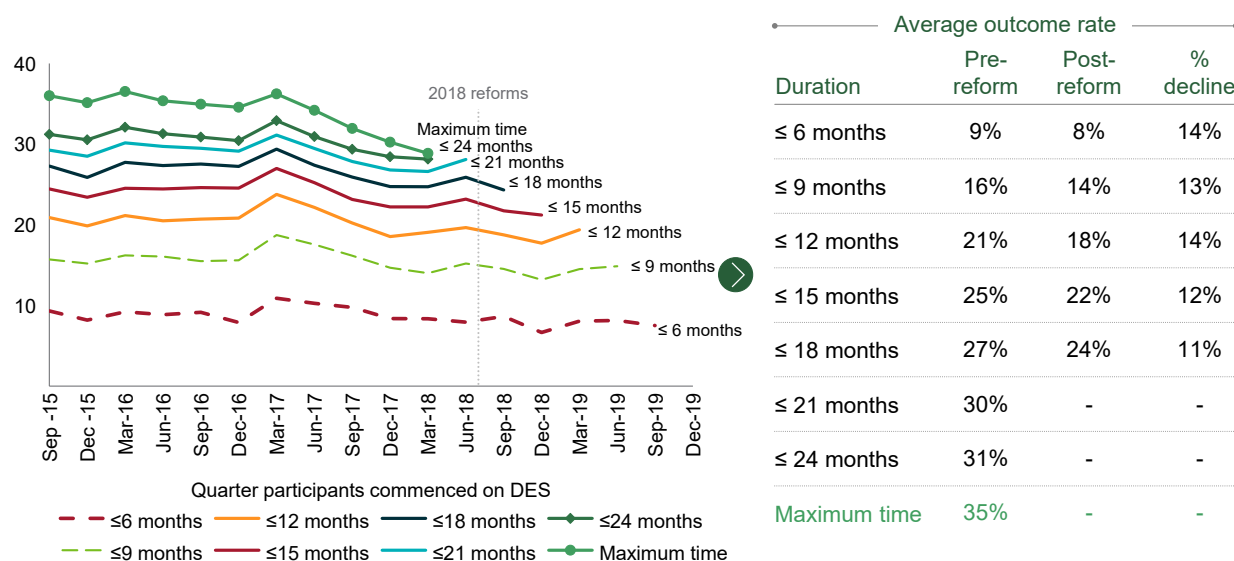
- A degree of deterioration in outcome rates is expected with a large increase in caseload: new participants need provider support before outcomes can be achieved. However, by examining outcome rates by DES commencement date, the analysis in Exhibit 20 mitigates the extent to which this may distort the 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,<sup>7</sup> 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



<sup>7</sup> 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

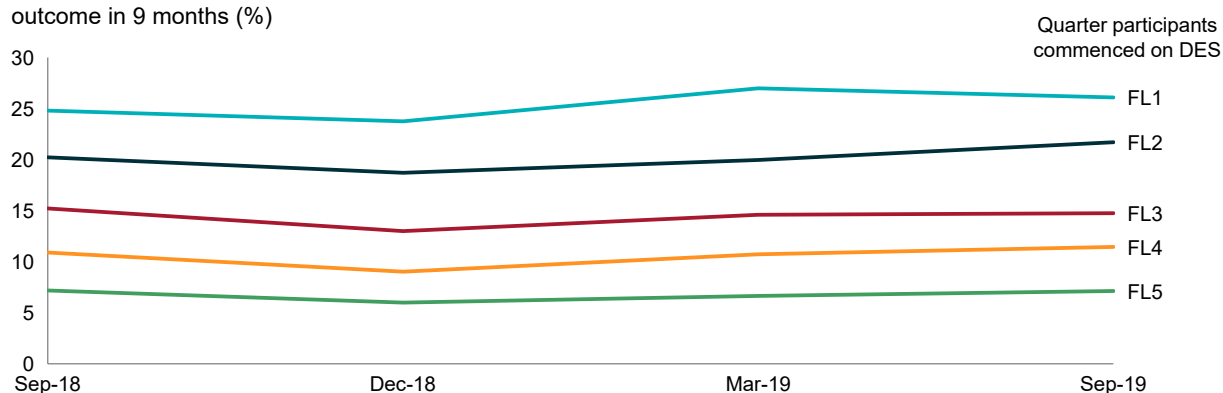


Outcome rates for the DES population overall show a downward trend (Exhibit 20).

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

Probability of achieving a 13wk employment outcome in 9 months (%)



Source: DSS; BCG analysis

### 3.1.2. Employment duration and ‘churning’

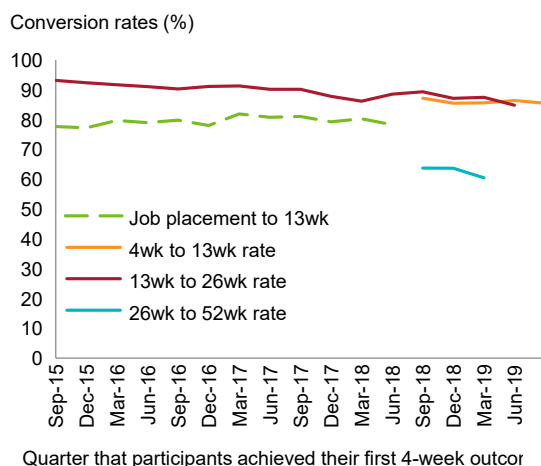
The length of a period of employment impacts how benefits the participant. Employment duration is therefore relevant when assessing program performance. The duration of employment outcomes post-reform does not appear to have improved:

- 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 compare this rate pre- versus - post-reform.

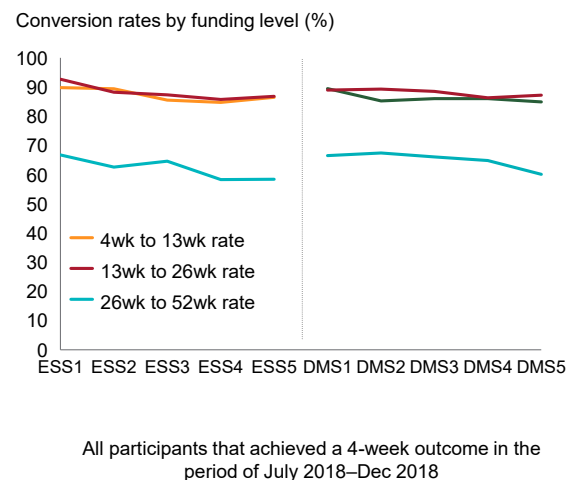
Participants do benefit from both long-term and short-term employment outcomes: for example, short-term, seasonal placements can build skills and experience that lead to longer-term positions.

#### 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



Source: DSS, BCG analysis

‘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.

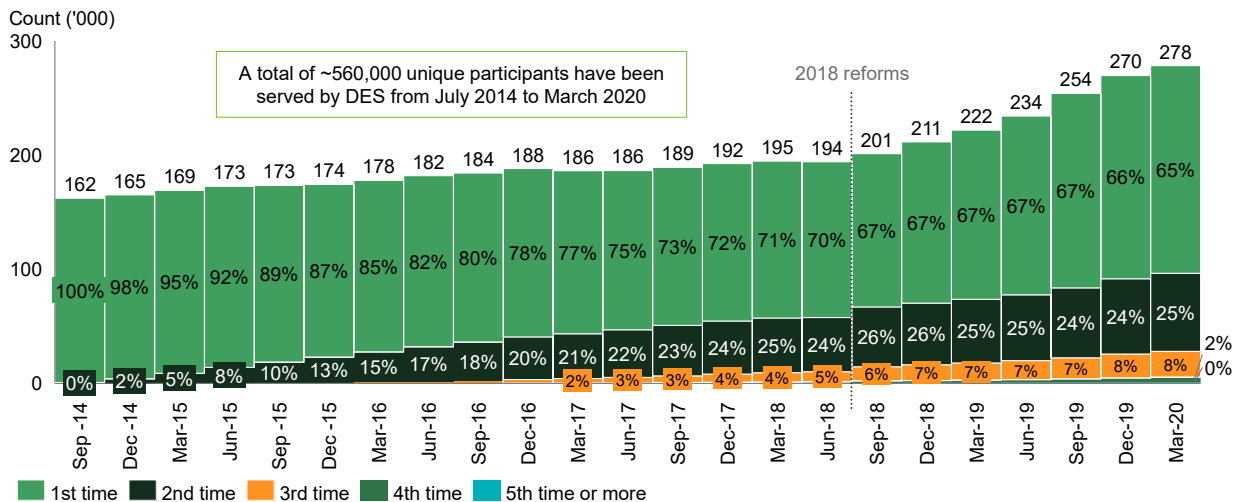
The Review investigated these churn behaviours and found re-entry churn is likely to occur at a more relevant scale than outcome churn.

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)



Note: Count per quarter represents the average caseload across each three month period.  
Source: DSS, BCG analysis

The above chart: Number of unique participants in claims data between Jul 2015 to Mar 2020. The stacked column chart represents the proportion of first-timers vs re-entries over time in DES, starting from the September quarter of 2014. The proportion for first timer has been highest throughout but reduced from 100 per cent to 65 per cent over the time shown. The proportion for third timer started increasing from 2 per cent in 2017 to 8 per cent in March 2020.

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:

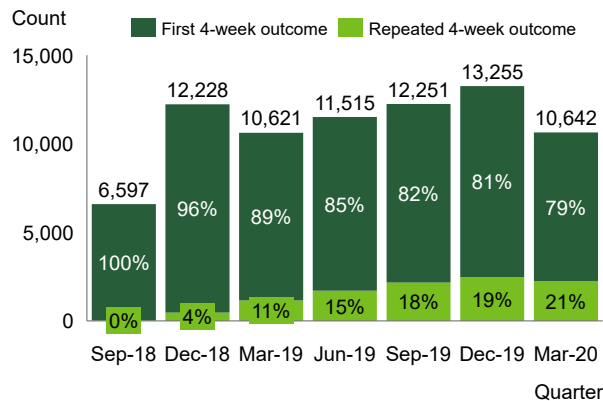
- Short-term employment outcomes are not necessarily undesirable, e.g. they may be due to seasonal work or other temporary employer need. Further, even short-term employment can significantly improve an individual's future employment chances;
- The contribution of these repeated 4-week outcomes to total 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 below.

## Exhibit 24. Some degree of outcome churn (i.e. repeated 4-week placements) is observed

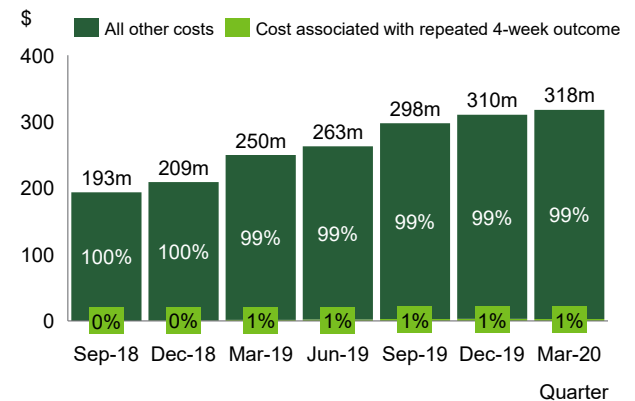
Proportion of repeated 4-week outcomes within each period on the program<sup>1</sup> has increased over time..

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.

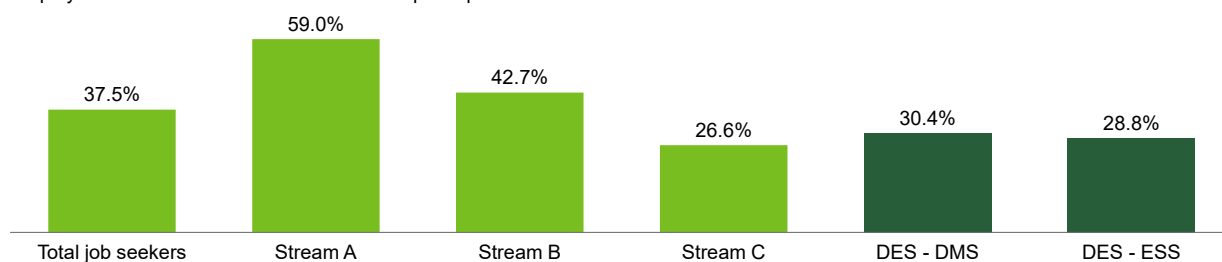
The value of comparisons to international programs, such as the UK's Work and Health Programme, and the French Cap Emploi system, is limited due to variations in population and outcome definition. Appendix B presents a more detailed descriptions of relevant international approaches to employment support 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
<b>Caseload</b>	258,111	268,840	104,127	280,000
<b>% share of population</b>	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

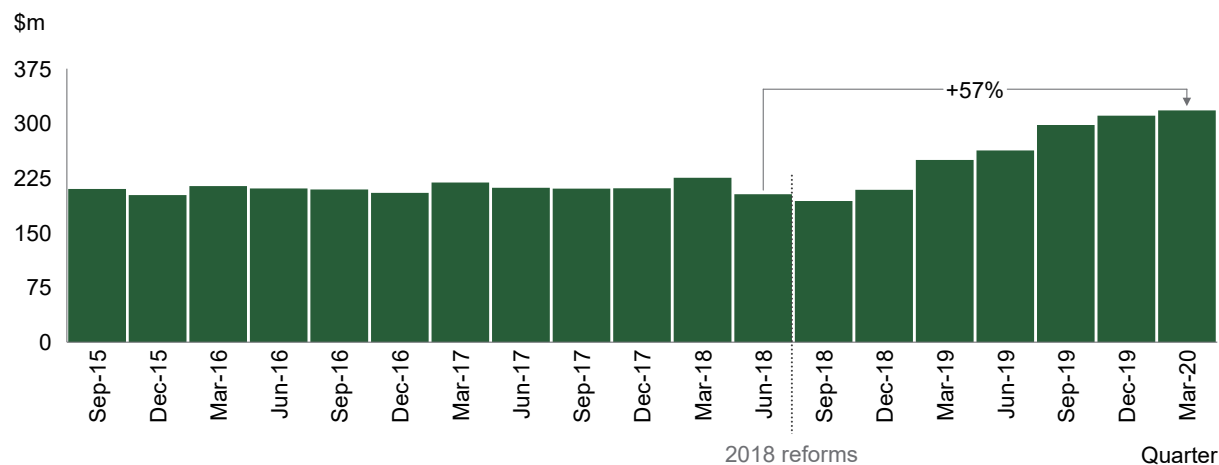
## 3.2. Trends in cost-per-outcome

Total program spend has risen in recent years from approximately \$850m in 2017-18, to ~\$1.2b in 2019-20 (assuming the final quarter of the most recent financial year continues at trend) (see Exhibit 28). As noted in Exhibit 26 and Exhibit 27, 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

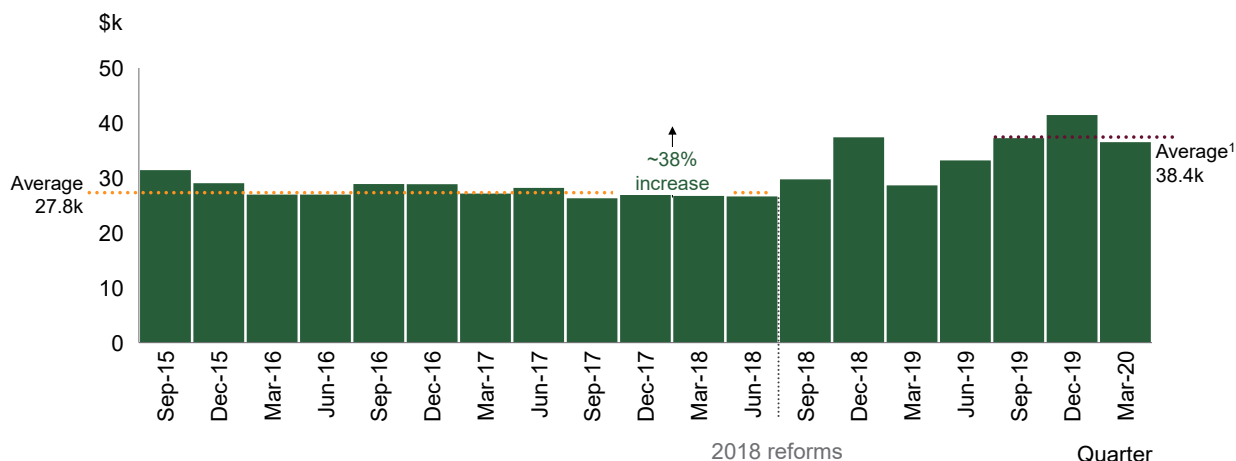
Total claim costs<sup>1</sup> per quarter (\$m)



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, on average, post-reforms

Average total cost per 26wk employment outcome per quarter

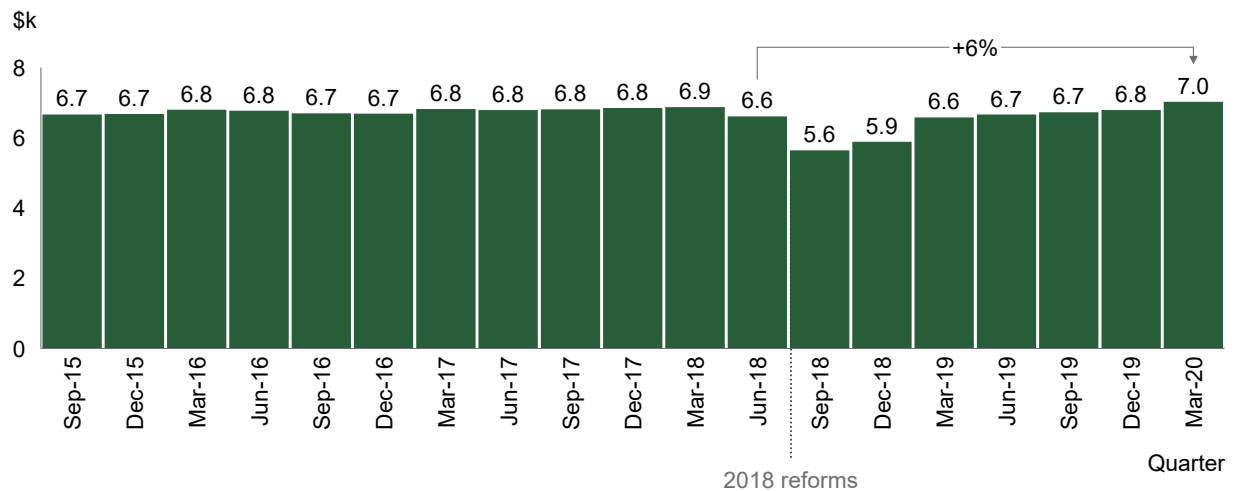


1. Excludes Sep-18 to Jun-19 quarters in average calculation due to understatement of total costs as a result of funding level issues, resulting in ~20M later refunded to providers with uncertain timing  
Source: DSS, BCG analysis



