Outsourcing Employment Services: What Have We Learned From The Job Network?

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1. Introduction

While the outsourcing of activities and services previously funded and delivered by government has been widespread in Australia and overseas in the last 15 years or more, the application of this approach to human services has been more limited.

Australia undertook a radical step in the mid-1990s in contracting out most of its public service-provided employment assistance to private and non-governmental agencies on a competitive tender basis (the Job Network). In the process the public employment service was abolished. This placed Australia amongst world leaders in the outsourcing of such services and the Job Network has been the subject of much interest from international bodies like the OECD (OECD, 2001).

This paper looks at the impact of contracting out employment assistance to the Job Network as an example of human services outsourcing. It starts with a brief discussion of the rationale for such outsourcing and the context in which the Job Network experiment first took place. It outlines what the Job Network is and discusses how it has changed since its inception in May 1998.

The paper then looks at the evidence available on the outcomes of this radical shift and what we can learn from it about outsourcing more generally. I argue that this example of outsourcing has been successful in reducing costs to government while maintaining broadly similar headline job outcomes. However, there are a number of consequences beyond the simple outcome measures that are not well understood but should be considered in assessing the overall impact. Partly as a result of these, the Job Network has swung back to being highly regulated and government-controlled, and only open to new entrants to a limited degree. It now makes even less sense than before to think of it as a genuine ‘contestable market’ and suggests limitations to how far such an approach is workable in service areas requiring equity and social justice considerations.

2. Why Outsource Public Services?

The theory behind outsourcing of public services is fairly simple. The basic assumption is that when shielded from competition public bureaucracies lack incentives to act cost-efficiently, to innovate, and to be responsive to clients and changing market needs. Contracting out is therefore a ‘device to capture some of the desirable features of a free market …’ (Webster and Harding, 2000: 10) – the assumption being that market-based delivery will produce these desired effects. The cost-efficiency referred to not only involves staff achieving higher productivity and outcomes through more effectively targeted effort, but is also often derived from reductions in staff (and wages) through taking employment outside the influence of public sector trade unions – what economists refer to as ‘transfers’. Innovation and market responsiveness are thought to derive from competition with other providers who may otherwise achieve market dominance through superior service delivery and outcomes.

Even if we accept this basic theory, there are still important reasons why governments might still decide (and often have decided) to retain human services provision in the public sphere. In a review of outsourcing in the employment area, Webster and
Harding (2000) provide a useful summary of these. The key issues are first that market provision is likely to be sub-optimal where there are positive social externalities and principles of equity and economic justice; and, secondly, that governments may have difficulty specifying and monitoring the quality of services provided externally as well as the consumption of services by individuals.

Services to assist unemployed people are subject to positive social externalities, since the community as a whole may benefit through lower taxes and increased services. This means that employment services targeted at unemployed people and income support recipients need to operate at above-market levels in order to help the more disadvantaged job seekers. Equity considerations are also clearly important here and may require government to establish minimum levels of service input for particular groups. Indeed, critics of the introduction of competition policy more generally in Australia lobbied hard, against opposition from the Business Council of Australia (Daniel, 1996), to have social welfare and equity principles, including community service obligations, included in the statement of principles for national competition policy (National Competition Council, 1997; Ranald, 1998).

The question of monitoring is important because even if delivery of services is outsourced the government remains responsible for their economic and social outcomes. Where the government pays for but does not directly consume services, and where target groups of individual users neither pay for nor necessarily have any great inclination to use them, monitoring of service effectiveness may be problematic. It can also be difficult to write enforceable service contracts where the effectiveness of many components of service delivery is itself uncertain (as is clearly the case in employment assistance, where it often not known for certain what particular service inputs actually help particular groups of people get jobs). Thus it is often easier for governments to provide services themselves.

However, as Webster and Harding (2000) point out, there is also increasing demand on public bureaucracies themselves these days to demonstrate effectiveness and efficiency, and they too are struggling with ways to define and measure performance internally. With the advent of new technologies, complex systems for operating incentives and outcome monitoring have become available and cost-effective. This in turn has perhaps tilted the balance in favour of contracting-out.

3. Outsourcing of Employment Services in Australia

A shift in the role of government from provider of social welfare services to purchaser or regulator of services has been taking place in Australia for a number of years and across a range of service areas. In the employment and training areas, both the community sector and private agencies have long been involved in providing services under contractual arrangements with government. Until the mid-1990s, however, such arrangements could be seen primarily as complementary to public provision, based on particular areas of external expertise and specialisation (‘comparative advantage’).

