

Implementation of Job Network Employment Services Contract 3

**Department of Employment and
Workplace Relations
Centrelink**

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of Australia 2005

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Canberra ACT
18 August 2005

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Employment and Workplace Relations and Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Implementation of Job Network Employment Services Contract 3*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Glossary/Abbreviations

AAO	Administrative Arrangements Order. A document setting out the matters dealt with by departments of state and the legislation administered by ministers.
ABS	Australian Bureau of Statistics.
APM	Active Participation Model. The set of changes to employment services introduced from 1 July 2003, announced by the Government in the 2002–03 Budget. See Chapter 1.
Australian JobSearch	An Internet-based public access system enabling the recording, printing and matching of résumés to jobs and providing information about employment and training.
BPA	Business Partnership Arrangement. An arrangement under the <i>Commonwealth Services Delivery Act 1997</i> whereby Centrelink undertakes service delivery for a Commonwealth body.
Centrelink	The Commonwealth statutory agency that delivers a range of services to the Australian public, most particularly for DEWR and FaCS.
CobiT	Control Objectives for Information and Related Technology. See Chapter 4 and Appendix 1.
Complementary programmes	Complementary programmes are Commonwealth, State or Territory government-funded employment and training programmes which may be accessed by employment services providers to provide additional, specialised help to job seekers.
CMMI	Capability Maturity Model Integration. An information technology (IT) industry standard to evaluate an organisation's ability to manage the development, acquisition and maintenance of IT products and services. See Chapter 4 and Appendix 1.
DEWR	Department of Employment and Workplace Relations.
DoFA	Department of Finance and Administration.
EA3000	The computer application developed by DEWR to implement the APM under ESC3. See Chapter 4.

EMC	Employment Management Committee. A senior committee within DEWR, chaired by a deputy secretary, which has oversight of employment services.
ESA	Employment Services Area. Geographical division of Australia used by DEWR in relation to the delivery of its employment services. There are 137 ESAs.
ESC2	The second employment services contract. Commenced in February 2000 and ended June 2003.
ESC3	The third employment services contract. Commenced on 1 July 2003 and due to end in June 2006.
ESC4	The fourth employment services contract. Expected to commence in July 2006.
FaCS	Department of Family and Community Services
FJNE	Fully Job Network Eligible. A person eligible for the full range of Job Network services.
HLS	Harvest Labour Services. A programme administered by DEWR and in connection with which services are provided under ESC3.
JCPAA	Joint Committee of Public Accounts and Audit.
JNM	Job Network Member. In this report, equivalent to 'Job Network provider'.
Job Network	The Job Network is an Australia-wide network of private and community organisations that have contracts with DEWR to provide specified employment services for unemployed people.
Job Network provider	One of the organisations contracted by DEWR on behalf of the Commonwealth to provide employment services.
JSCI	Job Seeker Classification Instrument.
JSKA	Job Seeker Account.
JSOS	Job Seeker Omnibus Survey.
JSP	Job Search Plan. An agreement setting out the activities, assistance and complementary programmes that the job seeker agrees to participate in while in Intensive Support. The Job Search Plan forms a schedule to the Preparing for Work Agreement.
KPIs	Key performance indicators. Principal measures of programme and organisational performance. See Chapter 6.

NESA	National Employment Services Association. The industry representative body for organisations forming the Job Network.
MO	Mutual Obligation. Under Mutual Obligation arrangements, people aged between 18 and 49 years who have been receiving unemployment payments for six months or more are required to supplement their job search with an additional activity.
NEIS	New Enterprise Incentive Scheme. A programme administered by DEWR and in connection with which services are provided under ESC3.
OGC	Office of General Counsel, within the office of the Australian Government Solicitor.
PAES	Portfolio Additional Estimates Statements. Papers presented to Parliament during the course of the financial year setting out variations to the annual budget set out in the PBS.
PBS	Portfolio Budget Statements. Papers presented to Parliament with the annual budget setting out funding requirements for the portfolio, including new measures and explanations of appropriations by agency.
PfWA	Preparing for Work Agreement. An activity agreement under the <i>Social Security Act 1991</i> . Specifies the activities that a job seeker must undertake to continue to receive their allowance or to continue to receive Job Network services.
PSAES	Portfolio Supplementary Additional Estimates Statements.
RFT	Request for tender.
Star Ratings	DEWR's system of setting a comparative order of merit among Job Network providers, reflecting its assessment of their performance relative to each other. See Chapter 7.
Tree-shaking	Actively engaging the whole of the population of unemployment payment recipients in the expectation that this would reveal some who would, as a result, subsequently cease to receive those payments.
VP	Vocational Profile. Personal information about a job seeker entered into DEWR's computer system and used for automated matching with available job vacancies.

Summary and Recommendations

Summary

Background

1. The Job Network is an Australia-wide network of around 109 community-based and private organisations. It provides public employment services to the unemployed under contract to the Department of Employment and Workplace Relations (DEWR). In other words, DEWR makes payments to the Job Network to help unemployed people find paid work, preferably long-term work. Since the Job Network's inception in 1998, there have been three contracts for these services. The latest, known as the 'Employment Services Contract 2003–06' (the third employment services contract, usually abbreviated to 'ESC3'), started on 1 July 2003 and goes for three years.
2. The Government sought to use the opportunity of a new employment services contract to improve employment service delivery and outcomes by providing simpler arrangements and a service guarantee to job seekers, with easier access to a wider range of job opportunities; better targeting and more timely provision of services to those most in need; a stronger culture of active job search participation and mutual obligation, and more effective incentives for providers to invest in support that achieves outcomes for all job seekers, especially those most at risk of long-term unemployment.
3. ESC3 brought major change to the operation of the Job Network by initiating the Active Participation Model (APM). The APM introduces a continuum of services to the unemployed. They receive those services from a single Job Network member for the duration of their unemployment, during which the services are intended to increase in intensity.
4. Under ESC3, as with the earlier contracts, Centrelink provides certain essential, related services to the unemployed. DEWR manages this through a Business Partnership Arrangement (BPA) with Centrelink. DEWR itself does not provide services direct to unemployed people, but it is ultimately accountable for the services provided by the Job Network and Centrelink. Centrelink, a statutory agency within the Human Services portfolio, is also separately accountable for its activities through its minister.
5. The introduction of ESC3 and the APM depended on the use of innovative computer technology. DEWR developed a new computer application, Employment Assistant 3000 (EA 3000) for ESC3 and it is accessed by the department, Centrelink and Job Network providers in daily Job Network operations.

Audit objective and scope

6. The objective of this audit was to assess whether DEWR had implemented ESC3 and its computer system EA3000, efficiently and effectively. The primary focus is on the period of change from the previous employment services contract to ESC3 and the first full year of its operation, 2003–04.
7. The scope of the audit was limited to the implementation of Job Network services under ESC3, the introduction of the supporting computer application, EA3000, and DEWR's use of modelling to estimate the effects of the APM. The audit did not test the effectiveness of the APM. DEWR has a plan to evaluate the new model.
8. A separate, concurrent ANAO audit assessed DEWR's oversight of Job Network services to job seekers.