## Exhibit 28. Average cost per participant dipped, and then has shown a slight trend increase post-reform

Annualised quarterly cost per participant over time

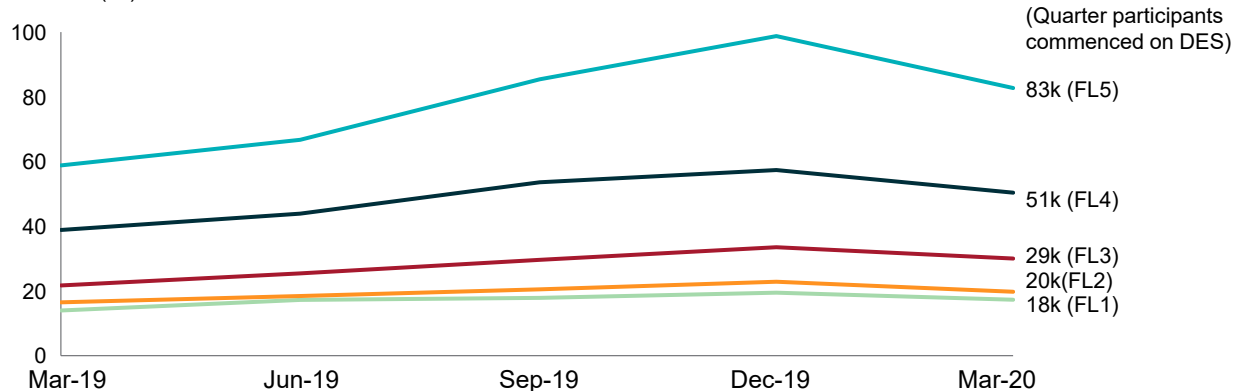


Source: DSS, BCG analysis

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

Average cost per 26wk employment outcome (\$k)



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;<sup>8</sup>
- 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 \$50,000.<sup>9</sup> 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:

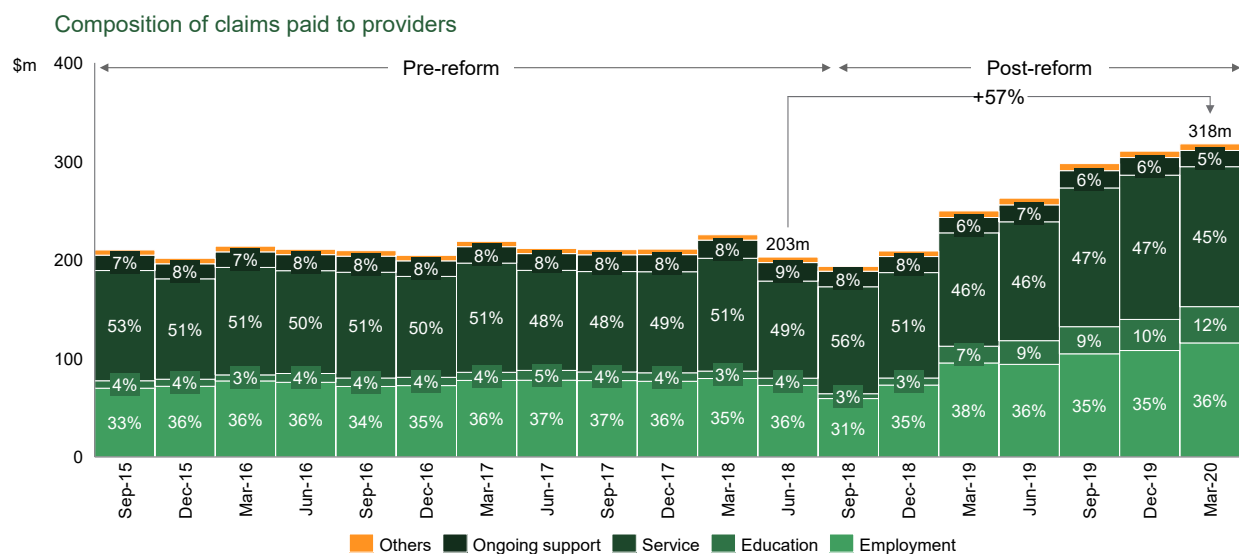
- Quarterly service fees (38 per cent);
- Education outcomes (26 per cent);
- Employment outcomes (36 per cent).

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<sup>8</sup> 2018 Employment Services Outcomes survey

<sup>9</sup> Specifically, ~\$38.4k divided by  $\frac{3}{4}$  = ~\$51.2k

## Exhibit 30. The value of claims paid to providers has risen substantially post-reform



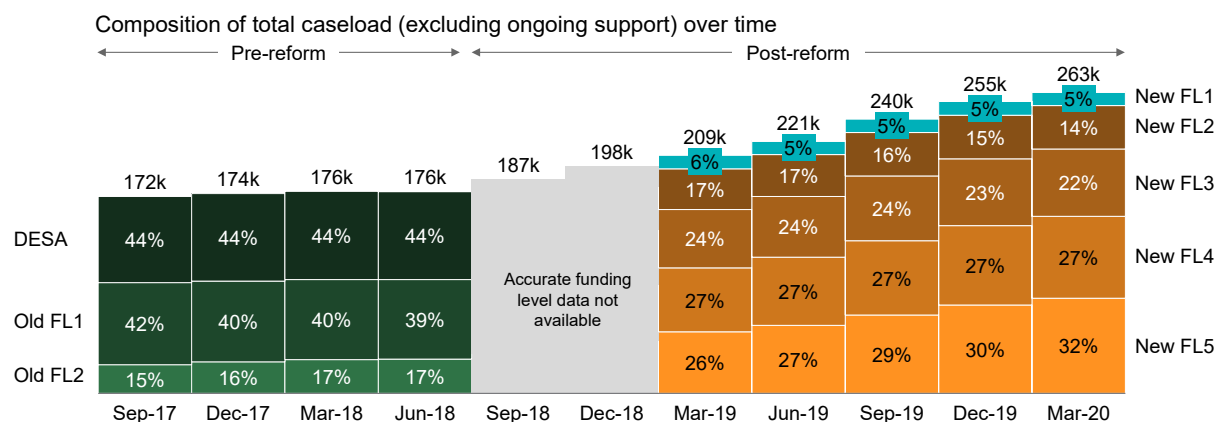
The rise in quarterly service fees reflects the increased caseload and greater spend in the Employment Assistance phase. The increased spend on education outcomes is attributable to the increased number of education outcomes achieved since the 2018 reforms expanded eligibility and incentivised providers 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;
- 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

Since reforms, funding level 5 has grown by 13 percentage points, whilst funding level 1 has fallen by 6 percentage points



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.<sup>10</sup> 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.

<sup>10</sup> 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 employees) 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.

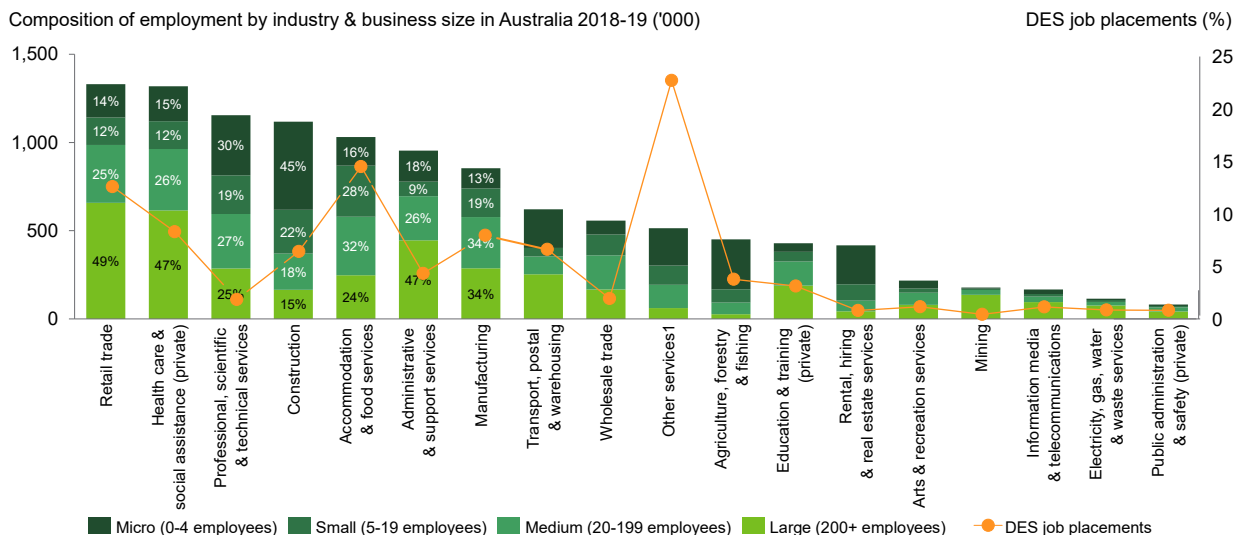
Note that, large employers comprise around 34 per cent of the Australian workforce (Exhibit 32) and that some sectors where DES employment is over-represented have a disproportionate share of large employers (such as retail and healthcare & social assistance).

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

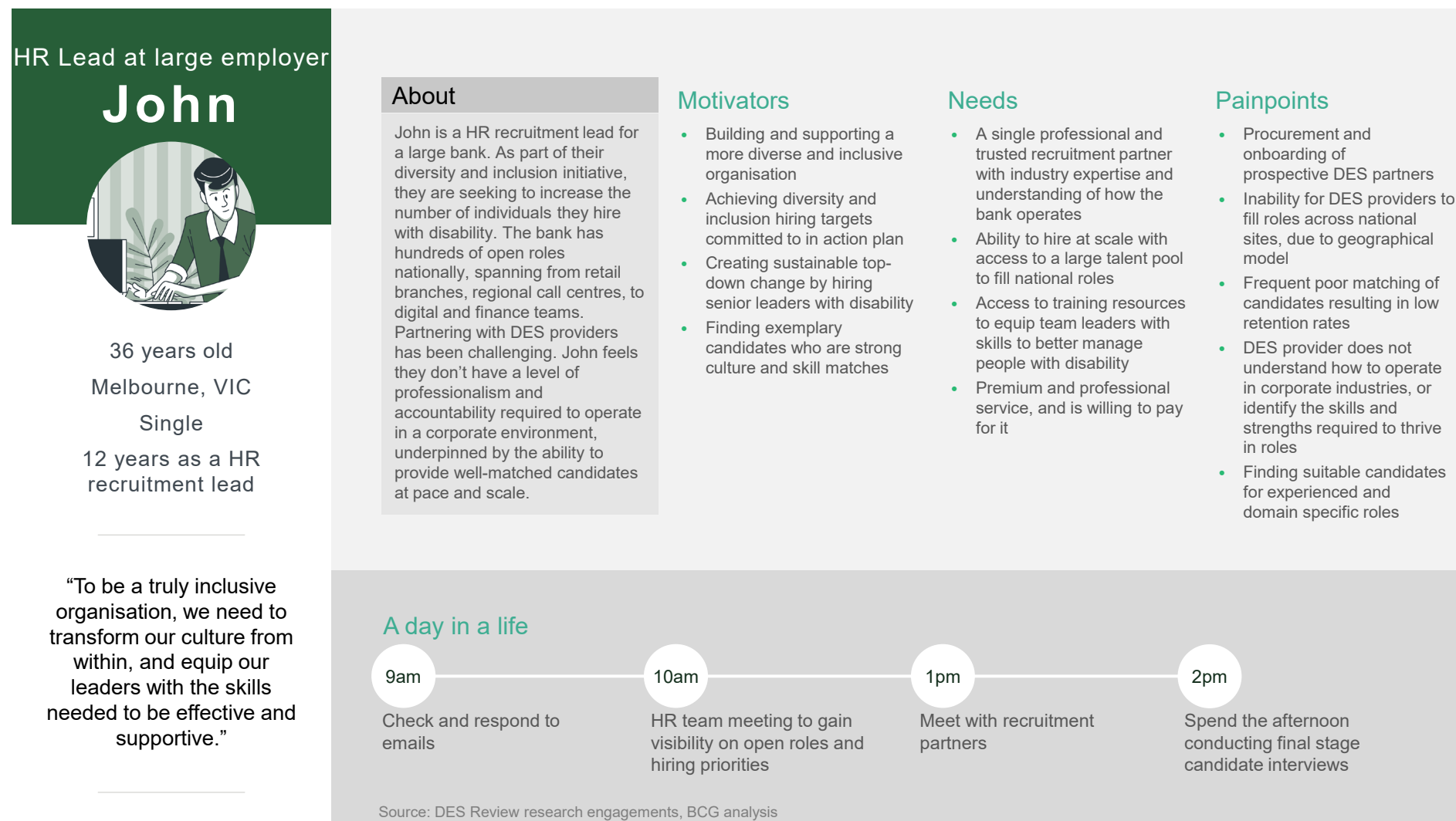
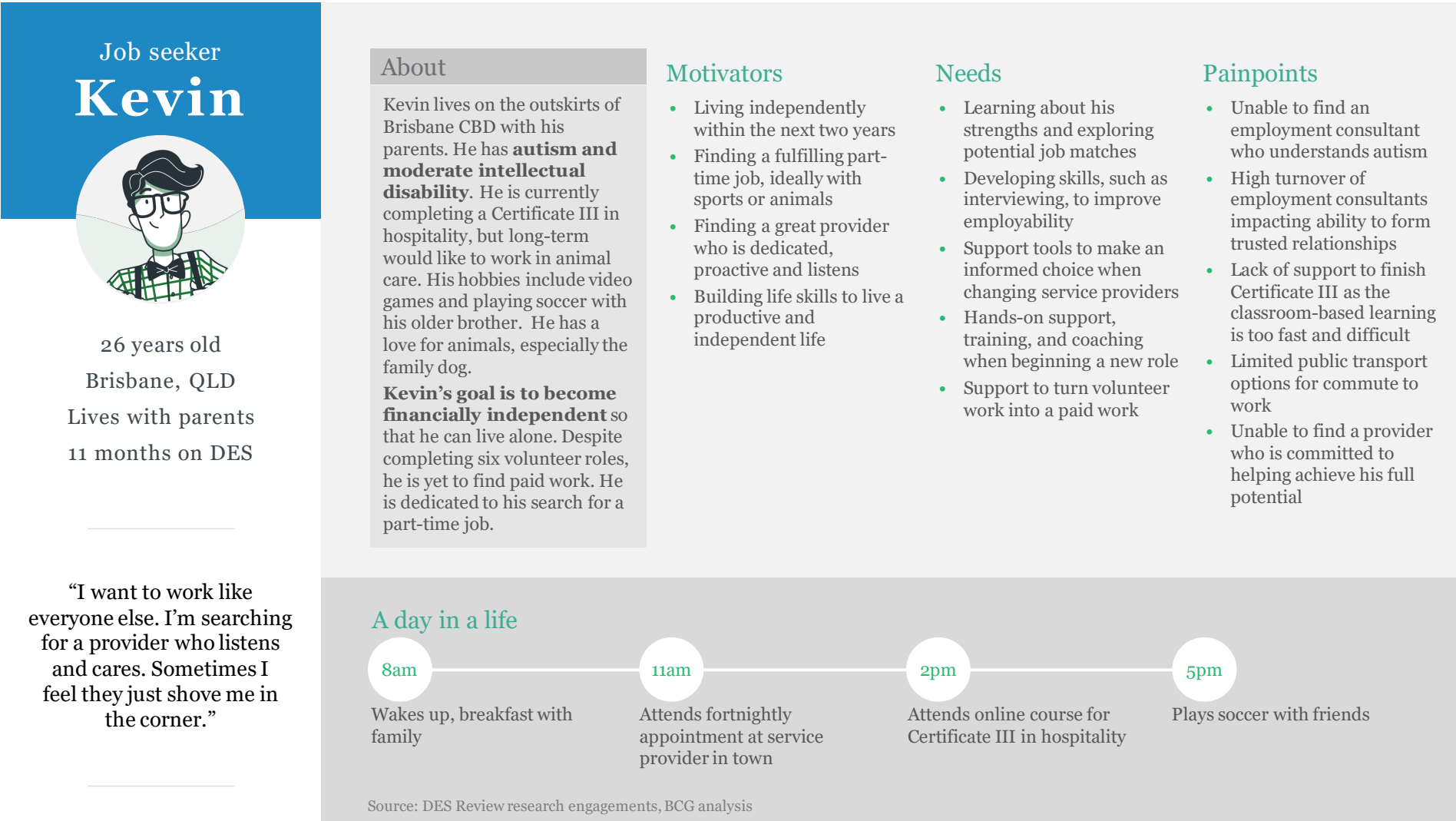