The first serious move towards competition in this field was signalled in Labor’s Working Nation policy package (Australia, Prime Minister, 1994). The Green Paper that preceded it had put forward a set of policies to reduce long-term unemployment, including individualised case management (Committee on Employment
Opportunities, 1993). There was no proposal at that stage for a major injection of competition, even though the Hilmer Report on national competition policy had already proposed the introduction of this model into some areas of public service delivery (Hilmer et al, 1993). Instead, the Green Paper argued for the Commonwealth Employment Service (CES) to build on existing arrangements for contracting out some specialised training and labour market program delivery to non-governmental providers, according to the principle of ‘complementarity’. This was based on the view that non-government providers could be effective in helping unemployed people with special needs and in coordinating services and job opportunities at a local level.

This complementarity, according to the Green Paper, had limits. Bringing community sector providers into high-volume service delivery, for example, might destroy those features that allowed them to offer a distinct service, such as ‘their sense of mission, their advocacy role on behalf of disadvantaged people, and their capacity to innovate and be flexible’ (CEO, 1993: 153). At this point, therefore, the innovative capacity of NGOs was seen as related to their distinctness and their separation from government rather than their competitive possibilities.

What subsequently emerged in the White Paper was significantly different: Working Nation accepted the proposals for extending case management, but inserted a competition model for delivering it. This competition was still limited, however. Contracted case management was tendered on a fixed-price basis and the CES case management wing (Employment Assistance Australia) remained in the public sector.

Contracted case management was only operating in full for just over a year before the incoming Coalition Government dismantled much of the Working Nation structure, arguing that it was an expensive failure. The justification for this was mainly based on early evaluation data suggesting that the programs into which the majority of clients were directed were the most expensive and the least effective.

Many of these clients were long-term unemployed and therefore required higher levels of assistance, and subsequent analysis has indicated that some programs were more effective than the official estimates claimed (Stromback, Dockery and Wing, 1998). Nevertheless, the new government was ideologically opposed to high levels of expenditure in this area. Shortly after taking office they announced a restructuring of employment assistance which cut resources for labour market programs by $1.8b over four years (28 per cent compared with forward estimates) and laid plans for the creation of the so-called ‘contestable market’ in employment services (DEETYA, 1996b) which became the Job Network.

Certain aspects of these proposals met with widespread support, particularly the increased flexibility for case managers to develop individually-focused support, and the amalgamation of income support and employment functions in the new ‘one-stop’ agency, Centrelink. Other elements were much more controversial. There was considerable hostility towards the contestable market approach, with doubts expressed by both public and non-governmental agencies about whether such a model could work to the benefit of clients, especially once funding moved from a fixed-price format to price competition. In particular, there was concern that disadvantaged groups such as migrants and other people of non-English speaking backgrounds were likely to lose out. There was also concern about the erosion of the rights of entitlement to social security benefits for unemployed people, which have become
increasingly dependent on compliance with individual activity agreements (Carney, 1996).

In a review of trends in the structure of job-placement and employment services in the mid-1990s in the OECD countries, Walwei (1996) placed Australia in the most liberal and market-oriented category - even before the introduction of contracted case management under Working Nation. Walwei did not find a pure market system operating anywhere at the time, even though countries like the US and UK made considerable use of non-governmental and private provision in their training and enterprise programs. Since 1998, therefore, Australia has arguably gone further in the market direction than any country in the OECD.

4. The Job Network

The main structural elements of the new system in 1998 were as follows.

- CES offices were closed and the CES’ case management arm, Employment Assistance Australia, was restructured into a government-owned company named Employment National, to be managed along commercial business lines.

- The registration, assessment and referral functions of the former CES were merged with the former Department of Social Security’s payments network into a new agency, Centrelink.

- Employment assistance at three levels (Job Matching, Job Search Training and Intensive Assistance, along with some entry-level training support and assistance for self-employment start-up (the New Enterprise Incentive Scheme) was put out to tender to public, private and non-profit agencies. One of the assessment criteria for the two lower levels of assistance was price competitiveness, while Intensive Assistance remained fixed-price but payable mainly on the basis of specified outcomes.