Key Findings

Consistency of administrative framework with policy directions (Chapter 2)

9. DEWR first implemented the new employment services market—the Job Network—in 1998. The primary objective of the Government’s reforms in establishing the Job Network was to ensure that labour market assistance would have a clear focus on job outcomes and would genuinely make a difference to those assisted.¹

10. Because legislation providing for case management services for the unemployed, the *Employment Services Act 1994* (ES Act), had not been repealed, the Government implemented the new arrangements under executive power.

11. In 1998, the ANAO undertook a performance audit of the Job Network implementation² and examined the steps the department took to minimise the risk of legal challenges arising from the use of existing legislation and administrative authority. The existing legislation defines and specifies the operation of the case management system in providing employment services. One significant source of risk flowed from the need for any new service to be sufficiently different from case management to withstand legal challenge. In that earlier audit, the ANAO concluded that the department had addressed those risks particularly by increasing the differences between the new service types and case management, as defined under the ES Act.

12. The ANAO has found that, in designing ESC3, DEWR had considered the risk of a legal challenge arising from the further changes to the nature of Job Network services.

13. Key policy elements of the APM are for each job seeker to be assisted by a single Job Network provider and for them to have an opportunity to make an informed choice of provider. One of DEWR’s requirements under its BPA with Centrelink is that ‘Centrelink will obtain job seeker preference for a JNM’. The ANAO found that the BPA does not include an obligation for Centrelink to advise the unemployed of this and other DEWR requirements governing their attachment to Job Network providers. Seminars designed to provide job seekers with information to help them to choose a provider are held only ‘where practical’. For these reasons, the ANAO concluded that informed choice does not take place in all cases. Further, the intention to have each job

¹ Minister for Employment, Education, Training and Youth Affairs 1996, *Reforming Employment Assistance*, Ministerial Statement, August.

² ANAO 1998, *Management of the Implementation of the New Employment Services Market*, Audit Report No.7 1998–99.

seeker assisted by only one provider throughout their period of unemployment is intended to be a cornerstone of the APM. This policy is intended to minimise the reprocessing of job seekers among providers. During the course of the audit, DEWR updated its Complaint Management guidelines to provide criteria to help DEWR customer service officers to approve or refuse requests to transfer a job seeker to another provider.

Modelling and funding (Chapter 3)

14. DEWR's purchase of employment services for the unemployed from the Job Network had cost around \$1 billion each year. For this reason and because of the scale of the changes introduced with ESC3, DEWR modelled the operation to help predict the financial consequences. DEWR recognised in advance that transition to a very different model of employment services would pose a challenge for estimating expenditure. The department sought to:

- keep within its budgeted forward estimates of expenditure;
- ensure that there would not be an unacceptable financial effect on the employment services industry; and
- increase the proportion of funds attaching to outcomes as compared to service fees.

15. DEWR made a considerable effort to improve its predictive capacity, engaging an expert consultant to help with its modelling. The use of both DEWR staff and the consultant's staff to develop the model allowed greater flexibility in undertaking the work, which was appropriate given the short time available for the work to be completed.

16. DEWR has depended on its consultant for assurance about the integrity and robustness of the model. Because the department prepared no documentation and required none, this left DEWR in a weaker position for future development. A project with the Department of Finance and Administration (DoFA) to redesign the model for future estimates calculations provides an opportunity to address these shortcomings.

17. DEWR was helpful in providing information and advice to the industry association to help it with its own modelling, which was structured more towards use by individual Job Network members.

18. DEWR reported an overspend of \$8 million on the Job Network against a revised 2003–04 budget of \$991 million. DEWR has tracked and reported its expenditure in detail internally since implementation of ESC3. This shows that, in the first year of ESC3, the department used a greater proportion of funds to pay intensive support service fees (\$486 million) than to pay outcome payments for job placements (\$171 million). However, DEWR reported that the

proportion of funds going to outcome fees had risen to around 50 per cent by the end of the second year of the contract.

19. Job Network outcome payments and service fees are elements of Job Network services which, in turn, comprises part of the Job Network programme. The current level of aggregation of financial information does not allow external stakeholders to identify the contribution that outcome payments and service fees make to Job Network expenditure and any trends that reflect DEWR's success in making the programme outcome-focused.

IT support for ESC3 (Chapter 4)

20. Implementing ESC3 involved substantial systems development for DEWR and Centrelink, including the move to web services technology. To a substantial extent, the ESC3 initiative relied upon a major DEWR IT release, Employment Assistant 3000 (EA3000). EA3000 is an application developed for use by external service providers and departmental staff to manage the operation of Job Network services and to enable the department to monitor and regulate job seeker flows. Centrelink, as 'gateway' to the Job Network, developed the capability for exchange and updating of job seeker information between EA3000 and Centrelink systems.

21. The first release of EA3000 was on 14 April 2003. The second and major release was on 1 July 2003, when ESC3 commenced.

22. Centrelink and Job Network providers were dependent upon the timely implementation and proper functioning of EA3000. Centrelink staff used an interface between Centrelink and EA3000, particularly web services, to make its primary contribution to employment services, that is, to check job seeker registration details and to make diary appointments with Job Network providers for job seekers. These initial steps were essential to a successful transition to ESC3. Developing vocational profiles (VPs) for both existing job seekers (the stock) and those referred during the transition period (the initial part of the flow) was a prerequisite to providing those job seekers with Job Network services after 1 July 2003 and ensuring a smooth start to ESC3.

23. From the first release of EA3000, major implementation problems were reported by Job Network providers and Centrelink staff. The risks associated with implementing a large, sophisticated and crucial system with new technology were heightened by a tightly restricted time frame. Although a systematic planning approach was developed by DEWR, no significant load testing was performed before the 1 July 2003 implementation date.

24. The consequences of IT system instability and intermittent unavailability, particularly with DEWR's systems, leading up to 1 July 2003, were that Centrelink was severely constrained in its ability to complete job seeker registrations, perform job seeker assessments, and book or confirm

appointments for VPs. When EA3000 access was unacceptably slow or unavailable, Centrelink resorted to manual workarounds. This contributed to delays in referrals and affected the rate at which job seekers attended Job Network appointments. DEWR later paid Centrelink for the additional work undertaken to deal with the backlogs.

25. Achieving operational stability remained a challenge for DEWR until August–September 2003. The department later stated that delivering its major releases on time has ‘often been at the cost of compromised quality as testing and training timeframes are compressed to compensate for overruns in earlier project phases’. DEWR has also advised that IT for ESC3 was not fully operational from the outset. It said that the system took five weeks to be stabilised, and stated that this is ‘well ahead of industry standards for such a large project’.

26. DEWR has reported that it delivered the system on time and within budget. However, it is not possible to verify this statement. Although DEWR delivered baseline requirements, it did not clearly state its expectations about the functionality and likely cost of EA3000 in advance. Over several months after implementation, DEWR substantially improved the performance of the system. While Job Network providers had encountered difficulties with the implementation of the system, the majority agreed that problems had been mostly resolved.

27. The ANAO acknowledges that since system implementation, DEWR’s Employment Systems Group (ESG) has recognised opportunities for improvement for IT processes. Particularly in more recent times and with the assistance of external consultants, ESG has improved its IT general controls environment and has gradually introduced changes to bring about a more mature IT operating environment.