Exhibit 36. Illustrative persona of a small business owner



Exhibit 37. Illustrative persona of a DES participant



## 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.

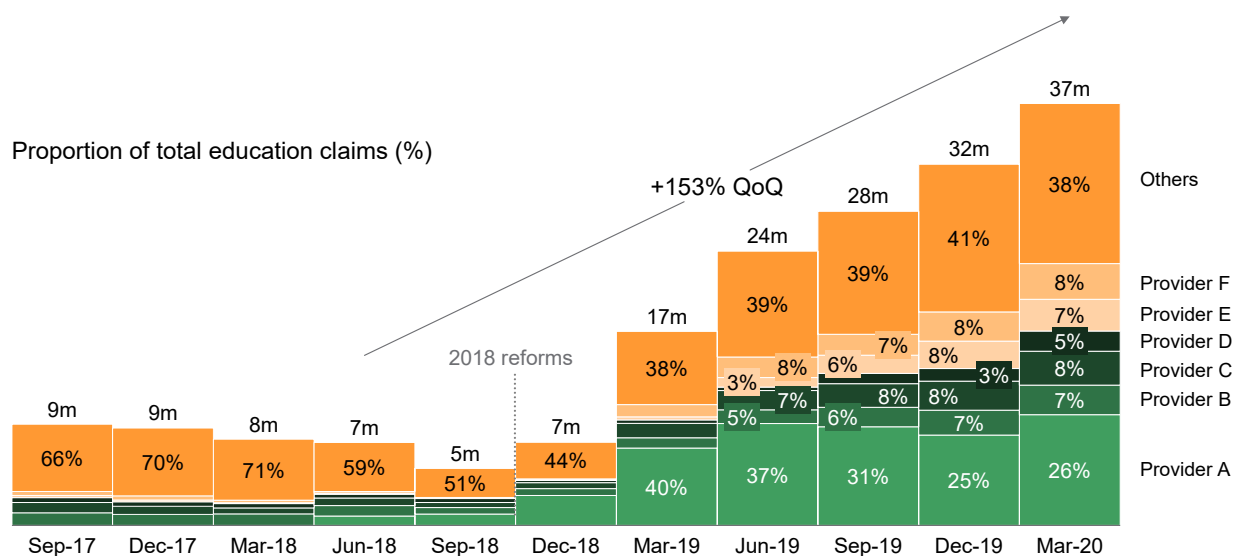
## 4.1. Expanded access to education outcomes

### 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 (\$5m quarterly, \$20m 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**

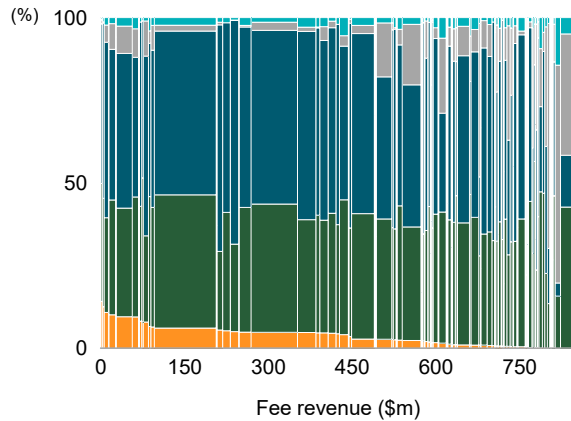


Source: DSS, BCG analysis

## Exhibit 39. Most providers show some increased reliance on payments for education outcomes

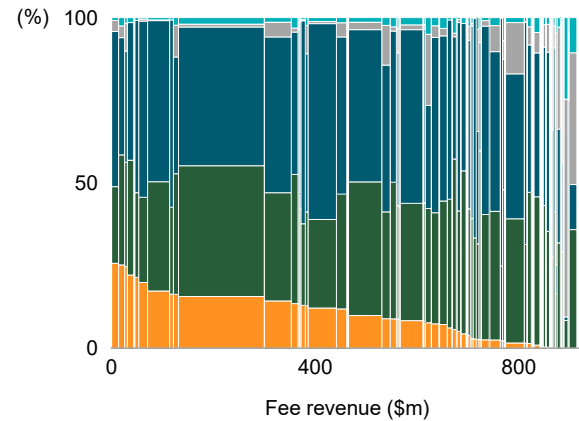
Pre-reform, education accounted for a small proportion of total revenue

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 (FY20<sup>1</sup>)



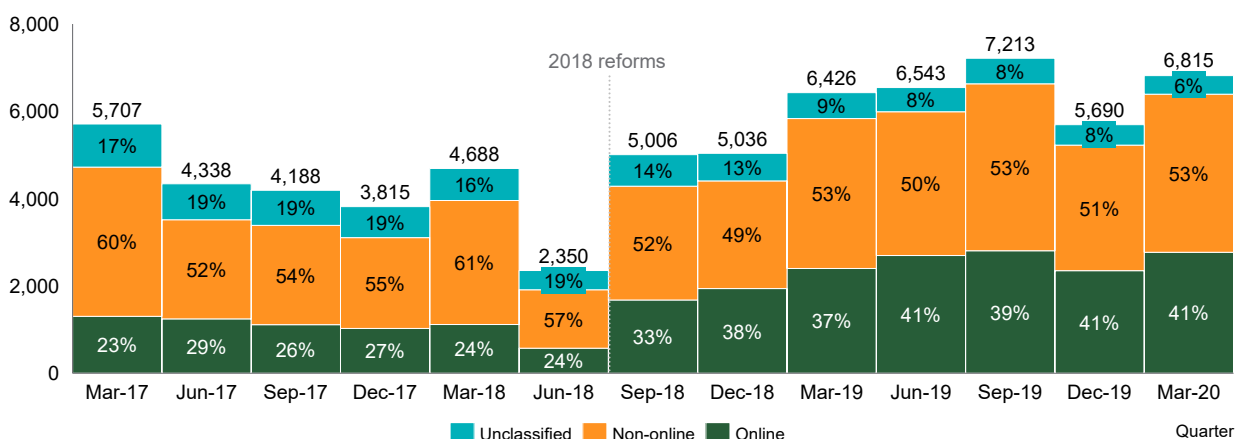
1. Q1-Q3 only

Source: DSS, BCG analysis

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

Mode of study for paid education claims (count)



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."

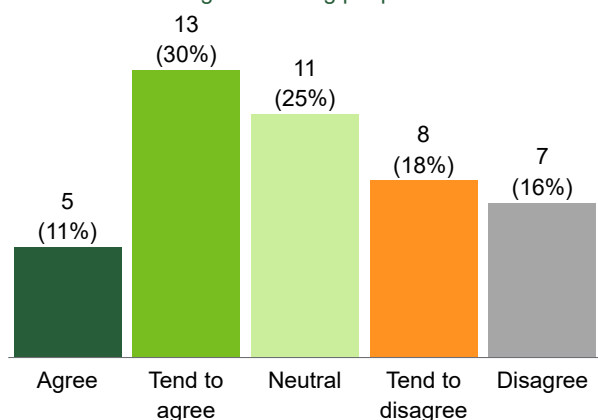
"The teachers don't know how to teach us, so what's the point? I can't keep up. I hated it."

Service provider   Employment consultant   Employer   Disability advocate   Participant

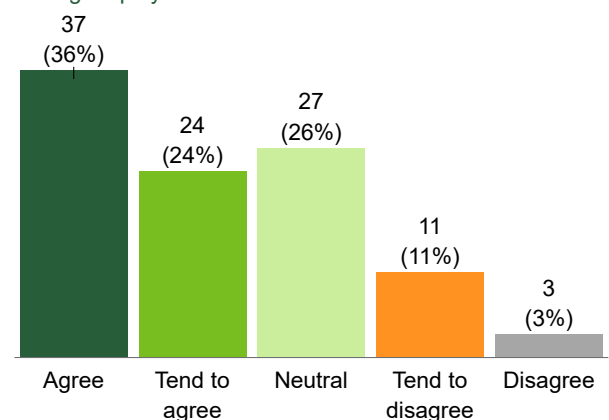
Source: DES Review research engagements, BCG analysis

#### 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:

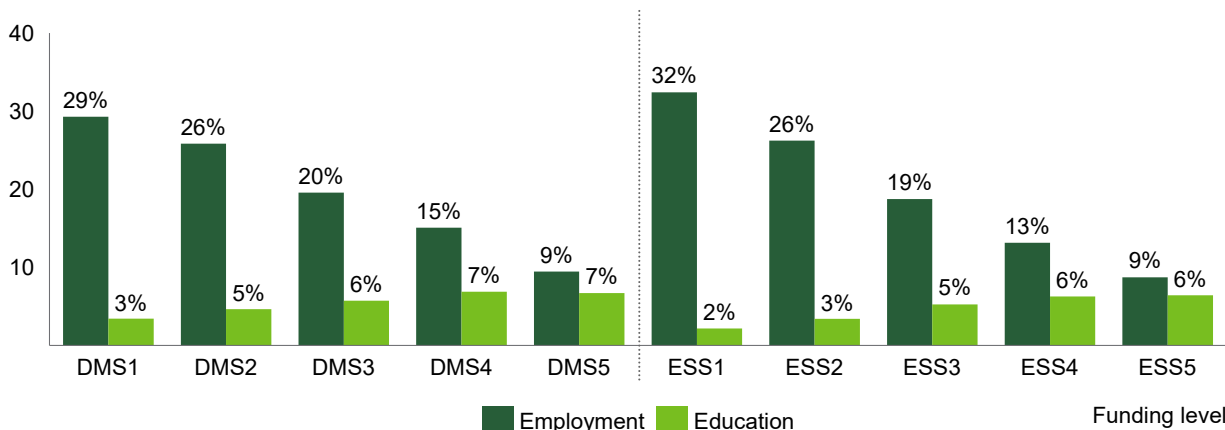


- **Direct costs:** financial expenditure on education outcomes for an individual participant is significant (Exhibit 6), generally similar to that for employment outcomes, and up to \$14,100 for 26 weeks of study at the ESS5 level;
- **Indirect costs:** Estimates indicate that it is substantially less 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.

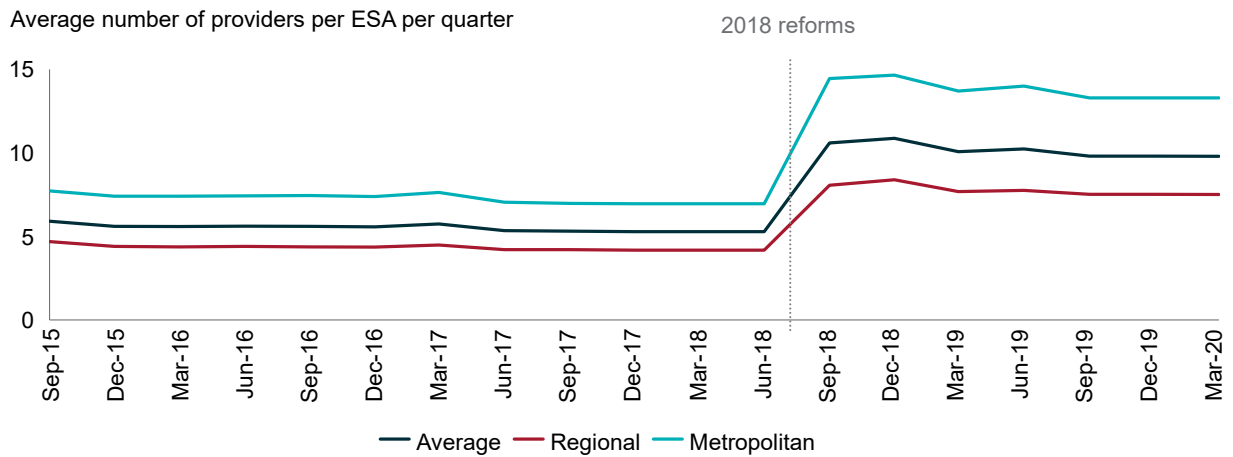
### 4.2.1. Providers feel the increased competition strongly

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.

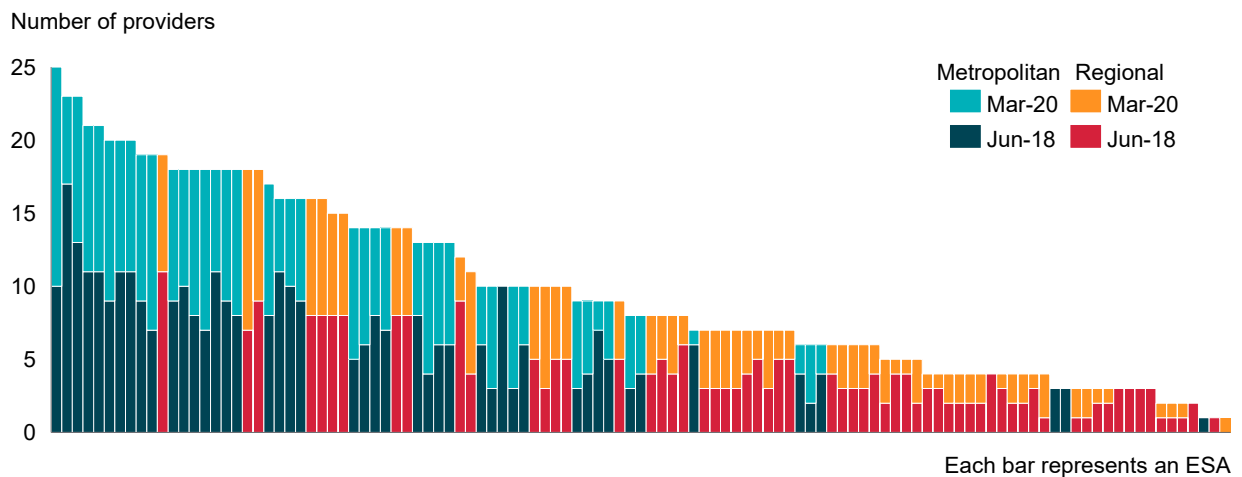
Despite this, some providers have seen substantial revenue gains. Of providers in the market as of the September quarter 2018, 28 per cent have seen a revenue increase of more than 100 per cent, and the largest providers have increased their overall market share (Exhibit 47). At the same time, there 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.



Source: DSS, BCG analysis

## 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

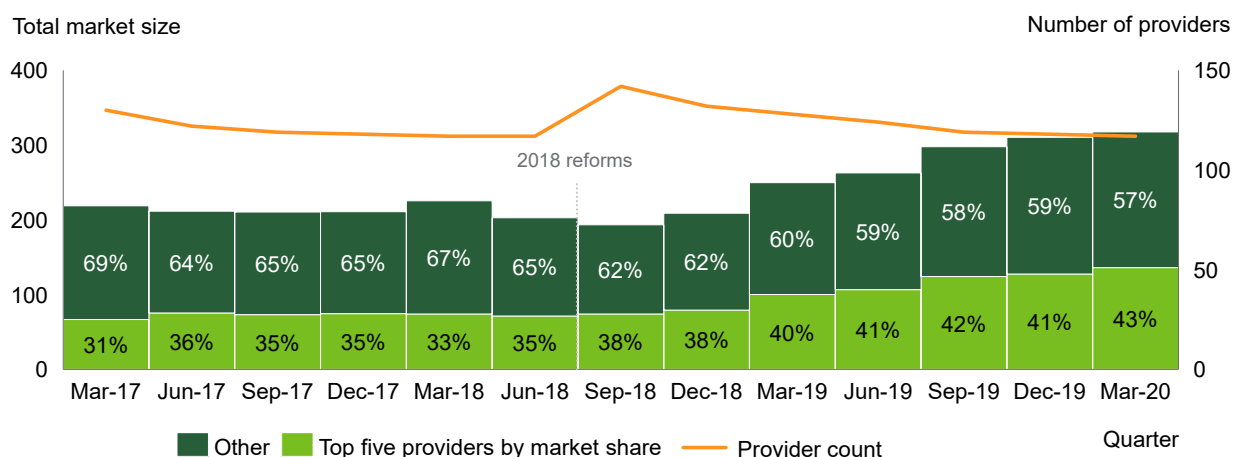
Disability advocate

Participant

Source: DESE 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

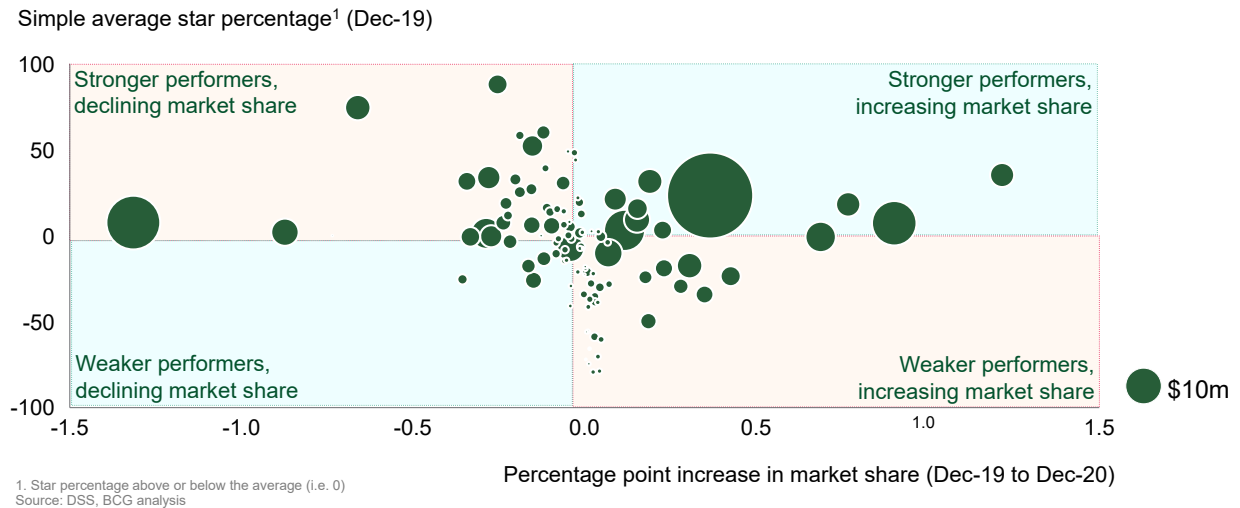
The removal of restrictions on market share of referrals has been a key contributor to caseload growth since the 2018 reforms. This was partly intentional, to ensure that individuals who needed DES support were able to access it. Consequently, assessing whether the increase caseload is desirable in itself 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, ESAs, 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**



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.