Since then the Job Network has been through two further contract rounds, the terms of which have changed its nature. In the second round, for example, Intensive Assistance was also opened to price competition. However, the employment department’s own initial implementation evaluation, acknowledged that many intensive assistance clients were receiving only limited help (DEWRSB, 2000a). Spending on training and employment subsidies in particular dwindled, partly because while agencies were feeling their way in the new system it was risky expending funds that might not be recouped as an outcome payment. Many were also using upfront intensive assistance payments to subsidise under-funded job matching services.1

The second round contracts required agencies to make a 'declaration of intent', aimed at making them more accountable for delivering what their tenders promised. They were also required to enter individual support plans for job seekers who did not find employment within the first 13 weeks of assistance. Thus, as Ross Gittins noted in a Sydney Morning Herald article at the time, the implied requirement that more

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1 The unit prices bid for Job Matching ranged from around $100 to several hundred dollars, but were widely acknowledged as being insufficient to cover the average costs involved and tended to create incentives for agencies to ‘cream’ the most job ready applicants.
resources should be devoted to areas like training or work subsidies can be viewed as nudging the system quietly back in the direction of the labour market programs the Government had abolished in 1996.

In spite of the radical shift in the way employment services were provided, it was hard even at this stage to see the new arrangements as representing anything like a free market. It remained a highly constrained and artificial structure, created by government and retaining a high degree of government regulation and control. It also had a monopoly purchaser of services (DEWRSB) and supplier of clients (Centrelink) (in effect a ‘monopsony’), or, as Considine (1996) has described it, a ‘market bureaucracy’.

The third contract round, from July this year, produced further changes that, while opening up basic job matching to further private sector competition, effectively reduced competition in the core business of assisting disadvantaged job seekers, and made the details and processes of service delivery more prescriptive for participating agencies. These changes included abandoning price competition and weighting both fixed service fees and outcome payments more towards longer-term unemployed clients; instituting a ‘service guarantee’ and earmarked ‘job seeker accounts’ to provide funds for items such as training course or wage subsidies; and prescribing more points and types of service intervention. Some changes implied less regulation, such as the removal of agency quotas and introduction of greater consumer choice of agencies, but even these were hedged around with considerable restrictions.

The ‘contestability’ of the market was also significantly reduced, with 60 per cent of contract business being rolled over to existing ‘high achievers’ rather than being put out for re-tender.

To get an idea of how the employment services ‘market’ has developed it helps to look at changes in the sectoral composition over time. Table 1 summarises these changes since the mid-1990s. Under Working Nation, basic job matching remained the responsibility of the Commonwealth Employment Service (CES), while case management was shared between the public Employment Assistance Australia (EEA) and contracted case managers from both the community non-profit sector and private agencies. Job seekers starting case management in 1996-97 were divided more or less equally between EEA and contracted case managers. Around a quarter went to community sector agencies, one-fifth to private firms and 55 per cent to the public sector, including State government bodies and TAFE colleges.

In the first round of the Job Network contracts the big winners, in terms of overall market share, were the private agencies, while the community sector also gained to a lesser extent. The public sector’s overall share was reduced to one-third, but Employment National - the corporatised case management arm of the CES - remained easily the largest single organisation in the network. However, these figures mask the distribution of market share across the different types of provision and within the different sectors. A total of 306 organisations were offered contracts in the first round, but only 125 providers had contracts to provide intensive assistance, thus representing a concentration of delivery compared with that under contracted case management.

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2 Defined as the percentage of contracted placements in each type of service.
Table 1: Percentage Market Share of Employment Services by Agency Sector, 1996-2003

<table>
<thead>
<tr>
<th></th>
<th>1996-97 Contracted case management (243 agencies operating from 852 sites)</th>
<th>May 1998 All Job Network services (306 agencies operating from 1404 sites)</th>
<th>March 2000 All Job Network services (205 agencies operating from 2114 sites)</th>
<th>July 2003 All Job Network services(^1) (109 agencies operating from 986 sites + additional outreach sites)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>55</td>
<td>33</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Private</td>
<td>20</td>
<td>37</td>
<td>45</td>
<td>47</td>
</tr>
<tr>
<td>Non-profit</td>
<td>25</td>
<td>30</td>
<td>47</td>
<td>50</td>
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</table>

1. Job Placement services (formerly Job Matching) have also been opened up to licensed private recruitment agencies, so the overall market share amongst the private sector is likely to grow further in the future.

Sources: Kemp, 1998; Davidson, 1998; DEWRSB, 2000; DEWR, 2003

The second round of contracts produced two main surprises, with Employment National losing most of its IA business and the biggest national (and international) private agency (Drake) bowing out altogether.

This tendency towards concentration has gone even further in the third contact round. As mentioned above, allocation of new contracts in Employment Services Contract 3, from July 2003, was based heavily on encumbency, with 60 per cent of business being rolled over to existing high performers. The 40 per cent of business that was re-tendered only produced seven new providers not already involved in the second round of contracts, but around one-quarter of existing providers either failed to win contracts or did not tender again. Thus the new Network represents a further concentration of the key employment services, both in terms of the number of agencies and the number of sites (although Job Placement may become more diversified over time). Public sector involvement is now reduced to a few local or State government projects, while the private agencies and non-profit sector have consolidated their roughly equal market shares.