Management of the transition to ESC3 (Chapter 5)

28. DEWR had undertaken extensive risk assessment and planning for the transition to ESC3. DEWR’s intention was to ensure that all job seekers eligible for Job Network services were attached to ongoing Job Network providers well ahead of the commencement of ESC3. The department described this as ‘one of the principal aims of transition management’. Specifically, the department expected that 60 per cent or about 450 000 vocational profile (VPs) would be completed by 30 June 2003 with the balance, about 300 000, completed by September 2003.

29. DEWR had also taken into account previous experience, that is the transition from ESC1 to ESC2, and set four ministerially-endorsed objectives to be met during transition. These were to:

- minimise any disruption to services for job seekers and employers;
- minimise any reduction in outcomes achieved during the transition period;
- have all eligible job seekers referred to Job Network members contracted under ESC3 as quickly as possible; and
- provide, in consultation with the industry, a consistent, manageable flow of job seekers to Job Network members, which maintained appropriate cash flows.

30. Two major issues arose during transition. These were difficulties with DEWR's computer system, EA3000, particularly for Centrelink (as explained above), and low job seeker attendance at VP appointments. When considering these issues, it is important to bear in mind that the APM is a *continuum* of service. Therefore, any issue impeding initial VP attendance was likely to have subsequent consequences on services for job seekers, potentially delaying long-term job outcomes and lowering cash flow to Job Network providers. The ANAO examined DEWR's management of these two issues and concluded that it took action to address them.

31. The ANAO's assessment against each of DEWR's transition objectives shows that:

- complaints recorded by DEWR during transition to ESC3 exceeded that experienced in the previous transition period;
- reported outcomes dipped more markedly in the transition from ESC2 to ESC3 than in the previous transition, though they recovered after transition;
- by 27 June 2003, (only a few days before the start date for ESC3, 1 July 2003) nearly 451 000 VP appointments had been scheduled to take place by that date but only 184 200 VP attendances had been recorded; and
- because the flow of job seekers to the Job Network was much lower than expected, Job Network members raised concerns about cash flows. These were addressed by two changes in payment arrangements. The first change, in July 2003, involved \$100 million advance payments for services that DEWR had expected to be provided and the purchase of \$33 million of additional services. The second change, in September 2003, allowed payments to be made quarterly, in advance, to Job Network providers for all Intensive Support Customised Assistance contacts with job seekers, for expected appointments.

32. On the evidence available, the ANAO concluded that DEWR largely did not meet the transition objectives. However, following implementation, the

IT system was stabilised and job placements and long-term job numbers recovered within a few months, with job placements and long-term (13-week) job rates exceeding those recorded at a similar point in ESC2.

33. During the implementation of ESC3, DEWR did not explicitly monitor and report in terms of the four transition objectives endorsed by the Minister. DEWR's *Annual Report 2003–04*, which reports the successful implementation of the APM, does not refer to the department's performance in terms of these four objectives.

34. DEWR did advise the ANAO that an additional factor in reviewing the low attendance during transition was DEWR's expectation that the compliance effect of the APM would identify some income support recipients who would cease to receive those payments. In early 2002, this was expected to yield annual savings of \$21.7 million to the Commonwealth. There has been no report against this expectation. It is difficult to discern whether, where unemployed people failed to attend appointments, this should have been interpreted as a compliance effect or by concluding that the transition process had not engaged the unemployed into the new arrangements as effectively as intended.

Performance information (Chapter 6)

35. DEWR's Outcome 1 in the period under review was 'An effectively functioning labour market'. A range of different factors, only some which are under the control of or subject to the influence of DEWR, is likely to bear upon the effective functioning of the Australian labour market. This means that DEWR needs to specify its contribution to that effective functioning.

36. DEWR told the ANAO that:

It can be inferred from Connolly and Cunningham [2004] and Connolly, Herd and Neo (2002) that *it is very difficult to determine quantitatively the effect of Departmental programmes (including Job Network) on the average duration of unemployment and the rate and incidence of long-term unemployment*—most of the explanatory variables reported in these two studies are largely outside the Department's influence and Job Network spending accounts for well under half of a per cent of GDP. This means that it is not feasible, at this stage, to link Departmental programme outcomes with the average duration of unemployment in a formal, empirical manner. Instead, the judgement of Departmental staff (informed by empirical work including that by Connolly and Cunningham 2004) is currently used to monitor and report on the influence of Departmental programme outcomes on the effectiveness indicators [emphasis added].

37. Under the Performance Management Principles, output performance information relates to the quality, quantity and price of agency outputs. In the DEWR *Annual Report 2003–04*, the department provides tables setting out

performance indicators and actual performance by output, together with related commentary on each. The ANAO found that DEWR would more clearly satisfy annual reporting requirements if it provided an explanation, reconciling the final result with the original estimates in the corresponding portfolio budget statement (PBS).

38. DEWR has recently re-established an indicator to enable it to assess the efficiency of the Job Network. This will provide a 'cost per employment outcome' for those who are employed or studying three months after leaving Job Network assistance. It would improve transparency if, where DEWR reports performance in these terms, it makes it clear that outcomes for all job seekers who have received Job Network assistance are included, not just those who attracted a specific outcome payment from DEWR.

39. The most frequent and prominent report on Job Network activity is DEWR's Job Network Performance Profile. However, the ANAO concluded that DEWR could use better measures of Job Network Performance than those currently reported in this document, which would:

- exclude results attributable to external factors (such as economic trends) or which were achieved by job seekers without the direct help of DEWR's providers; and
- give due emphasis to the Government's primary target group, income-tested income support recipients.

Provider performance management (Chapter 7)

40. DEWR does not directly measure and report in terms of the key performance indicators (KPIs) set out in the contract with Job Network providers. Instead, it uses a star ratings system to encourage performance improvement.

41. DEWR has used star ratings successfully as an incentive to improve performance. However, the system is not meeting all of the objectives set for it by DEWR; in particular, the available evidence shows that few job seekers make use of them to choose a provider. DEWR could also make it easier for Job Network providers to monitor their performance by making its use of weightings more transparent.

42. DEWR uses the star ratings approach to reallocate business based on the relative performance of Job Network providers, not their individual performance against agreed standards. The lack of specific performance standards in the contract is a potential weakness in the business reallocation mechanism. The department has accepted the risk and continues business reallocation among Job Network providers by its existing method.

Overall conclusion

43. The implementation of ESC3 was especially challenging because of the coincidence of substantial new policy, a simultaneous procurement process to select Job Network providers and a new IT system built on a new technology to a deadline.

44. ESC3 implementation on 1 July 2003 critically depended on a new IT system, EA3000. The new system was intermittently unavailable for several months until August-September 2003. This adversely affected the completion of job seeker registrations and referral of job seekers to Job Network appointments. Because the APM is a continuum, any delay at the start of the process had ensuing consequences for the flow of job seekers through the new system.

45. A low attendance rate by job seekers at appointments with Job Network providers also impeded the transition to the new model. The low attendance contributed to cash flow problems among Job Network providers. DEWR data shows that services to job seekers were disrupted and placement of the unemployed—which had previously displayed a long-term upward trend—dipped temporarily, as did the number of long-term jobs being achieved by the unemployed through the Job Network.