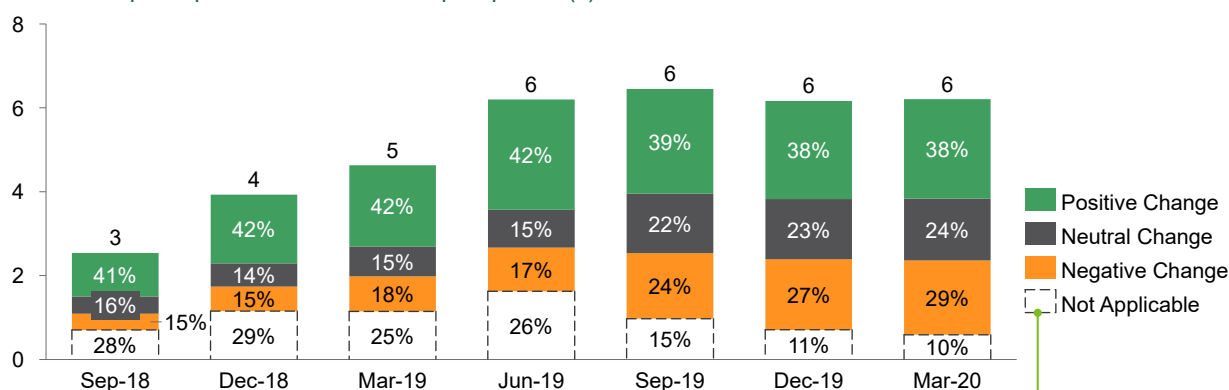
## 4.3. Enhanced participant choice

### 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 post-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)

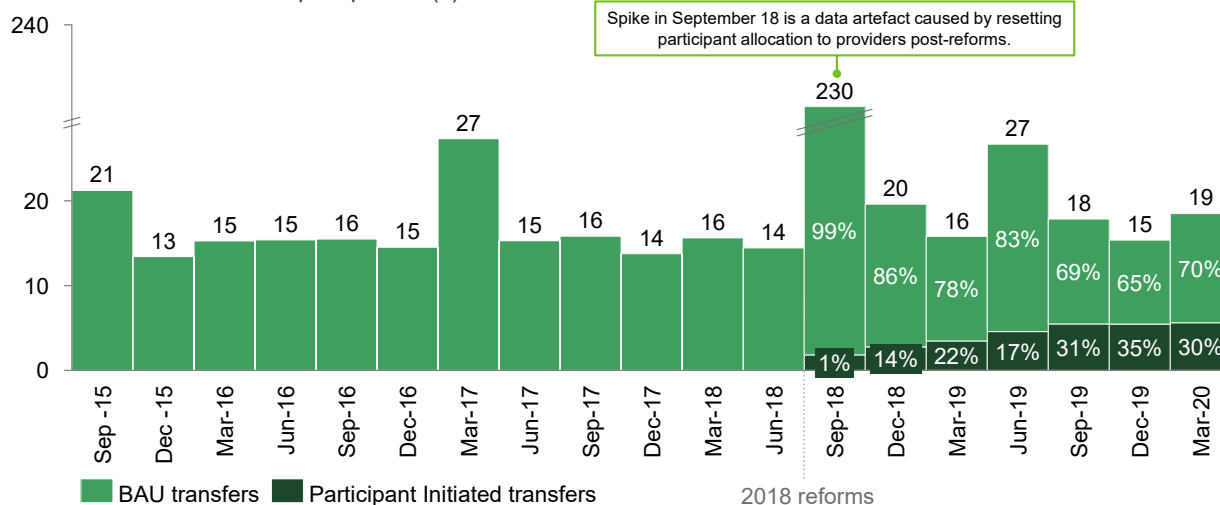


Note: 'Not applicable' refers to situations where the participant was transferring from or/and transferring to a site that did not have an assigned star ratings (and where it thus seems likely that star rating comparisons were not the main factor driving decision-making)

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

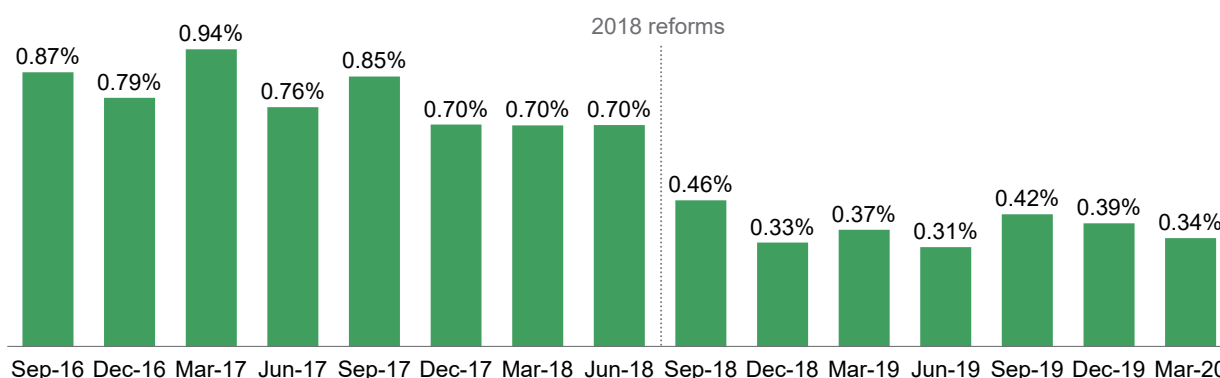
Total number of transfers per quarter (k)



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

Complaints per capita over time (%)



Source: DSS, BCG analysis

#### 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.

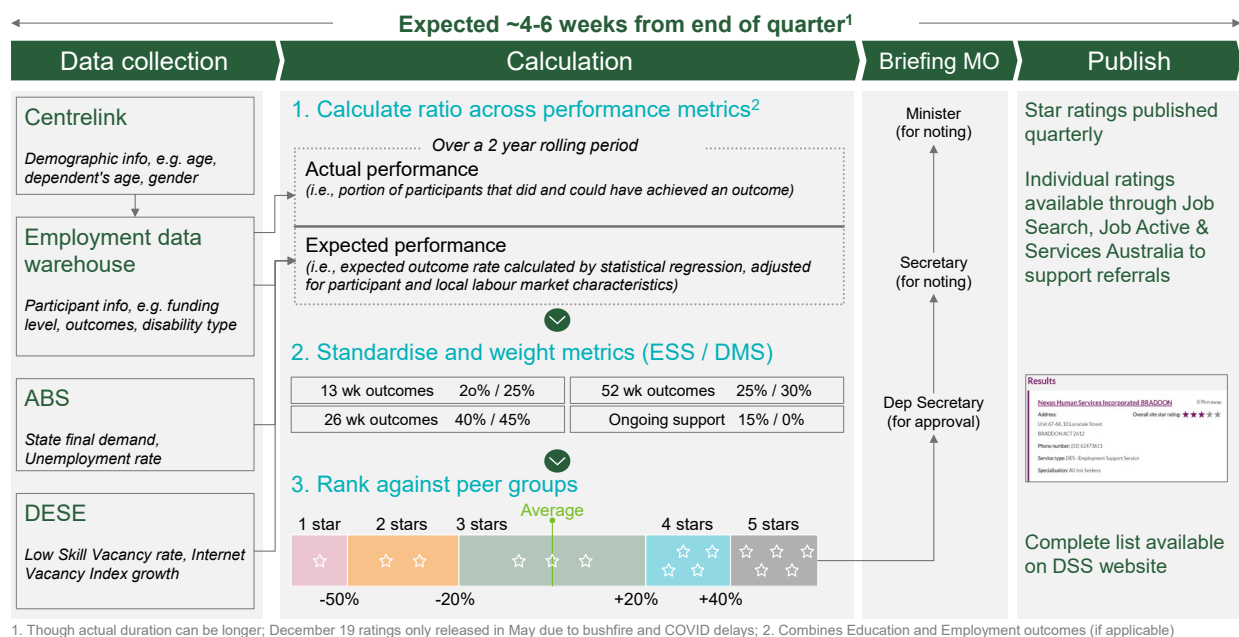
#### **4.3.3. Pain points in star rating system**

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



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 55). 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

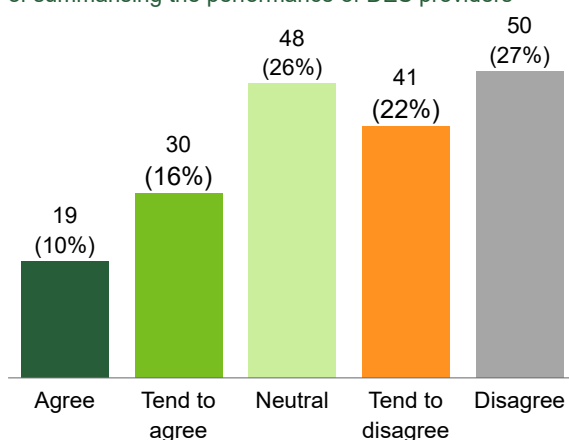
Disability advocate

Participant

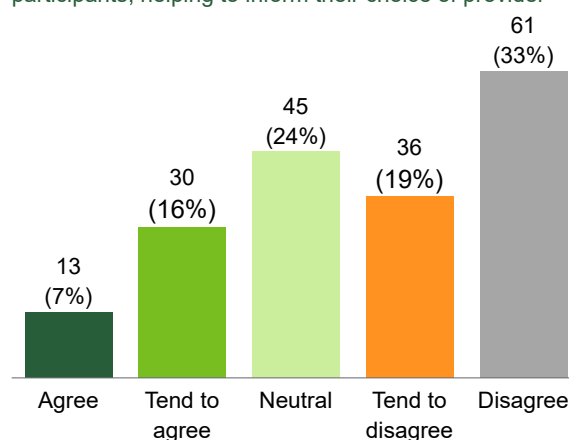
Source: DES Review research engagements, BCG analysis

## 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.<sup>11</sup>

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

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<sup>11</sup> Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

change is attributable to growth in education outcomes, rather than employment outcomes (Exhibit 30).

## 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 ESAs, 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 55. Illustrative service provider CEO persona

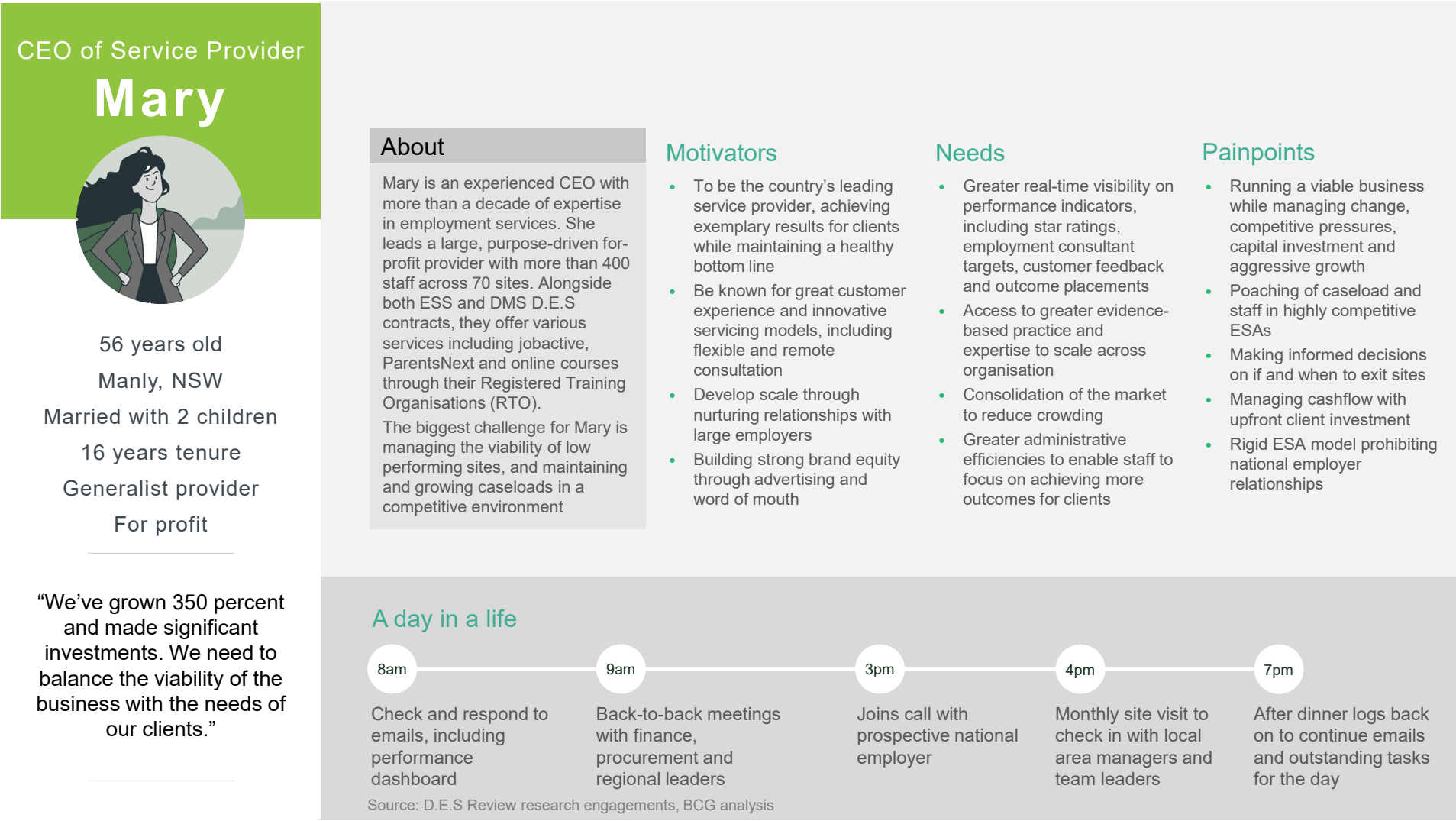
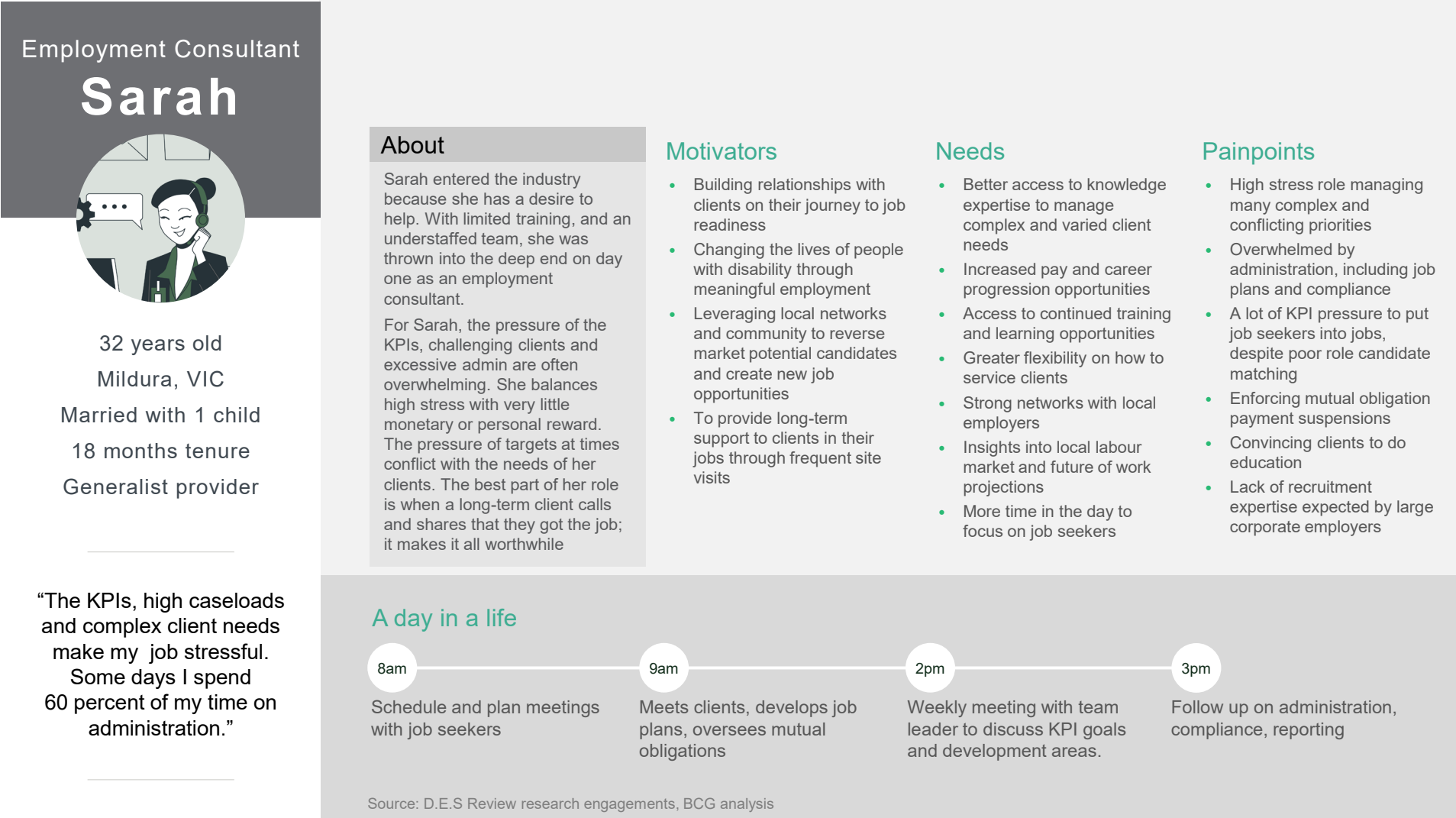


Exhibit 56. Illustrative employee consultant persona



## 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 were keen to emphasise that the current burden of these compliance and administrative activities is considered 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 shares of time reported to be devoted to such activities 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,<sup>12</sup> compared to the Australian average of \$80,000<sup>13</sup>). 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

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<sup>12</sup> Data from Seek and Payscale covering nine major providers.