Although only limited information is available on the percentage of business accruing to particular agencies it appears that the profiles of the private and non-profit sectors are rather different. The top 12 agencies hold just under 60 per cent of business overall, leaving an average of 0.6 per cent for each of the rest (DEWR, 2003). Yet whilst the two private agencies with the largest shares (Sarina Russo Job Access and
Work Directions) each have less than six per cent of total business, the two main non-profit players (faith-based organisations the Salvation Army and Mission Australia) have gained nearly a quarter of the total business between them.

With opportunities reduced for new players to enter the network it becomes less meaningful than ever to see it as a genuine contestable market. The Government appears to have estimated that most of the benefit likely to be gained from competition in this area has already been achieved and reverted to a desire for stability instead. This can be seen as positive in view of the enormous transaction costs involved in tendering for each new round of contracts. The impact of these is visible from published DEWR data on the troughs in monthly outcomes achieved around the contract re-tendering periods.

Burgess (2003: 239) has argued that the continuous changes that have taken place in the structure of the Job Network are a sign of the inherent weaknesses of what is a 'contrived market', which requires ongoing ‘tinkering’ by government. On the other hand, it could be argued that this ‘learning by doing’ and ongoing adjustment are indications of its flexibility and capacity for improvement through experience.

5. Job Network Outcomes and Effectiveness

So how effective has this experiment in outsourcing been? Until recently there has not been much detailed information available about the workings of the Job Network. In particular it has been difficult for researchers outside the Department to access the raw data that are needed to test the Government’s claims of success properly. However, the Productivity Commission's (2002) final report on the Job Network was published last year and the Department of Employment and Workplace Relations' third evaluation report (DEWR, 2002b) was released at the same time, with interesting new data on net employment impacts. A number of further useful studies, both quantitative and qualitative, have also been carried out in recent years by independent researchers (eg., Dockery, 2002).

The official reports provide a mixed picture of the Job Network's achievements. Overall they confirm earlier estimates that outcomes, while gradually improving, appear broadly similar to those of the previous Working Nation programs at their peak, taking into account differences in program participants, the better external employment environment and different methods of outcome measurement. On the other hand, the Productivity Commission also confirmed what earlier research, including our own (Eardley, Abello and MacDonald, 2001), had suggested, which is that weaknesses in the funding and incentive structure had led to widespread 'parking' of harder-to-place job seekers, many of whom received little help while in the intensive phase of assistance. There were still also problems of access to assistance for some key groups, including young people and Indigenous job seekers.

Other commentators have argued that the central focus on job placements as measurable outcomes - the key way that the government chooses to deal with the monitoring problem discussed earlier – can be inappropriate for certain groups such as some mature-age job seekers (see, for example, Kerr, Carson and Goddard, 2002). The argument here is that seeing outcomes only in terms of jobs gained fails to recognise the ‘soft outcomes’ from inputs such as counselling and personal support
that may be needed by some job seekers before they can hope to achieve a job outcome.

Also, as the Productivity Commission notes, gross outcome measures can be misleading and tell us little about the net impact the employment programs have on unemployment. Previous net impact measures have been based on departmental post-programme monitoring studies. These have suggested, for example, that the prospects of Intensive Assistance leaving income support were around 10 per cent greater than those of a matched comparison group (DEWRSB, 2001). However, both the OECD (2001) in their earlier review of the Australian labour market and the Productivity Commission (2002b) have highlighted methodological problems in the way the Department's post-programming monitoring studies have been designed, which tend to exaggerate the impacts. This has been recognised in the Department's 2003 evaluation of the net impact of Job Network services, which is based on new methods that take better account of three key factors.

These are the compliance effect - the effect on job seekers' behaviour from simply being referred to a program; the program effect - the actual benefit gained from the services provided on the program; and the attachment effect - the generally negative impact of reduced job search effort while involved in a program. On this basis, the Department estimates that the average net impacts of assistance are much smaller than previously suggested - just over two per cent for Intensive Assistance and between seven and eight per cent for Job Search Training. Most of the impact (virtually all in the case of Intensive Assistance) seems to be achieved not through program assistance itself, but as a result of people moving off income support simply by being referred to the programs. The assumption (largely untested) in the latter case is that when referred, people either increase their own job search effort or are already working unofficially.