46. As explained in paragraph 29, DEWR set four ministerially-endorsed objectives to be met during transition. Because DEWR did not explicitly monitor and report against these four transition objectives it is difficult to assess objectively the extent to which they were achieved. On the evidence available, the ANAO concluded that DEWR largely did not meet the transition objectives. However, following implementation, the IT system was stabilised and job placements and long-term job numbers recovered within a few months.

47. DEWR expected ESC3 to be increasingly outcome rather than process-focused and yield savings in employment services expenditure. In its first year, the greater part of the expenditure went to service fees, not outcome payments. When DEWR sought additional funds, it attributed this to higher outcome rates whereas service fees required the increase.

48. During the audit DEWR undertook to consider updating aspects of its performance information in the context of 'overall evaluation activities' including: identifying the department's contribution to reported outcomes; achieving a 'clear read' from PBS to the related annual report; and updating its data series on the average cost of Job Network outcomes. These changes would help stakeholders to understand better the figures reported by the department and to show whether it has achieved expected performance levels.

DEWR response

49. The full DEWR response to the draft audit report is reproduced at Appendix 4. DEWR's summary response was:

DEWR welcomes the audit of the implementation of ESC3, particularly the ANAO's acknowledgement of the substantial policy and operational reforms heralded by the Active Participation Model and its delivery in time for the new Job Network contracts in July 2003.

DEWR welcomes evidence in the Report that issues such as job seeker attendance and IT systems were promptly addressed and settled shortly after the start of the contract. DEWR is disappointed however that the Report does not make it explicitly clear that Job Network not only moved quickly beyond transition but very significantly increased performance over past levels, including for long term unemployed and other disadvantaged job seekers. This needs to be taken into account in considering the success of the ESC3 transition.

In Financial Year 2004–05 the number of Job Network placements was 29 per cent higher than the new record that was set in 2003–04, the first year of service delivery under the Active Participation Model. In 2004–05, Job Network also earned more in outcome payments than service fees. This is a testament to Job Network members' success in getting the neediest job seekers into sustainable employment.

The Report makes six recommendations. DEWR has agreed in part with a majority of these, noting that recommended measures are in many cases already in place.

ANAO comment

50. This audit focused upon the implementation of the third employment services contract, ESC3, and the key findings present the issues arising and the overall audit conclusion

51. The department's summary response (above) and some responses to specific recommendations (set out in the body of the report) raise issues outside the scope of the audit, including the recent reported performance of the programme. Accordingly, no audit opinion is presented on these issues or any externalities which bear on the recent performance of the programme reported by the department.

52. This performance audit was conducted concurrently with another audit focusing on the Job Network, *DEWR's Oversight of Job Network Services to Job Seekers*, (Audit Report No.51 2004–05). Apart from the reports' recommendations directed at improving performance, these reports, taken together, are intended to inform the Parliament and the public of the

department's administration of the Job Network programme which has been designed to improve employment service delivery and outcomes.

Centrelink response

53. Centrelink, noting that the recommendations of this report are directed at DEWR but that the overall report contains many references to the DEWR–Centrelink relationship, provided the following response:

Centrelink notes the ANAO's views concerning the nature of the DEWR–Centrelink relationship as it affects the provision of services to Job Network providers and job seekers. Centrelink welcomes the ANAO's acknowledgement of the complexities involved in implementing large, sophisticated and crucial information technology systems within tight, restricted time frames. Centrelink agrees to discuss this report and its recommendations with DEWR in the context of the next Business Partnership Arrangement.

Centrelink has no specific comment in relation to any individual recommendation.

Recommendations

Set out below are the ANAO's recommendations and abbreviated responses from DEWR. More detailed responses from DEWR are shown in the body of the report immediately after each recommendation.

Recommendation No.1
Para. 2.41

The ANAO recommends that DEWR seek to ensure that unemployed people are able to make an informed choice of Job Network provider.

DEWR response: Agreed in principle.

Recommendation No.2
Para. 3.74

The ANAO recommends that DEWR document the development, use and maintenance of financial models where it uses such models for core business.

DEWR response: Agreed in principle.

Recommendation No.3
Para. 3.75

The ANAO recommends that DEWR provide in its budget documentation and annual reports a breakdown of estimates and actual expenditure on Job Network outcome payments and service fees.

DEWR response: Disagreed.

Recommendation No.4
Para. 5.115

The ANAO recommends that, when implementing a major change, such as the introduction of the APM, DEWR state all its operational objectives unambiguously in advance, and monitors and reports progress against these to stakeholders.

DEWR response: Agreed in part.

**Recommendation
No.5
Para. 6.68**

To enable the Parliament and the public to gain a better understanding of DEWR's performance for its Outcome 1 and, more particularly, the performance of the Job Network, the ANAO recommends that DEWR:

- clarify its output performance reporting to clearly identify the contribution to those outputs of programmes such as the Job Network and measures such as the introduction of ESC3; and
- re-cast its Job Network Performance Profile so as to identify the influence of external factors on the data presented.

DEWR response: Agreed in part.

**Recommendation
No.6
Para. 7.64**

The ANAO recommends that DEWR:

- improve transparency by reporting against the performance indicators set out in the employment services contract;
- include specific reference to the star ratings system and its method of calculation and operation in its contract with Job Network providers;
- ensure that information on star ratings of providers is available to job seekers before they are required to choose a Job Network provider; and
- inform all stakeholders of the confidence that can be placed in each element of its star ratings calculations.

DEWR response: Agreed in part.

Audit Findings and Conclusions

1. Introduction

This chapter introduces the Job Network and the third employment services contract, ESC3. It also explains the Active Participation Model, which underpins the operation of ESC3. It sets out how the performance audit was done and outlines the structure for the rest of the report.

Background

1.1 The Department of Employment and Workplace Relations (DEWR):

aims to maximise the ability of unemployed Australians to find work, particularly those who face the most severe barriers to work, to support strong employment growth and the improved productive performance of enterprises in Australia.³

1.2 To achieve its employment-related aims, DEWR develops and implements policies and programmes to support an effectively functioning labour market and increase workforce participation for all Australians of working age.

1.3 DEWR provides policy advice to ministers and government, administers programmes, and manages contracts related to employment services. The Job Network is a primary part of the employment services that DEWR delivers, comprising a national network of private and community organisations contracted to find jobs for the unemployed. Job Network provider organisations specialise in finding jobs for unemployed people, particularly those that are long-term unemployed.

1.4 The Government introduced a new model of operation for the delivery of employment services, the Active Participation Model (APM), with the latest Employment Services Contract (ESC3) on 1 July 2003. Under ESC3, the Job Network provides two major services to unemployed people—Job Search Support and Intensive Support. These two services, together with mutual obligation arrangements, form a continuum of service that increases in intensity while the unemployed person remains jobless.

1.5 The overarching objective of the policy changes was described by DEWR as ‘to ensure that job seekers remain “on the radar” of an employment services provider at all times and are actively engaged in job search, Mutual Obligation or other authorised activity’. More details of the APM are discussed below (para. 1.9 et seq.).