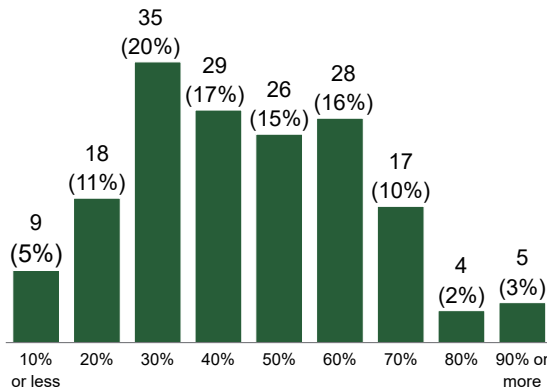
<sup>13</sup> ABS, February 2020.



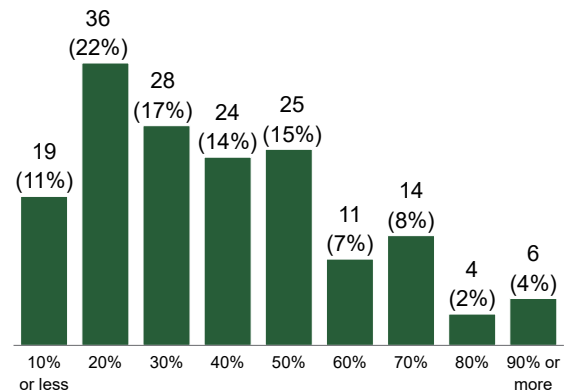
translate to higher provider consultant salaries (and as a result attract more skilled individuals and justify greater investment in training by providers).

#### **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)?



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



Source: D.E.S Review research engagements, BCG analysis

##### **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:

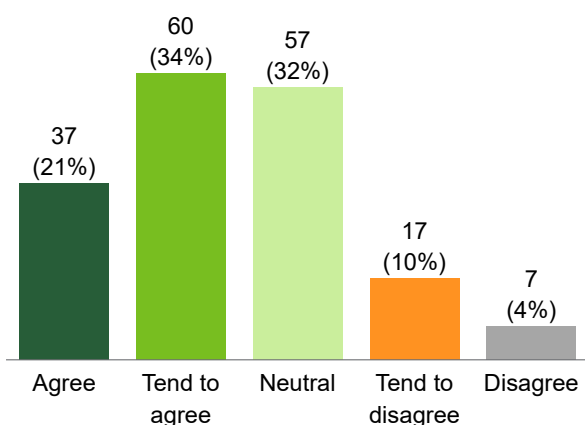
- Tracking participant compliance;
- Validating activities (e.g. confirming validity of job applications);
- Liaising with Services Australia (mainly via digital channels) to identify when a participant is non-compliant with their job plan. Services Australia applies and manages any penalties, including, for example, suspension of income support payments.

Providers identified three challenges with overseeing mutual obligations:

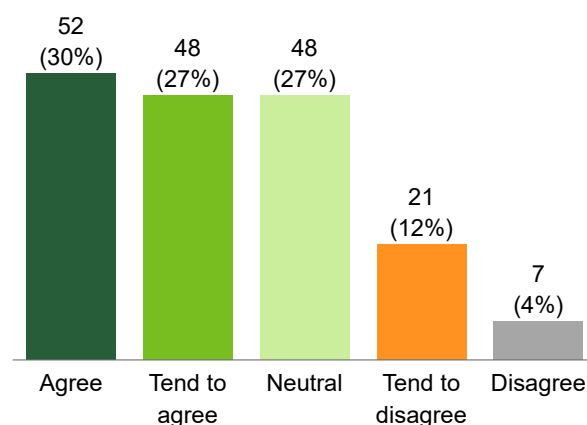
1. Mutual obligations oversight drains provider consultant time (Exhibit 58), impacting their capacity to work with participants towards employment and education outcomes;
2. There is a conflict between building a trusted relationship with participants, to understand their needs and to motivate activity, 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

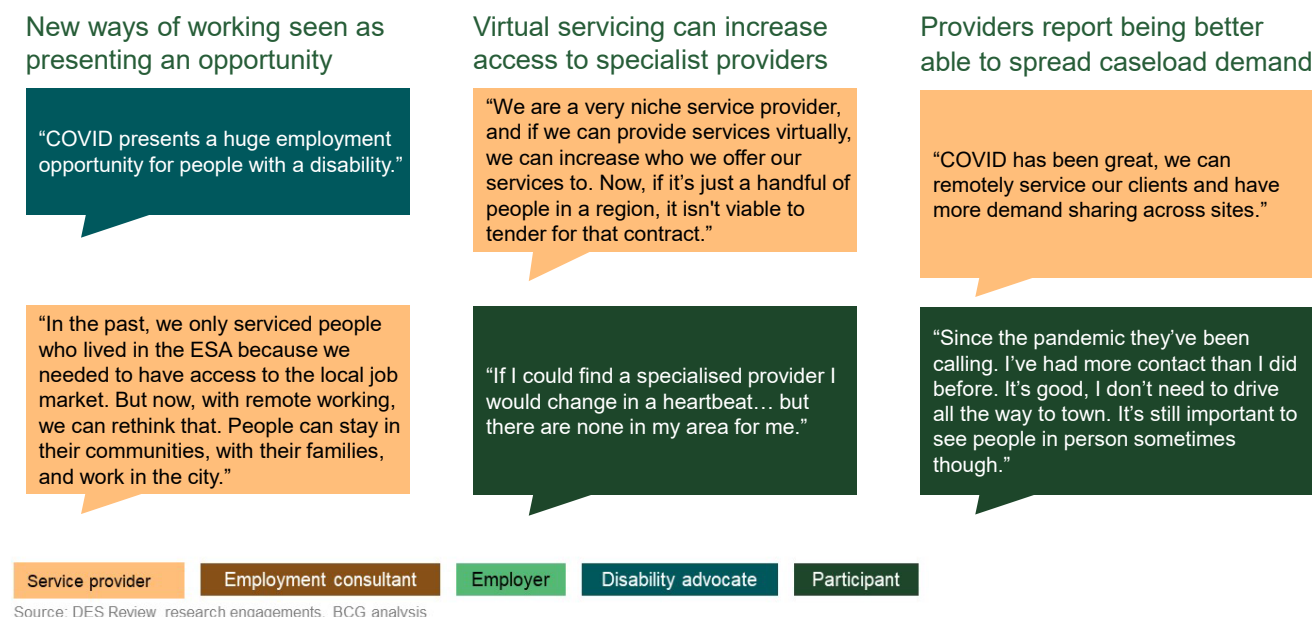
#### 5.1.2. Micromanagement reduces service flexibility and adds to compliance burden

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, ESAt 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 59. Providers have welcomed the relaxation of restrictions associated with COVID-19



#### 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 7.5.

### 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:

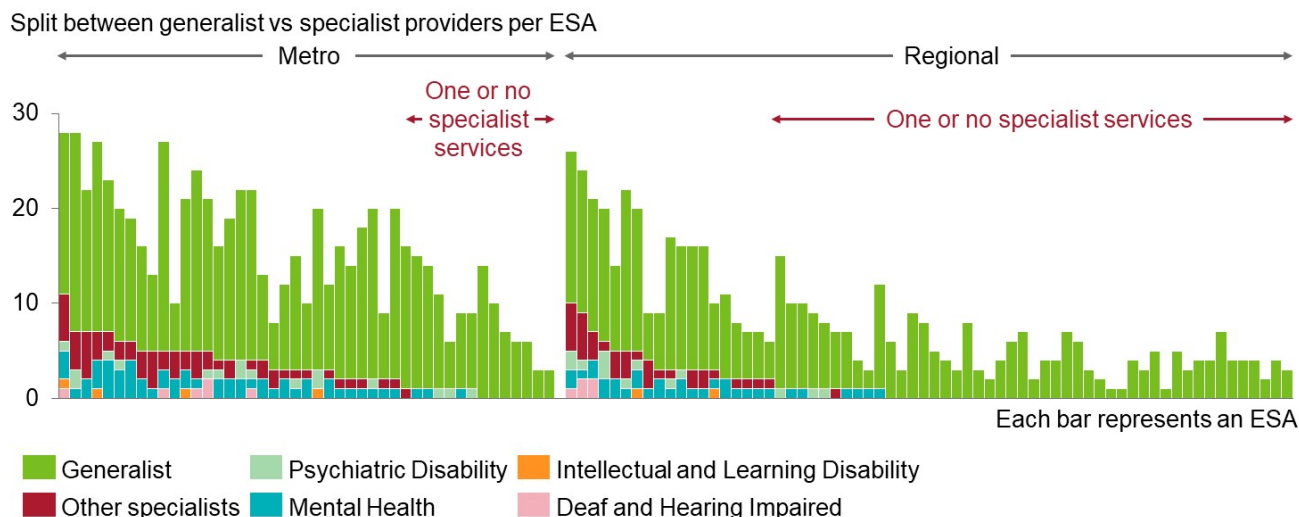
- Restrictions on provider movement encourage the orientation of business models by geography over other criteria, such as disability type or employer industry, as the limitations on ability to scale discourage specialisation. As shown in Exhibit 60, most providers serve only a fraction of all ESAs, 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 diviDESE 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 (ESAs). Specifically, assessments occur when:

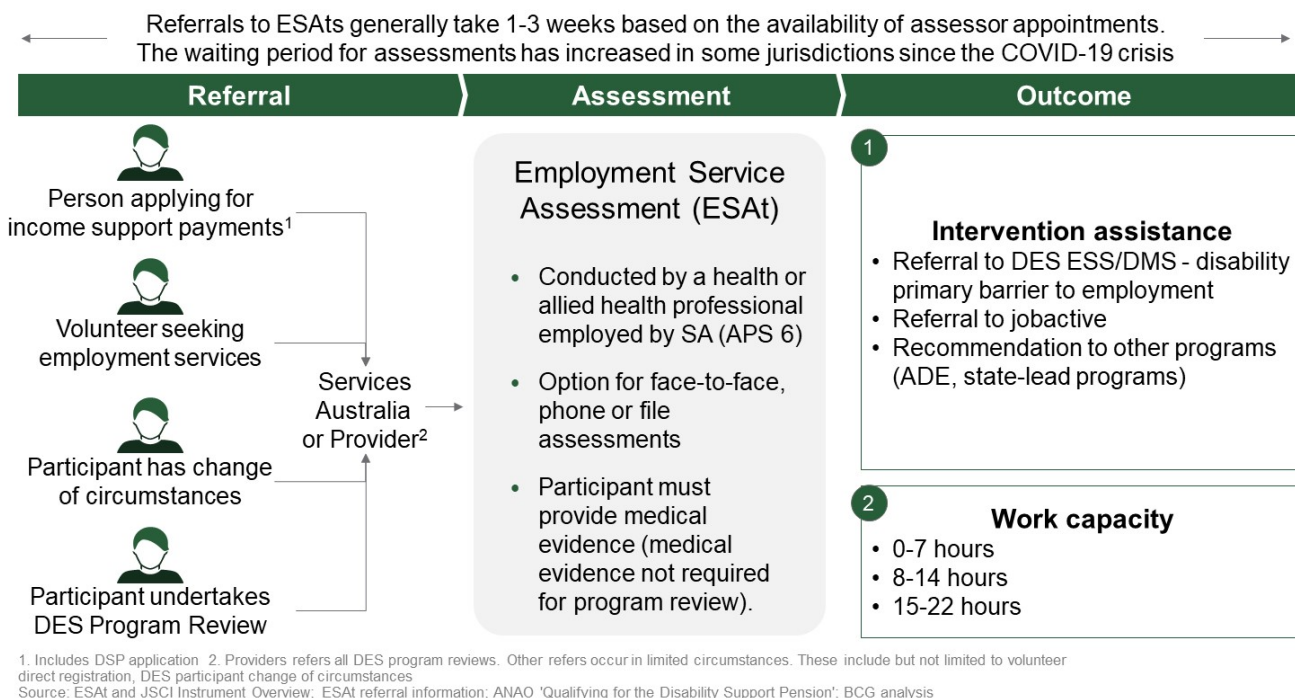
- A participant is new to the program (whether through income support obligations or voluntarily);
- An existing participant's circumstances change, requiring reassessment; or
- An existing participant reaches 78 weeks of employment assistance, triggering a DES Program Review.

ESAs 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 62. Summary of ESAt process across referral, assessment, and outcome stages



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."

### 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."

### 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]."

Service provider

Employment consultant

Employer

Disability advocate

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 ESA<sup>14</sup> referred to in job planning are program and work capacity recommendations. They find ESA<sup>14</sup> 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 ESA<sup>14</sup> 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.<sup>14</sup> The ESL program enables people with significant disabilities to enter DES without undergoing an ESA<sup>14</sup> or JCA (Job Capacity Assessment). ESL participants are assigned a default work capacity of eight hours.

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<sup>14</sup> ESL eligibility includes full-time students in their final year of school or earlier if undertaking an Australian School Based Apprenticeship and Traineeship (ASBAT)



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;
- 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 64. Providers expressed concerns around the current form of support for school leavers**

##### Providers emphasise the criticality of early intervention

"School leavers are at the critical age where if we can catch them, support them, assist them, we can build a pathway that will help them gain the skills and abilities needed to enter the workforce and sustain open employment."

"We need to focus on youth if the government wants to tackle unemployment from the bottom up."

##### View that current school-age support is limited

"DES does not allow us to follow the natural patterns of employment, such as "paid after school" or "weekend work" with support. These jobs are crucial in building good work habits in well structured environments with peers of the same age."

"We got a Certificate for Participation... but not actually the Certificate III. What a waste. And it really impacted our level of confidence negatively."

##### Funding levels seen as insufficient

"There are very few providers willing to provide a decent DES service to eligible school leavers due to insufficient funding arrangement."

"All Eligible School Leavers are automatically deferred to Funding Level 1 regardless of their disability or employment barriers. If the same person is referred to an ESAt upon leaving school, their funding level is likely to be higher."

Service provider

Employment consultant

Employer

Disability advocate

Participant

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 65. The landscape of Commonwealth employment and disability supports spans DSS, DESE, and other programs (listing shown is not comprehensive)**

■ (\*D) = Disability category

■ (\*E) = Employment category

■ (\*B) = Both categories

**Part 1 of Exhibit 65: Table 4: Examples of supports overseen by DSS**

<b>DSS portfolio</b>	<b>Summary</b>	<b>Scope</b>	<b>Eligibility</b>	<b>Cost (2019-20)</b>
DES (*B)	Provides employment support where disability the main barrier to work	Support to help find & keep a job	>8 hours/ week work capacity	\$1.2b
Employment Assistance Fund (*D)	Provides financial support for people with a disability & employers to buy work related modifications, equipment, Auslan services & workplace assistance	Financial support for mod, equipment & services	In a job for >8 hours per week for >13 weeks	\$11.7m
NDIS (*D)	Supports people with a disability live an ordinary life by funding reasonable & necessary supports. Focuses on early intervention	Funding for individual plans; ILC grants for organisations	Permanent & significant disability	\$1.79b (ILC)

**Part 2 of Exhibit 65: Table 5: Examples of supports overseen by DESE and others<sup>(15)</sup>**

DESE	Summary	Scope	Eligibility	Cost (2019-20)
Wage Subsidy programs <sup>(*B)</sup>	Wage subsidy programs for target cohorts including mature age, young person, Indigenous, Parent, Long-term unemployed, Apprentice, disability	Financial incentive for employers	Various	\$377.5m
Various DESE youth programs <sup>(*D)</sup>	Provides youth targeted programs including PaTH Internships, Transition to Work & National Work Experience Programme	Support to enter workforce	Australians aged 15-24	
National Disability Coordination Officer Program <sup>(*D)</sup>	Officers work strategically to assist people with a disability transition & link across education, employment services & disability program providers	Improve linkages & transitions	Working age people with a disability	\$4.4m
Higher Ed Disability Support <sup>(*D)</sup>	Provides funding to higher ed providers to removing barriers to access for people with a disability	Funding to higher ed providers	Higher ed students with disability	\$7.7m
jobactive <sup>(*E)</sup>	Mainstream employment service with limited support in the workplace. Includes programs such as Work for the Dole	Support to help find & keep a job	On income support or volunteer	\$1.4b

Note: Exhibit 67 provides more detail on wage subsidies and DESE youth programs.

<sup>15</sup> Other DESE employment programs include ParentsNext, TimeToWork and Transition to Work.