These are perhaps not quite as poor as they might seem at first sight. The new estimation methods are tentative and probably conservative, while the averages conceal variations that suggest somewhat higher net impacts for more disadvantaged job seekers. Yet overall the results are in line with most international experience that only relatively small net employment gains are to be had from labour market programs and that their main impact comes from the redistribution of employment opportunities amongst the unemployed (Webster, 1999).

What these smaller net employment estimates do bring into question are some of the Government's bolder claims of greatly improved cost effectiveness under the Job Network. DEWR comparisons of the costs of both gross employment outcomes and net off-benefit impacts (based on their previous methods) from Job Network and Working Nation programs suggest that the former are substantially lower on average. The newer and more modest net impact estimates, however, make Intensive Assistance in particular look substantially more expensive per net employment gain. Similar caveats would also apply to the net impacts of Working Nation programs of course. Nevertheless, as the Productivity Commission states, in noting that the aggregate cost of labour market programs fell by around half between 1996-97 and 1999-00 without much difference in unemployment levels; 'This may well be the result of greater cost effectiveness of the programs, but it could also be the result of
the imprecision with which the small impacts of labour market programs are measured’ (Productivity Commission 2002: 5.24).

There seems little doubt that competition within the framework of Job Network has produced efficiency gains, though it is difficult to pinpoint quite how such gains are achieved because it remains hard to find out much about what different agencies are doing on the ground - too much has been 'commercial in confidence'. Some examples include innovative relationship building between agencies, employers and other bodies to develop targeted employment opportunities, and the flexible use of outcome funds to meet the range of costs for effective job search and preparation. There was undoubtedly less flexibility for such approaches under the CES.

What is harder to measure is the range of other more negative spin-offs from competition among service providers, which are not captured at all in the simple focus on measured employment outcomes. A number of providers and individuals consulted by the Productivity Commission, as well as in our own study of the impacts of competition (Abello and MacDonald, 2002), pointed to negative impacts on relations within the not-for-profit sector. This is acknowledged, for example, by one of the main NGO ‘winners’ in the sector.

Mission Australia has been the subject of scepticism from our colleagues and other agencies within the community sector, especially those who have not embraced the move to accepting government contracts in employment services. Competition has threatened and in some instances destroyed the high levels of collaboration and cooperation once a characteristic of the community services sector.

(Russell-Brown, 2000)

There is evidence of negative impacts on communities where long-established local agencies have run into financial difficulties as a result of entry into the Job Network (Eardley, Abello and MacDonald, 2001; Nevile and Nevile, 2003). We also have to bear in mind employment losses, as well as reduced pay levels and increased stress amongst some placement staff in the privatisation process. The apparent efficiency gains of getting broadly similar outcomes for a much reduced public expenditure dollar need to be set against some of these displaced costs.

While the competitive model has forced non-profit agencies to operate more like private businesses (Ramia and Carney, 2003), many NGOs remain committed to the welfare of their clients and to provide the best services they can even when government funding is inadequate or they disagree with the philosophy behind the contestable market. As Nevile and Nevile (2003) point out, the problem is that government takes this commitment for granted and is inclined to exploit it.

6. Conclusions

This paper has discussed the privatisation of employment services under the Job Network as an example of outsourcing in the human services in Australia. I have argued that while a radical experiment at its inception, it has been through a series of government-directed changes in response to elements of market failure that undermine its claim to be either a true market or fully contestable. The Network does
seem to have made efficiency gains compared to earlier employment services in terms of public expenditure, while making only modest improvements, if at all, in macro employment outcomes. Given continuing problems of access to services by particular equity groups and the acknowledged problems of ‘parking’ of harder to assist job seekers, there is also a possibility that the quality of service for some users has declined. While there is evidence of more flexible and innovative approaches being developed by some agencies, the apparent efficiency gains also need to be set against some less quantifiable impacts resulting from introducing a competitive model into the community social welfare sector.

In terms of the future, there seem to be some tension between the Productivity Commission's (2002) view that further gains could be had from introducing more genuine market features into the Network and the apparent desire by DEWR to consolidate it as a regulated quasi-market. The Government's response to the Productivity Commission report suggested that the door was not entirely closed on proposals for greater market liberalisation, included the possibility that DEWR and other agencies may be able in the future to source services from providers other than Centrelink (Campbell, 2002). On the other hand, the Department's (2002b) own evaluation spoke the language of incremental improvement and fine-tuning. Thus although the radical experiment may not be over yet, there is not much evidence of further reforming zeal in this area at present.

If there is a single lesson from the Job Network experience it is perhaps that in complex areas of social welfare such as this we might well expect to see such reforming zeal tempered over time by the real world experience of service delivery.

References


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