³ DEWR *Annual Report 2003–04* p. 9. Changes to DEWR’s outcome structure occurred after the 2004 general election and, in particular, following the subsequent transfer of responsibility for payments to people of working age to DEWR from the Department of Family and Community Services.

1.6 The new service requirements of the APM and ESC3 required substantial changes to DEWR's employment computer systems. DEWR developed a major new computer application, Employment Assistant 3000 (EA3000), for use by the department and Job Network providers in the operation of ESC3. Centrelink IT systems also interfaced with EA3000 via a web service.

Previous evaluation

1.7 The principles underpinning the APM were developed following extensive review and evaluation of the Job Network over the previous five years of its operation.⁴ In particular, there has been:

- a three-stage official evaluation by DEWR, with reports published in May 2000, May 2001⁵ and September 2002;⁶
- a lengthy study by the Organisation for Economic Co-operation and Development (OECD) (August 2001);⁷ and
- an independent evaluation by the Productivity Commission (PC) (draft—March 2002; final—September 2002).⁸

1.8 When the APM was announced (May 2002), DEWR observed that the OECD and PC reviews had reflected positively on the Job Network but that there was clear potential for improvement. DEWR advised that the PC report was an important element in the development of the APM.⁹ An internal departmental workshop in January 2002, attended by ministers and about 30 senior staff, was a further important event in its development.

1.9 At its announcement, the APM was seen as building on measures announced in the 2001–02 Budget under the name *Australians Working Together* (AWT). Those measures were developed from the work of a reference group

⁴ DEWR briefing for ANAO, 23 October 2003; DEWR, *Employment Services—An Active Participation Model*, (public discussion paper on the APM), May 2002, p. 4, footnote 3.

⁵ Minister for Employment Services, Media Release 5505, 'Evaluation shows that Job Network is progressing well', 11 May 2001.

⁶ Minister for Employment Services, Media Release 010002, 'Job Network Evaluation Goes On', 19 September 2002.

⁷ OECD 2001, *Innovations in Labour Market Policies: The Australian Way*, Paris.

⁸ Productivity Commission 2002, *Independent Review of the Job Network*, Report No.21, AusInfo, Canberra. The draft of the PC report was available before the Government considered proposals for ESC3. Details of the APM were publicly available shortly before the PC published its final report.

⁹ DEWR briefing for ANAO, 23 October 2003.

commissioned by the Government in 1999 to provide advice on welfare reform. The group's report, the McClure Report, was presented in July 1999.¹⁰

1.10 AWT sought to reform both labour market assistance and income support arrangements over the following four years. Among the relevant aims were to sequence and link better the various forms of assistance, such as Intensive Assistance and Job Search Training provided by the Job Network, and Work for the Dole, to maximise employment outcomes.

The Active Participation Model

1.11 The Government announced the Active Participation Model in the 2002–03 Budget. The DEWR *Portfolio Budget Statement 2002–03* (PBS) states that the APM comprises three elements:¹¹

- *Job Placement Services*—A separate employer focused service aimed at securing vacancies for inclusion in the JobSearch national vacancy database, and providing job placement organisations with incentives to place unemployed job seekers, particularly the long term unemployed, in those vacancies.
- *Job Network Services* comprising:
 - Job Search Support—an ongoing personalised service to all job seekers, and
 - Intensive Support—assistance of graduated intensity to eligible job seekers.

Job Network services will be linked to Mutual Obligation activities (for those with Mutual Obligation requirements) resulting in a continuum of active participation.

- *Vocational Support*¹² *Programmes*—improved linkages with other programmes including those funded by other Commonwealth departments and State/Territory agencies.¹³

1.12 DEWR had five specific strategies for implementation of the APM:¹⁴

¹⁰ Reference Group on Welfare Reform 2000 (Patrick McClure, Chairperson), *Participation Support for a More Equitable Society* (the final report of the reference group on welfare reform), July.

¹¹ Portfolio Budget Statements 2002–03, Employment and Workplace Relations Portfolio, Budget Related Paper No.1.6, p. 29. Subsequent PBSs provide explanations in similar terms. The focus of this audit is on the second of these three elements—Job Network Services provided under ESC3.

¹² Now referred to as 'Complementary programmes'.

¹³ DEWR PBS 2002–03, p. 29.

¹⁴ The five strategies are listed in the DEWR PBS (2002–03). Some of these strategies relate to services other than employment services delivered through the Job Network but all are included here for completeness. A similar, but more abbreviated list appears in the Minister for Employment Services, Media Release 05202, 'Employment services on the improve', 14 May 2002. Similar descriptions also appear in subsequent PBSs. See, for example, the PBS (2004–05), pp. 34–5.

(1) *Simplifying the [then] complicated range of services available to job seekers.* This was to be achieved by:

- having each job seeker assisted by a single Job Network provider during his or her period of unemployment. This was a cornerstone of the entire proposal;
- having the job seeker referred to a provider immediately after registration with Centrelink; and
- having Job Network providers deliver personalised assistance against set minimum service standards (in practical terms, the Service Guarantee and Employment Services Code of Practice included in the contract).

(2) *Providing easier access for job seekers to a wider range of job opportunities.* This was to be achieved by:

- increasing the number of job vacancies available to job seekers through DEWR's national vacancy database by including jobs from private recruitment agencies;
- requiring Job Network providers to place job seeker profiles onto the JobSearch system for daily auto-matching and to facilitate bringing opportunities to job seekers' attention; and
- providing additional touch screen kiosks for job seekers in Job Network provider premises.

(3) *Better targeting and more timely services to those most in need.* This meant that Job Network services were to comprise two pathways:

- Job Search Support—ongoing personalised service to all job seekers; and
- Intensive Support—assistance of graduated intensity to eligible job seekers, starting with three weeks of intensive job search training.

In addition, a revised Job Seeker Classification Instrument (JSCI) was to target assistance more tightly to job seekers facing particular disadvantage.

(4) *Strengthening the culture of active job search and participation for the unemployed.* This was to be achieved primarily by the APM comprising a continuum of service (explained below at para. 1.16 et seq.) to job seekers throughout their unemployment.

(5) *Providing more effective incentives for service providers to invest in assistance that will secure higher levels of outcomes for all job seekers, especially the most disadvantaged.* This was to be achieved by revising the fee structure to:

- provide an incentive for Job Placement providers to place jobs on the vacancy database;
- subsidise Job Network providers' acquisition of touch screens and other facilities;
- ensure outcome fees are focused on sustained employment outcomes; and
- provide the Job Seeker Account.

1.13 The Job Seeker Account (JSKA) would be introduced into Intensive Support for providers to draw on to purchase goods and services for job seekers. The JSKA is a nominal pool of funds that providers may use to purchase additional assistance for job seekers to help them overcome barriers to employment.¹⁵

1.14 During the course of the audit, DEWR emphasised the importance of the expected compliance effects of the APM. It pointed out that while the term 'tree-shaking' (meaning compliance) was not used in the papers initiating the scheme, it was an implicit part of the theme of participation and engagement.¹⁶

1.15 The APM was intended to enable Job Network services to include other groups, such as parents and people with disabilities. They were expected to need this type of assistance as a result of other AWT measures affecting them.¹⁷

The APM continuum

1.16 The APM extends across the recruitment industry through the licensing of Job Placement organisations which service employer vacancies; Job Network providers who provide help to job seekers; and complementary employment

¹⁵ DEWR makes credits to the providers' JSKA on the basis of job seekers' commencement in particular types of assistance and their level of labour market or locational disadvantage. The two largest credits, of \$900 and \$500 respectively, are paid when job seekers commence their first and second periods of customised assistance. Additional credits are paid for highly disadvantaged job seekers. Providers are required to use these funds to provide assistance that is relevant and personalised to the employment needs of individual job seekers. Job Seeker Account is also available for fares and interpreter services for fully eligible job seekers while they are in Job Search support.