**Part 3 of Exhibit 65: Table 6: Examples of supports overseen by DESE and others**

Other	Summary	Scope	Eligibility	Cost (2019-20)
Wage Subsidy programs <sup>(*B)</sup>	Employment services for remote areas are covered by CDP, administered by NIAA	Support to help find & keep a job	Live in remote area	\$360m
Various DESE youth programs <sup>(*B)</sup>	ADEs provide sheltered employment for those with moderate to severe disability to develop training & experience	Sheltered employment opportunities	Moderate to severe disability	ADEs: \$220m, (\$96m to NDIS)

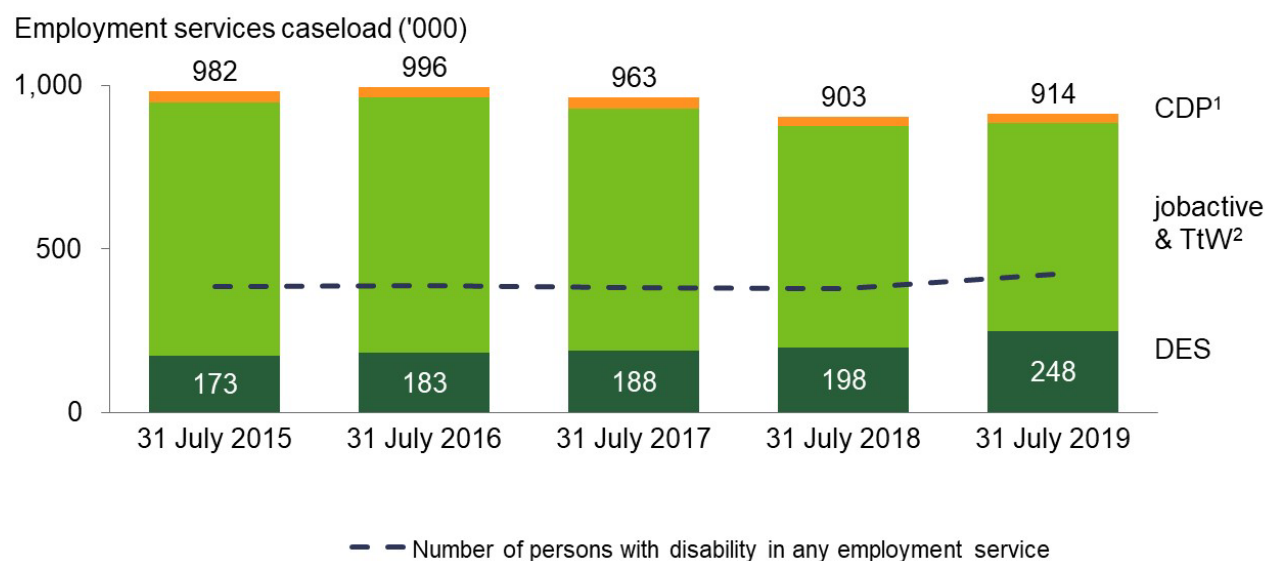
### 5.5.2. Challenges across jobactive and DES

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 67. Employment program support is not consistently available for DES participants**

Factors	Wage subsidy scheme	Wage Subsidy <sup>(16)</sup> : Wage start	Wage Subsidy: Restart	Wage Subsidy: Youth/Youth Bonus	Wage Subsidy: Parents	Wage Subsidy: Long-term unemployed & Indigenous	Various youth programs: Youth Jobs PaTH	Tailored Assistance Employment Grants
<b>Summary</b>	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
<b>Eligibility</b>	DES participant; other eligibility requirements depending on circumstance	DES participant not older than 50 years	50 years of age and over, VOEST, <sup>17</sup> 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
<b>Subsidy available</b>	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	
<b>Department</b>	DSS (DES)	DSS (DES)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	DESE (jobactive)	NIAA
<b>DES participants eligible?</b>	✓ yes	✓ yes	✓ yes	no	no	no	✓ yes	✓ yes

<sup>16</sup> Participants can only attract one wage subsidy at any given time

<sup>17</sup> 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 3: Review recommendations

Part 3 presents the Review's recommendations for addressing the pain points and challenges identified in Part II:

- Chapter 6: [REDACTED]  
[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. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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);

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18

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 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.

**Table 7. Changes to DES program design can be grouped into three legal categories.**

<b>1. Possible at Department or Government's discretion</b>	<ul style="list-style-type: none"> <li>• Updates fee rates for inflation</li> <li>• Minor rule adjustments</li> <li>• Changes to DES eligibility and referral volumes</li> <li>• Changes to the type of education course funded</li> <li>• Changes to compliance and administrative processes</li> <li>• Changes to operational rules, provided these changes do not contravene the Grant Agreement. For example, changes to star ratings design, Department systems and process (including analytics), ESA entry/exit</li> <li>• Recalibration of the risk- adjusted funding tool</li> </ul>
<b>2. DSS entitled within Grant, but the Act necessitates provider consent</b>	<ul style="list-style-type: none"> <li>• Changes to fee rates (excluding inflation)</li> <li>• Removal of payment categories (e.g. education outcomes)</li> <li>• Removing scope from the agreement</li> </ul>
<b>3. DSS not entitled within the Grant</b>	<ul style="list-style-type: none"> <li>• Fundamental changes to funding structure (e.g. education as a bonus payment)</li> <li>• Fundamental changes to the services provided by providers</li> <li>• Change to ESA structure</li> </ul>

## 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, ESAt 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.

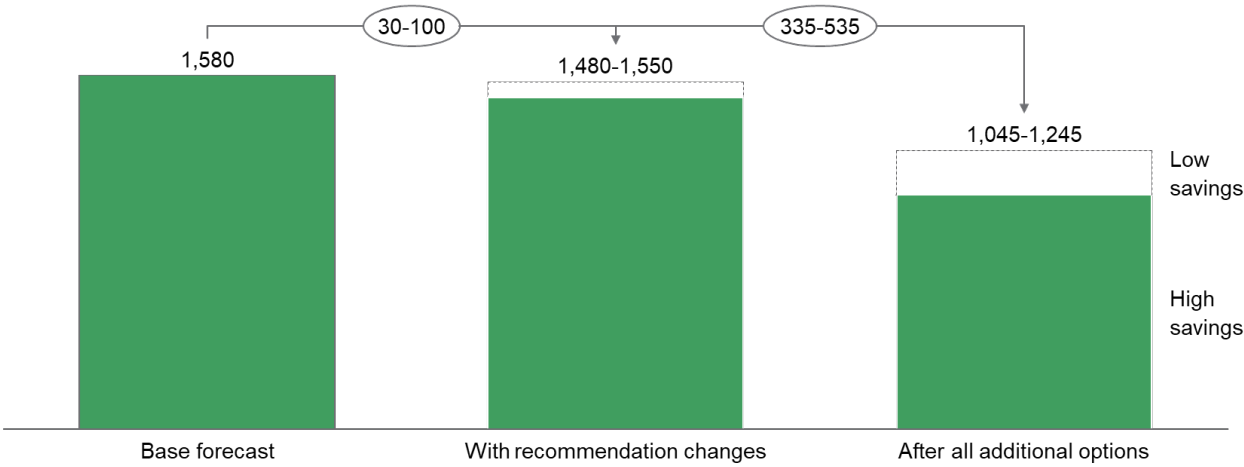
These recommended changes to the design of the DES market are interconnected and cumulative in their effects (e.g. changes to performance management will impact providers' ability to enter and exit). These changes will support the program to function more effectively, where providers are incentivised 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 69. Recommended changes reduce costs by \$30m-\$100m in 2022-23, options are available for further savings**

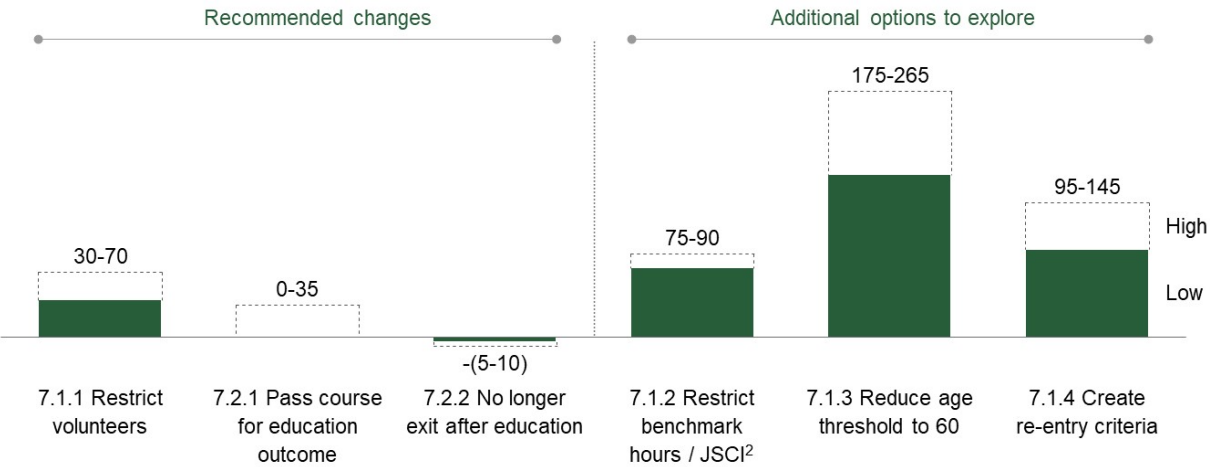
Forecast DES expenditure<sup>1,2</sup> (2022-23, \$m)



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 70. Summary of savings from recommendations and potential change options**

Forecast savings (2022-23, \$m)



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

Above: stacked column chart summarises the impact on spend of different policy options. It notes the savings from the recommended changes, including \$30 to \$70m from restricting volunteers, up to \$35m for requiring education courses to be passed for service providers to obtain education outcome payments, and an additional spend of \$5 to \$10m for no longer automatically exiting participants from DES after they complete an education outcome. The savings from the additional policy options, including restricting benchmark hours, reducing the age threshold, and creating re-entry criteria, span anywhere from \$75m to up to \$265m in each case.

**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 [REDACTED] 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.

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**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 ESA<sup>1</sup>) to ensure DES is the best program to support participants who do not achieve an outcome through DES initially.

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### 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.<sup>21</sup>

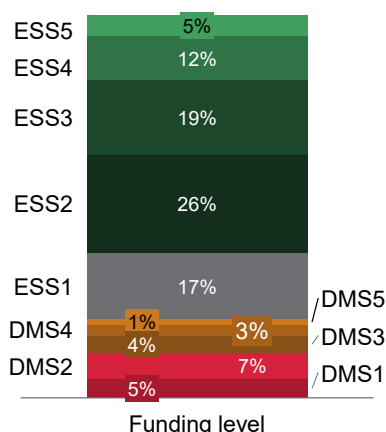
As shown in Exhibit 71, volunteers are far more likely to:

- 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 71. Volunteers are likely to be classified into lower funding levels, to not receive income support, and to receive DSP

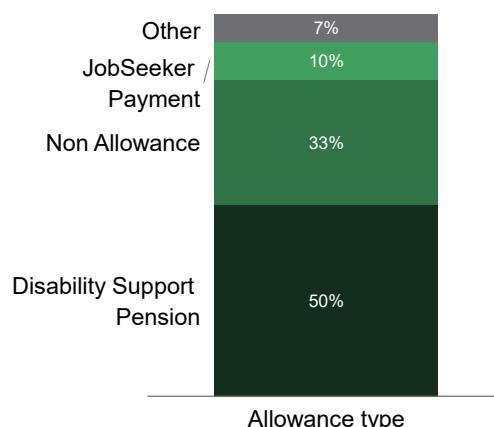
Volunteers are skewed to lower funding levels

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.

<sup>21</sup> DES Monthly Report – May 2020

Option 3 is recommended because it:

- 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 participate 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;<sup>22</sup>
- Approximately 60 per cent of these participants receive the DSP;<sup>23</sup>
- 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.<sup>24</sup>

#### **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.

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<sup>22</sup> Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

<sup>23</sup> Taylor Fry Funding Level Recalibration Draft Report, 7 May 2020

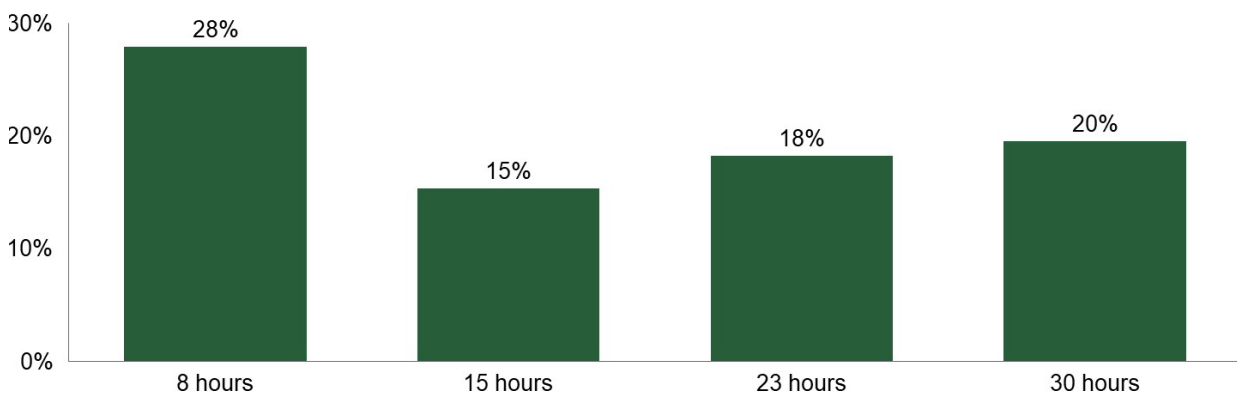
<sup>24</sup> NDIS data downloads 'NDIS\_PB Active Plan Participant Mar 2020'

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 [REDACTED] represent 7 per cent of caseload (Exhibit 73).

**Exhibit 72. Probability of achieving a 4-week outcome within 12 months is highest for participants with a benchmark of 8 hours per week**

Probability of achieving a 4 week outcome within 12 months



Source: DSS, BCG analysis



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:<sup>25</sup>

- 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 [REDACTED] 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.<sup>26</sup>

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.<sup>27</sup>

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

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<sup>25</sup> DSS DES Data, BCG analysis

<sup>26</sup> DSS DES Data, BCG analysis

<sup>27</sup> ABS unemployment rate 15-24 year olds (seasonally adjusted) May 2020

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 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).

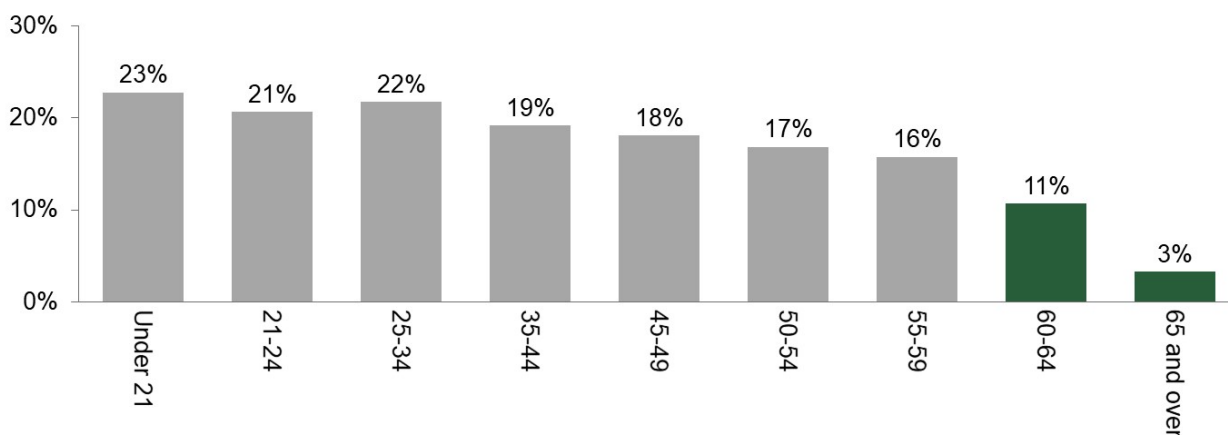
With these sensitivities in mind, it is recommended that the Department explore reducing the DES age threshold to 60 and improving alignment with participation requirements for this segment. Alternatively, the Department could explore an alternative service model for this segment, which may include, 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 73. 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



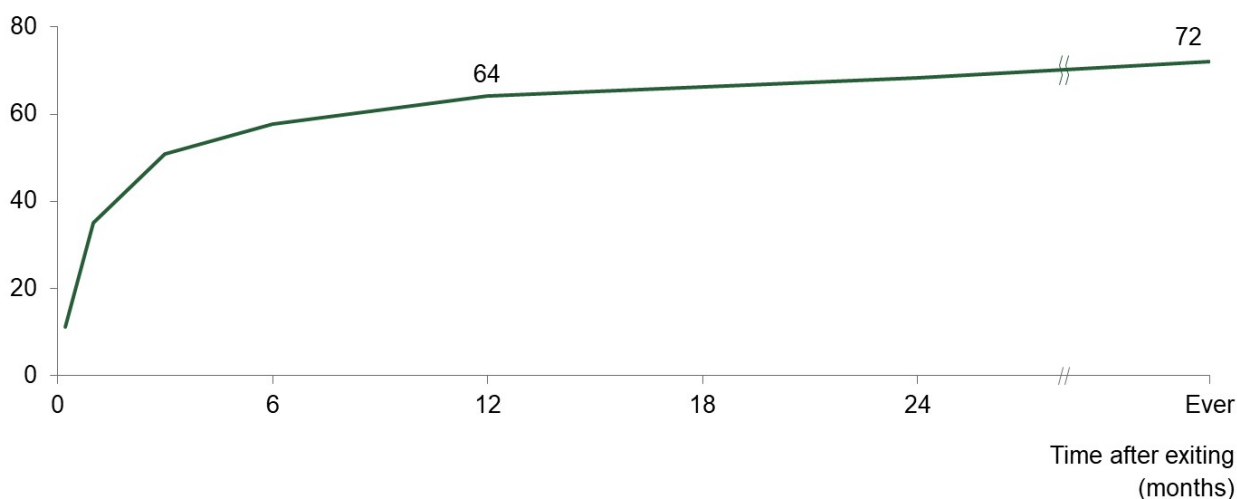
Source: DSS, BCG analysis

**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 74. 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.

## 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 77). 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.

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**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.

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#### **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.

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**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.

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#### **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.

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**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.

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### 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 (Section Recommendation 17).
4. **Delivering accurate and efficient assessments.** ESAs 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, ESAs 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 (Section 5.1);
- 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).

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**Recommendation 13.** The Department should develop a defined performance management framework, with clearly defined KPIs and metrics, and processes for discontinuing poor performance.

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### **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.

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**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.

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### **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 Section 3.3, the Department does not have full visibility of several metrics, including around participant and employer experience with the program. Recommendations



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.

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**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.

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**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.

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#### **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.

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**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.

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## 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.

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**Recommendation 26.** The Department should establish a mechanism for providers to apply for a new ESA outside the DES Panel Refresh processes.

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## 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 ESAt delivery to an increasingly digital model.

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**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.

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## 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.

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**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.

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## 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.

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**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.

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## 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.

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**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.

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## 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 ESA.

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**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.

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### 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 8). Beyond this, the current DES model largely assumes providers provide differentiated service based on individual participant needs.

**Table 8. Segmentation within the current DES model**

<b>Segmentation</b>	<b>Segmentation description</b>	<b>Implication</b>
<b>1. ESS/DMS</b>	<ul style="list-style-type: none"> <li>• ESS Participants have a permanent or lifelong disability or health condition (see Section 1.1)</li> <li>• ESS participants usually require regular, Ongoing Support to stay in work</li> </ul>	<ul style="list-style-type: none"> <li>• Different fee rates in each stream</li> <li>• Only participants on ESS are eligible for Ongoing Support</li> </ul>
<b>2. Risk-adjusted funding level</b>	<ul style="list-style-type: none"> <li>• Based on the probability of achieving an employment outcome</li> </ul>	<ul style="list-style-type: none"> <li>• Different fee rates for each funding level</li> </ul>
<b>3. Moderate Intellectual Disability Payments</b>	<ul style="list-style-type: none"> <li>• Participants assessed as having an IQ less than 60 or classified by a registered psychologist as having moderate intellectual disability</li> </ul>	<ul style="list-style-type: none"> <li>• Providers receive additional payment when a participant with MID achieves an outcome</li> </ul>
<b>4. Provider specialisation</b>	<ul style="list-style-type: none"> <li>• Providers may choose for a site to specialise in servicing participants within particular characteristics e.g. disability type (most common), age, Indigenous, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Providers only serve caseload with the specific characteristic at the site</li> </ul>

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.

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**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.

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### 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 ESA 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.<sup>28</sup> 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;<sup>29</sup>

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<sup>28</sup> Analysis by DSS DES Branch

<sup>29</sup> 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.

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**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.

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## 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.

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**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.

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### **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 on 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 ESAt 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.

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**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.

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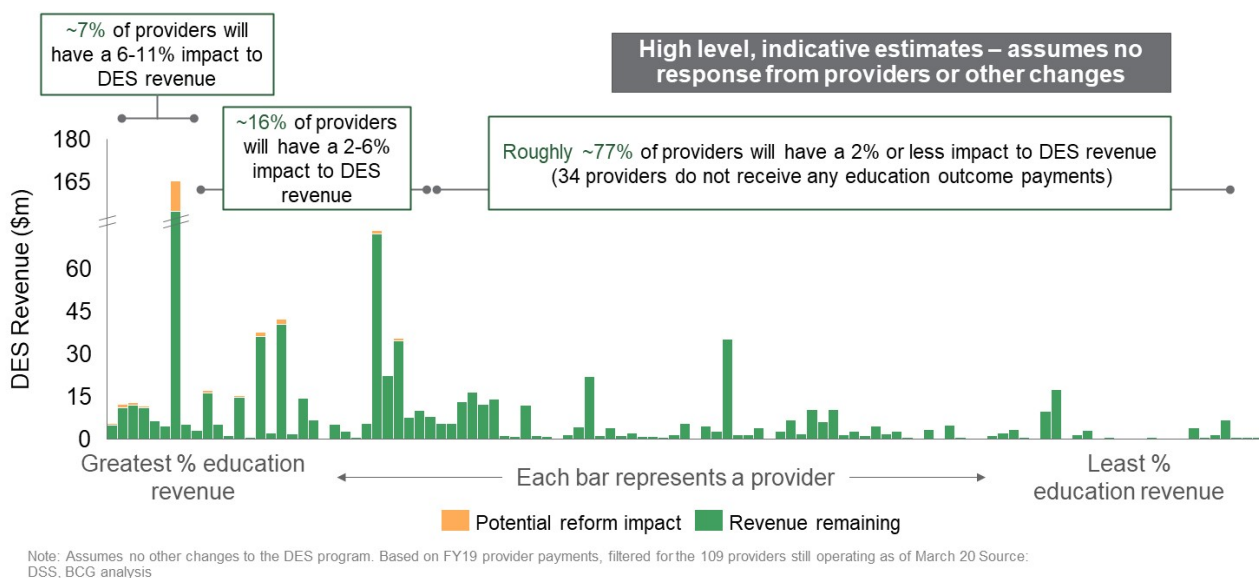
### **8.2.3. Re-focus outcomes on employment, rather than education**

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 75. Reforms to education payments will likely have a relatively small impact on total revenue for most providers**



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.

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**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 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.

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#### **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).

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**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.

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**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.

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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).

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**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.

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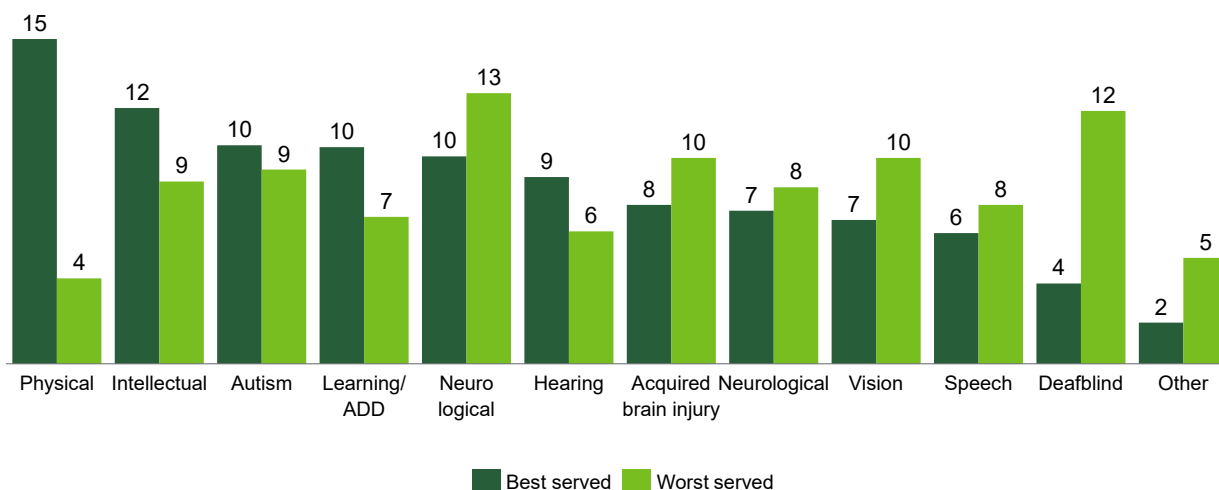
More broadly, a recurrent theme in participant and disability advocate was the failure of the DES system to account for individual needs. For example:

- 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 76. 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).

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**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.

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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.

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**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.

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### 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

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] 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).

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**Recommendation 52.** [REDACTED]

[REDACTED]

[REDACTED]

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#### 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. [REDACTED]

[REDACTED]

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.

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**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).

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#### 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 Table 9.

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.

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**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.

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**Table 9. Summary of ESA reform options**

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

## 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-service 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).

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**Recommendation 55.** The Department should engage an external, detailed assessment by appropriate specialists to identify opportunities for further simplifying system rules.

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## 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.

Table 10 suggests an indicative model for mutual obligations oversight outsourcing, where providers would retain responsibility for agreeing job plans (due to their participant-facing role), but subsequent oversight and maintenance would be undertaken by a third party.

**Table 10: Indicative model for mutual obligations oversight outsourcing**

**Current provider activities:**

	Activity	Details	Consideration for third-party provision
<b>Establishment of a Job Plan</b>  <b>Purpose:</b> Underpins provision of services and agreed assistance  Details all requirements that Participants must undertake	<b>Tracking participant compliance</b>	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.  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.	✓ Yes
	<b>Validating and auditing activities</b>	Providing evidence for attendance at activities, third party appointments and job interviews.	✓ Yes
	<b>Liaising with Services Australia</b>	Setting daily requirements and issuing formal notification to the Participant.  Notification through system when a participant has not met mutual obligations, leading to Services Australia taking further measures if appropriate.	✓ Yes



	Activity	Details	Consideration for third-party provision
	Updating and revising the Job Plan	<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 ESAt or JCA, has a capacity interview or Capability assessment)</p>	No

**Table 11. High-level comparison of options for assigning mutual obligations oversight responsibility**

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

	Option 1. Provider	Option 2. Services Australia	Option 3. Third Party
<b>Cost impact</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Potentially neutral in the medium to long-term</li> </ul>	<ul style="list-style-type: none"> <li>Potentially net saving in the medium- to long-term</li> </ul>

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 is provided in Table 11.

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**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.

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## 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)<sup>30</sup>, Kluve (2020)<sup>31</sup>, the OECD (2005)<sup>32</sup> and the European Commission (2014)<sup>33</sup> 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.
- 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.

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**Recommendation 57.** The Department should explore greater reliance on alternative policy approaches which engage employers more directly (which may include, but is not limited to, more emphasis on wage subsidies).

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## 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.

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<sup>30</sup> Webster, E. (1998), 'Microeconomic evaluations of Australian labour market programs', Australian Economic Review, 31, 189-201.

<sup>31</sup> Kluve, J. (2010), 'The effectiveness of European active labour market programs', Labour Economics, 17, 904-18.

<sup>32</sup> OECD (2005), Employment Outlook (OECD Publishing).

<sup>33</sup> European Commission (2014), 'Stimulating job demand: The design of effective hiring subsidies in Europe', European Employment Policy Observatory Review (Luxembourg).

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.

Table 12 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 12. Comparison of oversight options for DES and jobactive**

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

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**Recommendation 58.** Government should consolidate oversight of DES and jobactive under a single Department.

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#### **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 13).

Further work on this issue will be required as part of the design of the target state program.

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**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.

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**Table 13. Degree of integration depends on longer term vision for DES**

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

## 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.

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**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.

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### 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.

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**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.

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## 9. Proposed implementation roadmap

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);

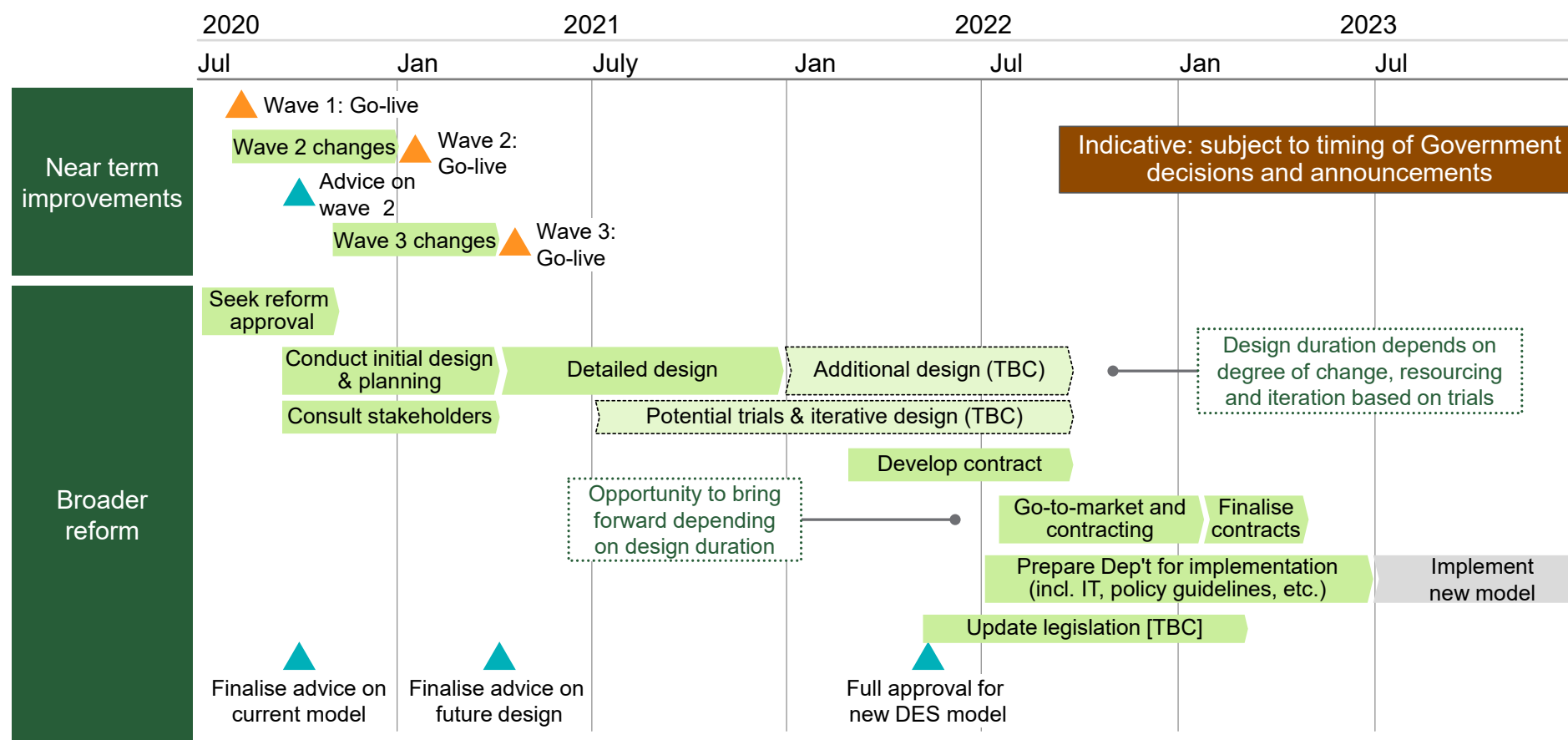
- The degree to which resolving ambiguity impacts risk and value;
- The cost of undertaking a trial, including Department resourcing and compensation for service providers.

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:

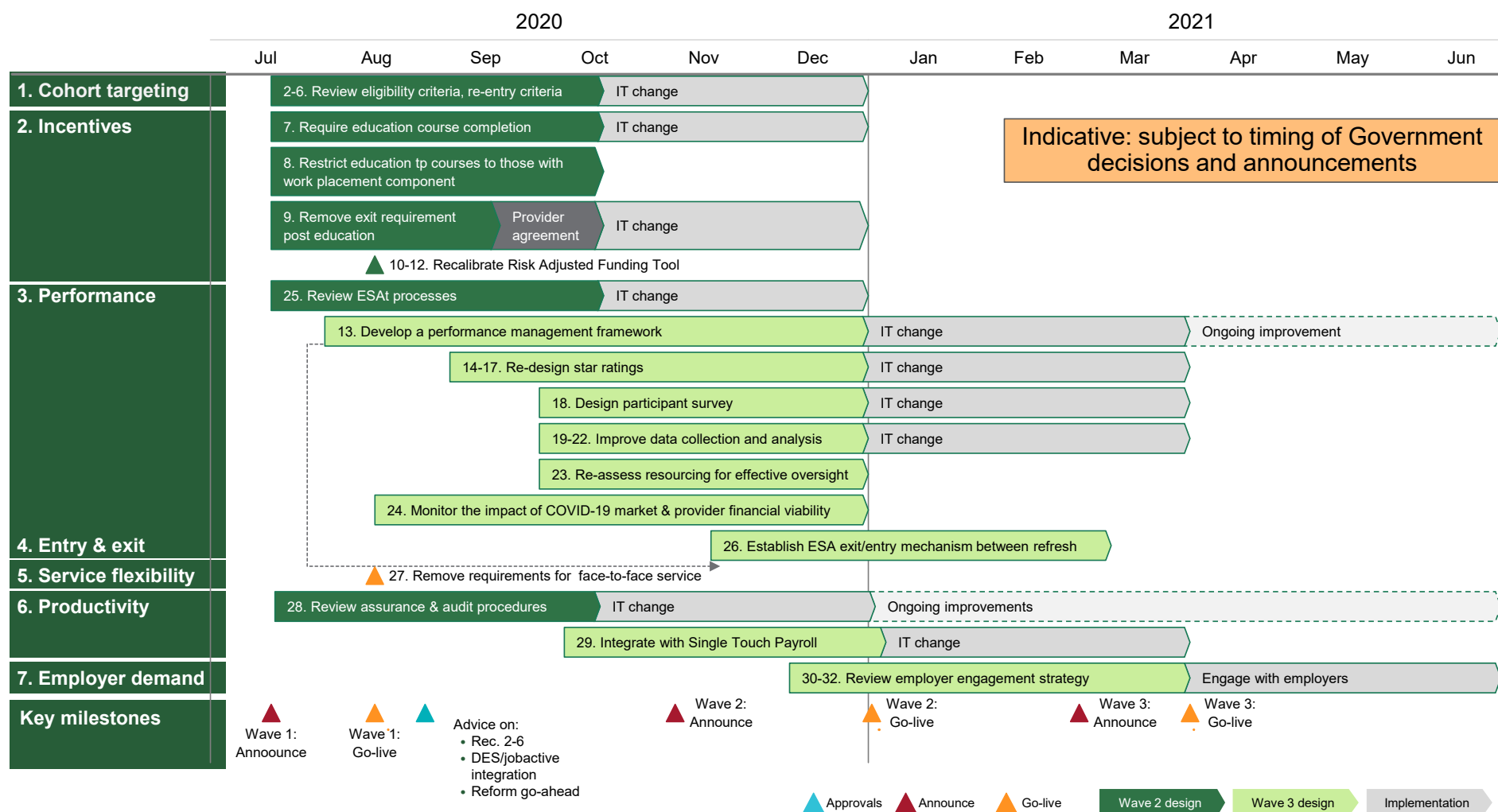
1. By 31 August 2020, finalise advice to Government including:
  - Advice on near term changes to eligibility and education, with consideration given to the marginal cost of DES compared to jobactive;
  - Recommendation to commence DES reform;
  - Advice on level of integration between DES and jobactive.
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 77. 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 78. Implementation plan for near term changes



Source: BCG analysis

## Appendix A. Comparison of jobactive and DES

Table 14. Key elements are structure, service model, segmentation, participants, and providers.