¹⁶ DEWR advice of 8 March 2005. The compliance effect is discussed in Chapter 5.

¹⁷ In the 2002–03 Budget, the Government announced a measure in the Family and Community Services portfolio, 'Recognising and Improving the work capacity of people with a disability'. This involved developing and improving the work capacity of people with disabilities and keeping those with substantial work capacity more engaged with the labour market. Eligibility criteria for the Disability Support Pension were to be changed and additional places in the Job Network were to be funded. However, this measure has not been implemented because the necessary legislative change has not been passed in the Senate.

and training programmes administered by Commonwealth, State and Territory governments which provide additional, specialised help. The APM also integrates Job Network services with mutual obligation to help ensure that job seekers are engaged in employment-focused tasks and job search.

1.17 The model envisages that Job Network clients receive services from a single Job Network member for the duration of their unemployment and the employment assistance provided was to increase in intensity as their duration of unemployment increased.

1.18 Table 1.1 describes the progress of an unemployed person through the continuum.

Table 1.1**The APM continuum**

Period and service	Description
Day one Registration and referral	<ul style="list-style-type: none"> An unemployed person registers with Centrelink to receive Job Network services. Centrelink uses DEWR's Job Seeker Classification Instrument (JSCI)¹⁸ to find the unemployed person's starting point in the continuum. The job seeker chooses a Job Network provider, or is allocated a provider if they do not choose one, and an appointment (within a couple of days) is made for them with the provider. A participation plan or Preparing for Work Agreement¹⁹ (PfWA) is prepared for the job seeker and those subject to activity testing choose a Mutual Obligation activity in the event that they remain unemployed for more than six months. Job seekers who are identified as highly disadvantaged have immediate access to Intensive Support Customised Assistance (see below).
0–3 months Job Search Support	<ul style="list-style-type: none"> The job seeker receives Job Search Support services from their Job Network provider. These services include registration for Job Network services, job search advice, access to job search facilities, lodgement and maintenance of a résumé or vocational profile on the Australian JobSearch system²⁰ for ongoing, automated daily matching against available job vacancies, continuing help looking for work and access to job matches using email or the telephone message bank service. The Job Seeker Account is available to fully Job Network eligible (FJNE) job seekers who are in Job Search Support, for fares and interpreter services.
4–6 months Intensive Support Job Search Training	<ul style="list-style-type: none"> Intensive Support begins and Job Search Support continues. Intensive Support involves the Job Network provider working with the job seeker to develop a Job Search Plan,²¹ and the commencement of job search training. Job search comprises practical training and assistance in job search techniques.

¹⁸ Where a job seeker has severe or multiple employment barriers, a JSCI Supplementary Assessment will be undertaken by an occupational psychologist, social worker or disability specialist to identify which services would be more appropriate for the job seeker (Personal Support Programme, disability employment services or Job Network). Centrelink may also refer the job seeker to other complementary education or training programmes in addition to Job Network services.

¹⁹ Centrelink prepares participation plans for people on Parenting Payment and Disability Support Pension recipients and PFWAs for job seekers on activity tested allowances.

²⁰ Australian JobSearch is an Internet based public access system enabling the recording, printing and matching of résumés to jobs and providing information about employment and training.

²¹ An agreement setting out the activities, assistance and complementary programmes that the job seeker agrees to participate in while in Intensive Support. Forms part of the PFWA.

Period and service	Description
	<ul style="list-style-type: none"> At this point, the JNM may use the JSKA to provide or purchase goods or services to assist the job seeker overcome employment barriers and take up employment. Indigenous and mature aged job seekers may also access training account funding to participate in training activities. From approximately 5 months of unemployment, the Job Network provider and job seeker review and update the job seeker's Job Search Plan. If the job seeker has a Mutual Obligation requirement and has nominated Work for the Dole or Community Work as their preferred activity, the Job Network provider directly links the job seeker with a Community Work Coordinator member.
7–12 months Mutual Obligation	<ul style="list-style-type: none"> The job seeker undertakes Mutual Obligation with Job Search Support and Intensive Support continuing. If the job seeker has not yet commenced in a mutual obligation activity, the JNM refers the job seeker to Work for the Dole.
13–18 months Intensive Support Customised Assistance	<ul style="list-style-type: none"> Intensive Support Customised Assistance (ISCA) begins and Job Search Support continues. The Job Network provider gives customised assistance featuring a detailed review of the job seeker's Job Search Plan to include activities that are most likely to maximise job opportunities. Activities could include tailored vocational training, subsidised employment, work experience, career counselling, participation in other complementary employment and training programmes. Job Network providers can continue to use the Job Seeker Account to purchase employment related services or activities for the job seeker and fund other employment related items that may assist the job seeker to secure work.
19–24 months Second Mutual Obligation	<ul style="list-style-type: none"> A job seeker without work and in receipt of activity-tested allowances at the end of 18 months²² will undertake a further Mutual Obligation activity. They continue to receive Job Search and Intensive Support services and receive bi monthly contact from their Job Network provider.
25–30 months	<ul style="list-style-type: none"> The second period of Intensive Support customised assistance begins. The range and nature of activities undertaken is influenced by the individual's job prospects and local labour market conditions and can include the types of assistance available under the first period of ISCA. On completion of the second period of ISCA, activity-tested job seekers are linked with Community Work Co-ordinators (where they have not commenced a mutual obligation activity).

²² This applies to those who are not participating in a complementary employment or training programme as a part of their customised assistance.

Period and service	Description
31–36 months	<ul style="list-style-type: none"> A job seeker without work and in receipt of activity-tested allowances at the end of 30 months will undertake a further Mutual Obligation activity. They continue to receive Job Search and Intensive Support services and receive bi-monthly contact from their Job Network provider.
37 months and longer Support for the very long-term unemployed	<ul style="list-style-type: none"> Intensive Support services are continued for a job seeker unemployed for more than 36 months with ongoing contact. The job seeker continues to have access to Job Search Support services and receives bi-monthly contact from their Job Network provider and continued access to the JSKA.
	<ul style="list-style-type: none"> In the 2005 Budget, the Government announced 'Welfare to Work' changes that include additional Job Network services, such as the Employment Preparation Service and Wage Assist, and other measures for priority groups including parents, people with disabilities, the mature aged and the very long term unemployed.

Source: Derived from DEWR Employment Services—The Active Participation Model Discussion Paper, May 2002, plus subsequent DEWR advice.

Previous audits

1.19 In addition to the evaluation work described earlier, the Job Network has been the subject of three previous ANAO audits. These examined the planning and management of the introduction of the new employment services market (1998–99), the management of the first round of Job Network contracts (1999–2000) and the provision of information to job seekers (2001–02).