### Structure

Structure	DES	jobactive	jobactive New Employment Services Model 2022
<b>Overseen by...</b>	DSS	DESE	DESE
<b>Legal framework</b>	DES Grant Agreement July 2018 – June 2023	jobactive Deed 2015-2022 Providers engaged by contract	Providers will provide Enhanced Services through a contractual license
<b>Market restrictions</b>	<ul style="list-style-type: none"> <li>No market caps</li> <li>Able to change providers up to 5 times without any restrictions. After this, some restrictions apply</li> </ul>	<ul style="list-style-type: none"> <li>Market caps for providers</li> <li>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)</li> </ul>	<ul style="list-style-type: none"> <li>Specialist licenses in some regions</li> <li>Licenses capped in each region</li> </ul>
<b>Mutual obligations</b>	<ul style="list-style-type: none"> <li>Job search requirements dependent on capacity</li> <li>Anecdotal evidence that DES providers usually agree 10-20 job searches in job plan to</li> <li>Other suitable activities determined by job plan</li> </ul>	<p>Job search requirements depend on stream and individual capacity.</p> <p>Typically they are:</p> <ul style="list-style-type: none"> <li>Stream A and B: 20 job searches per month</li> <li>Stream C and over 60s: depends on capacity, generally 10 searches per month</li> <li>Other activities per job plan</li> </ul>	<ul style="list-style-type: none"> <li>Job search requirements remain key focus</li> <li>Shift to new points-based approach requires job seekers to meet certain number of points each fortnight through activities including job search and training</li> </ul>

### Service model

Service model	DES	jobactive	jobactive New Employment Services Model 2022
<b>Service delivery</b>	Regular contacts from provider	<ul style="list-style-type: none"> <li>• Regular contacts from provider</li> <li>• Some online servicing via jobactive website</li> <li>• Some participants are engaged with Online Employment Services</li> </ul>	<p>Three tiers of support will be introduced for job seekers:</p> <ul style="list-style-type: none"> <li>• Digital first: job-ready &amp; digitally literate will self-manage</li> <li>• Digital plus: extra support combines digital services &amp; face-to-face support from a service provider</li> <li>• Enhanced services: most disadvantaged supported by service providers</li> </ul>



## Segmentation

Segmentation	DES	jobactive	jobactive New Employment Services Model 2022
<b>Segmentation structure</b>	Services <ul style="list-style-type: none"> <li>DMS – job seekers with disability, injury or health condition who require assistance to find sustainable employment, not expected to need long-term workplace support</li> <li>ESS – job seekers with permanent disability who require long-term Ongoing Support</li> </ul>	Streams (determined by JSCI and ESAt) <ul style="list-style-type: none"> <li>Stream A - relatively more job ready</li> <li>Stream B - some employment barriers</li> <li>Stream C - non-vocational employment barriers</li> </ul>	Enhanced Services will be delivered in two tiers: <ul style="list-style-type: none"> <li>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</li> <li>Tier 2: assessed as facing more substantial, non-vocational barriers to employment than Tier 1 job seekers</li> <li>Providers will have the discretion to place job seekers into either tier based on their assessment &amp; personal circumstances</li> </ul>
<b>Sub structure</b>	Funding levels 1 – 5	Period of unemployment  Regional loading	JSCI score (moderate or high)
<b>Eligibility for education</b>	DSP recipient or have not completed year 12	Aged 15-21yrs, have not completed year 12 or equivalent, or Cert III	

## Participants

Participants	DES	jobactive	jobactive New Employment Services Model 2022
<b>Referral</b>	By Services Australia following an ESAAt or JCA	By Services Australia following a JSCI or where applicable an ESAAt	n/a
<b>Caseload</b> (March 2020)	280,180	757,316 (note: approximately 1.5m following COVID-19)	n/a
<b>Share with disability</b>	All	186,343 (24 per cent)	n/a

## Providers

Providers	DES	jobactive	jobactive New Employment Services Model 2022
<b>Application process</b>	Applications for grants via Community Grants Hub	<ul style="list-style-type: none"> <li>Contract procurement via DESE</li> <li>Delivery &amp; Employer Engagement</li> </ul>	Panel of employment service providers
<b>Performance information</b>	Quarterly Star rating results	<ul style="list-style-type: none"> <li>Quarterly Star rating results</li> <li>Weekly performance reports</li> </ul>	n/a
<b>Overlap</b>	Around 30 per cent of DES providers also provide jobactive services, and three-quarters vice versa	Around 30 per cent of DES providers also provide jobactive services, and three-quarters vice versa	Around 30 per cent of DES providers also provide jobactive services, and three-quarters vice versa

**Table 15. Mutual obligations are perceived to be less strenuous in DES compared to jobactive**

Mutual obligations	Jobactive and DES
<b>Applicable job seekers</b>	<p>Job seekers receiving participation payments but usually determined by age, assessed work capacity and caring responsibilities:</p> <ul style="list-style-type: none"> <li>• JobSeeker Payment</li> <li>• Youth Allowance (other)</li> <li>• Special benefit</li> </ul>
<b>Job plan</b>	<p>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</p>

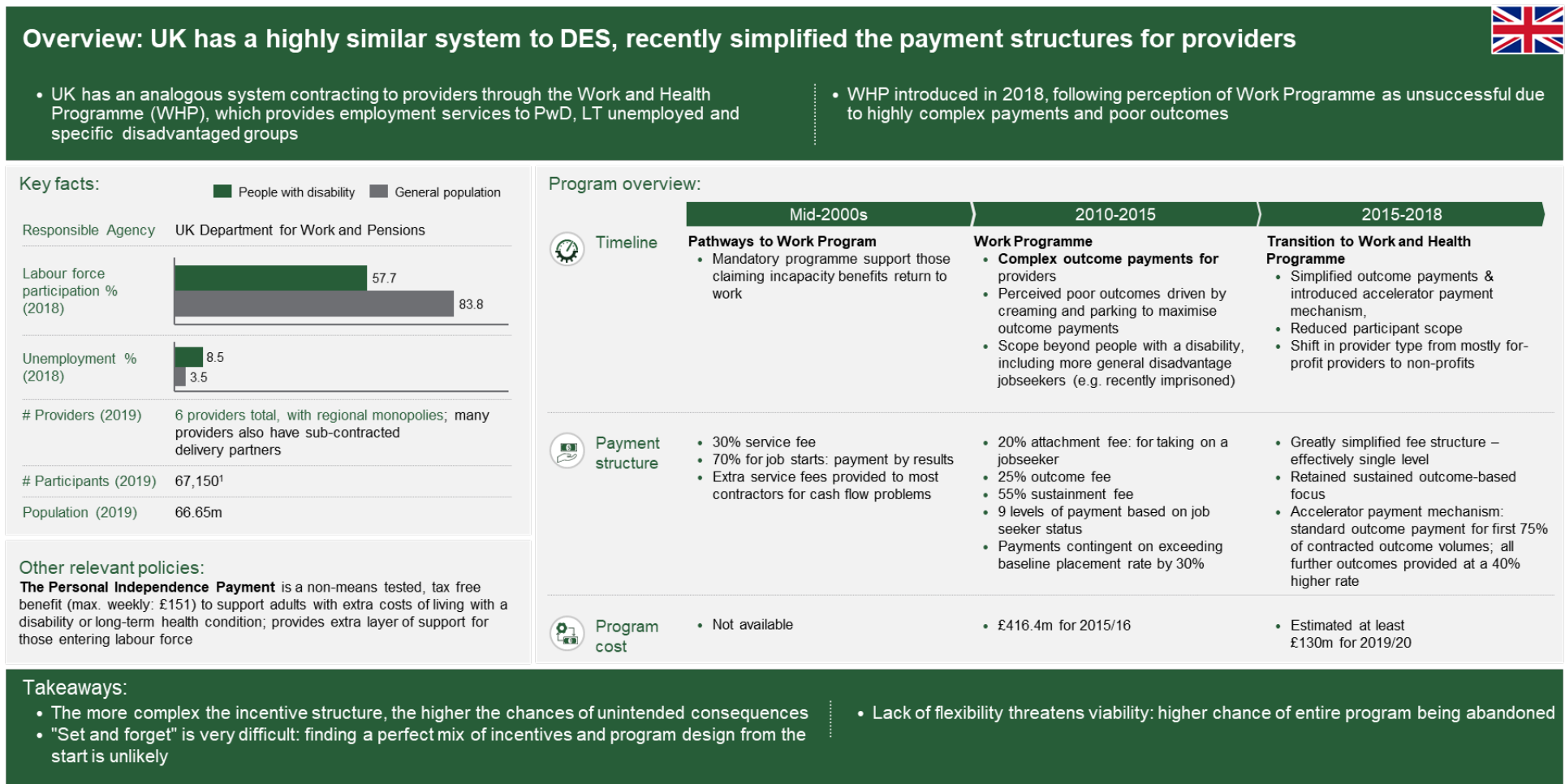
<b>Mutual obligations</b>	<b>Jobactive and DES</b>
<b>Other suitable activities</b>	<p>Job seekers may consider the following for inclusion in their job plan:</p> <ul style="list-style-type: none"> <li>• Requirement to attend provider appointments</li> <li>• Requirement to act on referrals to specific jobs made by their provider and attend job interviews offered by employers</li> <li>• Participation in approved activities including <ul style="list-style-type: none"> <li>○ Activities to develop job search/interview skills e.g. Employability Skills Training (not available to DES participants)</li> <li>○ Study or language, literacy, and numeracy activities under the Skills for Education and Employment program or Adult Migrant English Program</li> <li>○ Work experience programs or PaTH internships</li> <li>○ Work for the Dole</li> </ul> </li> </ul>
<b>Exemptions</b>	<p>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</p>
<b>Oversight</b>	<p>Employment services provider Services Australia</p>

<b>Mutual obligations</b>	<b>Jobactive and DES</b>
<b>Compliance</b>	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

<b>Differing obligations</b>	<b>jobactive</b>	<b>DES</b>
<b>Job search obligations</b>	<p>Typical requirements:</p> <ul style="list-style-type: none"> <li>• Stream A and B: 20 job searches per month (some variation, depending on capacity)</li> <li>• Stream C and over 60s: dependent on capacity, in general expected 10 job searches per month</li> <li>• Note: job search requirements are currently variable due to COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>• Job search requirements dependent on capacity</li> <li>• Anecdotal evidence that DES providers usually agree 10-20 job searches in job plan to "flick and stick"</li> </ul>
<b>Annual activity requirement</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Paid or voluntary work</li> <li>• Accredited language, literacy and numeracy courses</li> <li>• Study/accredited education and training</li> <li>• Drug/alcohol treatment</li> </ul>	<ul style="list-style-type: none"> <li>• Not required for DES participants</li> </ul>

## Appendix B. Parallel international program case studies

### Exhibit 79. The UK moved from a complex to a simplified model, while retaining incentive payments



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 80. 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:

	People with disability	General population
Responsible Agency	UWV (Employee Insurance Agency)	
Labour force participation % (2016)	32.2	72.5
Unemployment % (2016)	9.6	4.5
# Providers	TBD	
# Participants (2019)	229,806	
Population (2019)	17.28m	

#### 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	<b>All welfare to work services contracted</b> <ul style="list-style-type: none"> <li>Complex outcome payments for 100+ granular job seeker cohorts</li> <li>Perceived poor outcomes driven by creaming &amp; parking to maximise outcome payments</li> <li>Evidence that outcome only contracts improved outcomes by 3%</li> </ul>	<b>From 2007, contracting of services is wound back</b> <ul style="list-style-type: none"> <li>Reduction in funding &amp; changed approach given high % GDP spend (0.32% in 2007, second highest after Denmark)</li> <li>Transition to 'easier to place' cohorts supported by government provided service</li> </ul>	<b>Economic downturn accelerates scope reduction &amp; devolved responsibility to municipalities</b> <ul style="list-style-type: none"> <li>Tightening of eligibility criteria, scope &amp; disability benefits</li> <li>UWV still responsible for supporting partially disabled; municipalities deliver the Participation Act for young people with disability</li> </ul>
 Payment structure	<ul style="list-style-type: none"> <li>Typical split for partial performance contracts: <ul style="list-style-type: none"> <li>50% fixed service fee</li> <li>50% outcome fee</li> </ul> </li> <li>Gradual transition to outcome only payment for &gt;50% of all contracts (mostly easier to place cohorts)</li> </ul>	<ul style="list-style-type: none"> <li>Tender process for outsourced providers using block contracts for target jobseeker cohorts</li> </ul>	<ul style="list-style-type: none"> <li>Municipalities funded by block grant mechanism, strong incentive to reduce caseloads due to budget constraints</li> </ul>
 Program cost	<ul style="list-style-type: none"> <li>€1.1b spent on placements &amp; related services in 2005</li> </ul>	<ul style="list-style-type: none"> <li>€1.3b spent on placement &amp; related services in 2009</li> </ul>	<ul style="list-style-type: none"> <li>€609b spent on placements &amp; related services by 2017</li> </ul>

#### 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 81. 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



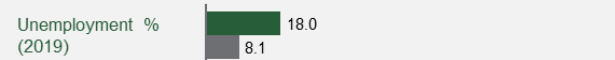
- The government-run Cap Emploi network supports job seekers with disability with job placement & associated supports, working with Pôle Emploi generalist job centres
- Offers employers advice and support on employing PwD including recruitment and presentation of suitable candidates

- 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, FIPHEP and Pôle Emploi

#### Key facts:

■ People with disability ■ General population

Responsible Agency Cap Emploi (reporting to Ministry of Labour)



# 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:



#### Timeline

1987

#### AGEFIPH established to promote PwD employment

- Fund promotes the professional integration & retention of PwD in open employment
- Establishes & maintains partnerships with national & regional actors e.g. councils, Pôle Emploi

2000

#### Cap Emploi network established

- Cap Emploi is the specialised operator for disabled workers, working with Pôle Emploi (generalist job centres).
- 25% of disabled job seekers are supported by Cap Emploi (most complex needs), majority supported by generalist Pôle Emploi

2017

#### Role of Cap Emploi strengthened by signing of the disability mobilization agreement

- 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

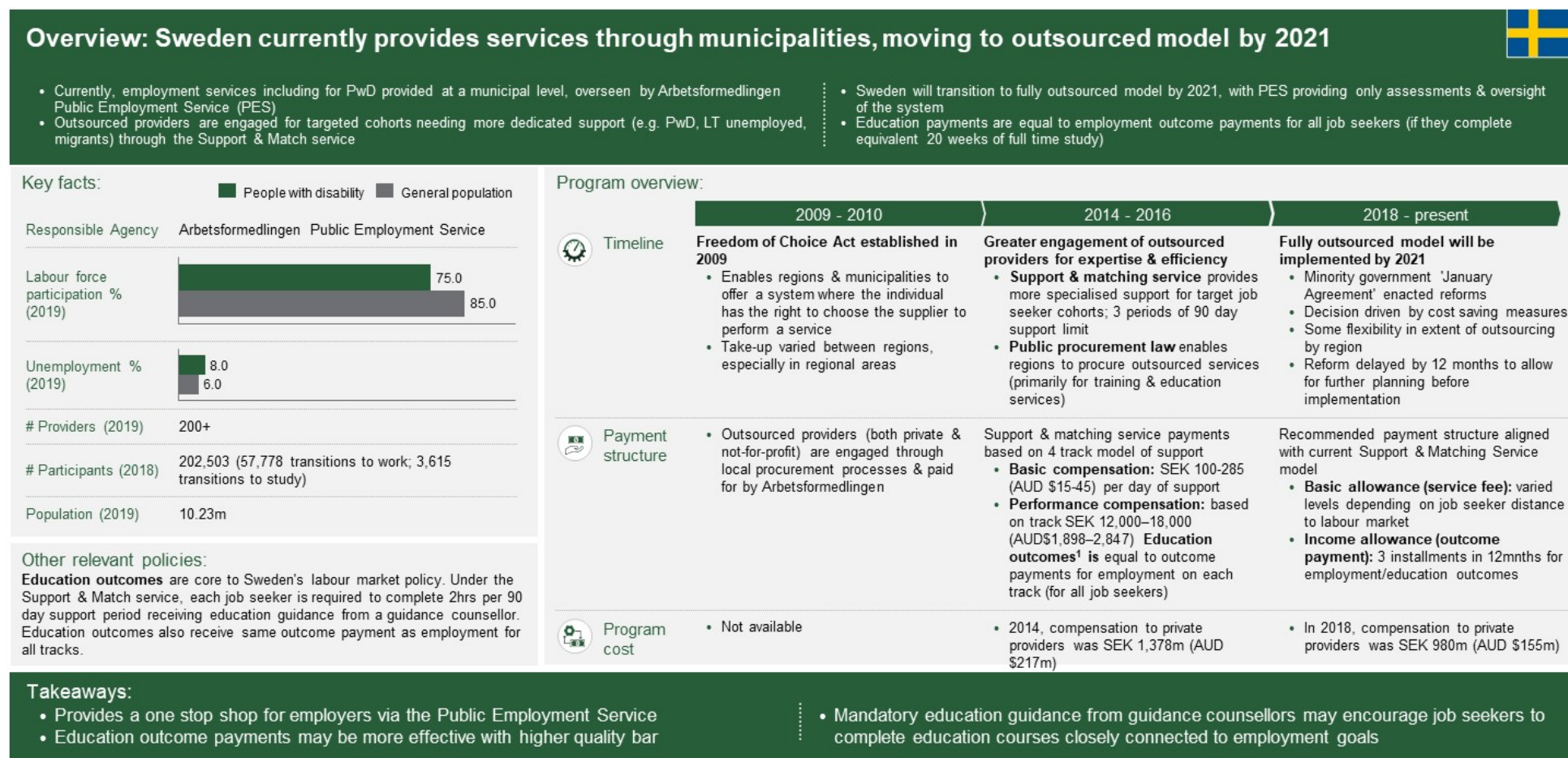
#### Takeaways:

- 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 82. Sweden currently transitioning from public-private employment services to outsourced model



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

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