Audit objective and scope

1.20 The objective of this audit was to assess whether DEWR had implemented Job Network ESC3 and the associated computer system EA3000, efficiently and effectively.

1.21 The scope of the audit was limited to employment services under the APM, use of modelling to predict the effects of the APM and a review of the implementation of ESC3, and its supporting application of EA3000. The focus of the audit is on the period of the implementation of the new contract (which commenced on 1 July 2003) but with links to the current environment, where appropriate.

1.22 The audit did not test the effectiveness of the APM. DEWR has a plan to evaluate the new model. The plan comprises a range of separate studies, the last group of which is expected to be complete by mid-2006.²³

²³ DEWR, Evaluation Strategy for the Active Participation Model, February 2004.

1.23 DEWR's oversight of Job Network services to job seekers was the subject of a separate performance audit.²⁴

Methodology

1.24 The audit fieldwork was conducted between March and December 2004 and included:

- an examination of evaluation documentation;
- interviews with DEWR and Centrelink staff;
- discussions with relevant stakeholders;
- review of documentation; including policies, procedures and governance structures and responsibilities; and
- conduct of general research and a survey of chief executive officers of Job Network providers.

1.25 The audit team held its interviews of DEWR and Centrelink staff and reviewed documentation mainly in the DEWR National Office and Centrelink National Support Office.

1.26 The ANAO conducted its survey of Job Network CEOs in August 2004. The ANAO engaged Professor Ian McAllister from the Australian National University's Research School of Social Sciences to help with the design and conduct of the survey and analysis of results. The ANAO invited DEWR and Centrelink to comment on the draft survey instrument. It took these comments into account in finalising and conducting the survey. The Australian Government Statistical Clearing House approved the survey.²⁵

1.27 To review DEWR's IT environment, the ANAO relied on various guidelines and processes, supported by auditing standards as well as external technical guidelines.²⁶ The team:

- referred to national and international guidelines and practices in performance auditing, IT and IT auditing;
- researched current industry practices, such as Process Mentor (Object Consulting) and Rapid Implementation of Enterprise Resource Planning (ERP) and e-business applications;

²⁴ ANAO 2005, *DEWR's Oversight of Job Network Services to Job Seekers*, Audit Report No.51, 2004–05

²⁵ Approval 01533 – 01.

²⁶ Performance audit standards included those from CPA Australia; Australian Audit Standards AUS 806.03, AUS 806.04, AUS 806.05, Dec. 2000. The standard considered in IT auditing was Control Objectives for Information and Related Technology (CobiT), developed and promoted by the IT Governance Institute and endorsed by the Information Systems Audit and Control Association (ISACA). The standard framework referred to for effective software processes and maturity was the Capability Maturity Model (CMM) from the Software Engineering Institute (SEI).

- interviewed DEWR staff; conducted discussions with stakeholders; observed operating procedures; performed appropriate testing;
- solicited and reviewed information, analyses and comments from DEWR management and staff;
- reviewed documentation, including policies, procedures, governance structures and responsibilities, meeting minutes;
- engaged Steven Kouparitsas, a consultant from Ascent Governance Pty Ltd, to contribute specialised IT audit expertise; and
- consulted with the ANAO's Assurance Audit Services Group (AASG) to provide technical advice on DEWR's IT and financial environments.

1.28 The ANAO examined a range of reports prepared by DEWR's Internal Audit and by consultants for DEWR's Employment Systems Group (ESG). Details are set out in Chapter 4.

1.29 The audit was conducted in accordance with ANAO auditing standards at an estimated cost to the ANAO of \$810 000.

This report

1.30 This report comprises six chapters analysing the implementation of ESC3.

- Chapter 2 discusses the risk of legal challenge to the APM and ESC3 and whether implementation is in line with the policy direction provided.
- Chapter 3 examines the modelling and funding for ESC3, the management of the modelling, financial effects of ESC3 on the industry, and the management of the resource effects of ESC3.
- Chapter 4 examines the IT support for ESC, specifically EA3000.
- Chapter 5 considers transition from ESC2 to ESC3, including the objectives for transition, planning, performance indicators, and monitoring. This chapter also examines matters that arose during transition and DEWR's management of them.
- Chapter 6 reviews the relevant performance information including the outcomes/outputs framework, DEWR Annual Reports and its Job Network Performance Profile reports.
- Chapter 7 addresses provider performance management, particularly the performance measures, star ratings and the basis of business reallocation for ESC3.

2. Consistency of Administrative Framework with Policy Directions

This chapter discusses whether the administrative framework for the Job Network under ESC3 and the Active Participation Model properly reflects the policy direction set by the Government.

Introduction

2.1 DEWR first implemented the new employment services market—the Job Network—in 1998.

2.2 Legislation providing for case management services for the unemployed, the *Employment Services Act 1994* (ES Act), had not been repealed as the Government had originally intended.²⁷ The Government had decided to implement the new employment services arrangements under executive power.

2.3 In 1998, the ANAO undertook a performance audit of the Job Network implementation.²⁸ The ANAO examined the steps the department had taken to minimise the risk of legal challenges arising from the use of existing legislation and administrative authority. The existing legislation defines and specifies the operation of the case management system in providing employment services. One significant source of risk flowed from the need for any new service to be sufficiently different from case management to withstand legal challenge.

2.4 In that earlier audit, the ANAO concluded that the department had addressed the risks of implementing the new arrangements particularly by increasing the differences between the new service types and case management, as defined under the ES Act.

APM and ESC3

2.5 The DEWR Portfolio Budget Statements (PBSs) 2002–03, 2003–04 and 2004–05 refer to the introduction of the APM and its implementation under ESC3 as representing a major step in improving employment services. The department's Employment Management Committee (EMC) recognised that ESC3 was to bring about significant change to all elements of employment

²⁷ Under the Administrative Arrangements Order (AAO), the ES Act is listed as legislation administered by the Minister for Employment and Workplace Relations. The latest Administrative Arrangements Order is dated 16 December 2004. See <<http://www.pmc.gov.au/parliamentary/index.cfm>>.

²⁸ ANAO 1998, *Management of the Implementation of the New Employment Services Market*, Audit Report No.7 1998–99.

services policy.²⁹ Depending on its nature, a major change to the type of service to be provided could reintroduce a risk of a legal challenge if, for example, the continuum of services to be provided under the APM could be considered to be case management.

2.6 In light of the findings of the earlier audit the ANAO assessed whether:

- DEWR had continued to manage the risk of a legal challenge to the revised Job Network arrangements, that is, APM and ESC3;
- the APM and ESC3 were based on the appropriate authority; and
- they were implemented in line with this authority.

Risk of legal challenge

2.7 DEWR confirmed that agencies established by the ES Act remain in existence. These are the Commonwealth Employment Service (CES), Employment Services Regulatory Authority (ESRA) and Employment Assistance Authority (EAA).³⁰ The Employment Secretary is the National Director of the CES and EAA. The CES and EAA are part of the department.³¹

2.8 DEWR also advised that ESRA is a body corporate with a board and a chief executive officer. However, the Board positions and position of Chief Executive Officer are vacant and will be left vacant for so long as the Government determines there is no need to purchase case management services. DEWR's view is that the normal reporting requirements of ESRA do not currently apply in any practical sense, given that ESRA is non-operational and all ESRA monies were returned to consolidated revenue on 30 June 2001.

2.9 DEWR advised the ANAO that executive power continues to provide the authority for the department's delivery of the Job Network. Therefore, the form of the services purchased by the department is an essential element in avoiding risk of legal challenge to the operation of the Job Network. DEWR considered that it was not using case management services as established under the ES Act (and had not been doing so since 1996) to underpin the APM and ESC3. This is because DEWR had continued to purchase a merged service; that is, one that provides a continuum of service so that no job seeker would be provided with case management alone. As a result, its view is that there is no ongoing practical effect of the ES Act for DEWR.

²⁹ DEWR, Active Participation Model Steering Committee, agenda paper 8, 2 December 2002.

³⁰ The Act establishes the CES, EAA and ESRA and specifies their roles and functions in relation to the case management system that the Act sets up and regulates. ESRA, rather than the department, was the purchaser of contracted case management services and the department, through EAA, was a provider of case management services.

³¹ DEWR email to the ANAO of 29 April 2004.

2.10 DEWR further advised that it had not reconsidered the robustness of the arrangements with the introduction of ESC3 as, in its view, it was unnecessary in the light of the earlier advice received from the Office of General Counsel (OGC) for ESC1 and ESC2 and the fact that OGC had cleared the submission to government on ESC3 in March 2002. That clearance confirmed that legislation was not necessary to implement the proposals.

2.11 OGC had also advised DEWR in April 2000 that:

Given that the Job Network appears, for the present, to be firmly established on a contractual basis ... it may be now appropriate to give thought to repeal of the 1994 Act. The repeal of the Act would remove the arguments, which are made from time to time, that there are still legal problems caused by reliance on the executive power to implement employment services while the 1994 Act continues to remain in existence. While I continue to consider such arguments to be unfounded, the issue remains a source of legal debate in at least some circles. An appropriate opportunity might be taken to repeal the 1994 Act.³²

2.12 As a result of reviewing OGC's advice, the ANAO asked DEWR whether it had considered seeking further legislative change to repeal or amend the ES Act and whether DEWR had considered seeking a legislative basis for the Job Network, most particularly, in relation to ESC3.

2.13 DEWR's response was that it had not received instructions from the government on changing or repealing the legislation.³³

2.14 Arrangements for the Job Network also affect Centrelink. The Centrelink *Annual Report 2003–04* lists the ES Act among legislation conferring functions on Centrelink.³⁴ DEWR identified a number of provisions that referred to Centrelink (as the 'Services Delivery Agency').³⁵ However, DEWR advised the ANAO that none of those provisions have any practical effect as:

- the CES is not currently performing any functions; and
- the case management system is not currently used.

2.15 Centrelink advised the ANAO that the ES Act 'lost its purpose when CES closed down'.³⁶ It agreed that the provisions it had administered were virtually defunct, as it no longer negotiated Case Management Activity

³² Advice to DEWR from Chief General Counsel, AGS, 18 April 2000.

³³ Email from DEWR to the ANAO, 15 June 2004.

³⁴ Centrelink *Annual Report 2003–04*, p. 273, Appendix 3, Commonwealth Legislation Affecting Centrelink.

³⁵ These sections comprised section 10 (Attribution of acts of Departmental officers), section 47, (Delegation), section 146 (Authorised review officers) and section 160 (Application requirements).

³⁶ Email from Centrelink to the ANAO, 19 May 2004.

Agreements with customers.³⁷ Centrelink was investigating removing this legislation reference from its future annual reports.³⁸

Authority and implementation

2.16 As there is no specific legislation for ESC3, the ANAO examined whether:

- setting aside the ES Act, authority exists for the new elements introduced by the APM in ESC3; and
- if authority exists, DEWR has implemented arrangements for ESC3 appropriately.

Authority

2.17 To have each job seeker assisted by only a single Job Network provider during his or her entire period of unemployment was a cornerstone of the APM and ESC3, in the view of the then Minister in 2002–03. This policy is intended to minimise the reprocessing of jobseekers among providers. That is, it provides an incentive for the provider to place the person in a job as the best way of helping them to exit the system. It does this by limiting opportunities to shift responsibility—especially for difficult cases—to other providers.

2.18 It was also the Government’s intention, at the outset, that each job seeker be referred to a Job Network provider of their choice (or assigned randomly should they not exercise a choice). DEWR confirmed that ‘Job seekers have the right to nominate the JNM [Job Network member] of their choice or of being allocated a JNM within reasonable travelling distance’.³⁹ This right to choose was also a key element in the design of the APM. After an initial choice has been made, the policy intention is that the job seeker then remains with the same provider for the duration of their unemployment.

2.19 The Government, in its decisions leading to the Budget for 2002–03, provided authority for this approach.

Implementation

2.20 In line with the policy, DEWR devised a system of guidelines to allocate a job seeker to a provider. These provide a process for transfer to

³⁷ Centrelink advised that there was only a remote possibility that a customer might appeal an old decision concerning a Case Management Activity Agreement breach. This was thought very unlikely to occur.

³⁸ This advice was received before the publication of the Centrelink *Annual Report 2003–04*.

³⁹ Email from DEWR to the ANAO, 18 May 2004.

another provider under restricted circumstances, subject to approval of that transfer by a DEWR customer service officer.⁴⁰

2.21 DEWR also identified ‘the importance of giving job seekers an informed choice’.⁴¹ In practice, the unemployed person generally makes their choice from a list of Job Network providers within their local area when they first register with Centrelink. Once a job seeker is with a provider, he or she is expected to remain with that provider. If they exit the system but, within a year, re-register as a job seeker, the intention is that they again get help from the same provider.⁴²

2.22 The ANAO examined whether, under the approach taken by DEWR:

- the unemployed are given an informed choice of provider; and
- the policy intention that the job seeker be assisted by the one-provider has been effectively implemented.

*Informed choice—transition job seekers*⁴³

2.23 During transition, each person in the existing stock of job seekers received a letter advising that from July 2003 ‘the Job Network member you choose will be your only provider of Job Network services, and you will stay with them until you have found work’.⁴⁴

2.24 DEWR’s research into the complaints it received dealing with provider choice during transition to ESC3 showed that a substantial proportion of those complaints were about referral and, in particular, the lack of explanation of the process.⁴⁵ DEWR advised that:

Of the calls relating to transition, over 50 per cent concerned provider choice. Although the calls were recorded as complaints, most job seekers were not

⁴⁰ The rules for transfer are set out in DEWR, *Employment Services Complaint Management Guidelines for DEWR Customer Service Officers* (February 2004). These guidelines provide that circumstances under which job seekers can transfer to another provider include by mutual agreement with providers, where the job seeker moves their place of residence and where there is irretrievable breakdown in the relationship between the job seeker and the current provider.

⁴¹ DEWR, *ESC3 Transition Implementation Plan Discussion Paper* (October 2002).

⁴² Email from DEWR to ANAO, 18 May 2004. The Complaint Management Guidelines take a slightly different view on this point and state simply that: ‘If a job seeker exits Job Network services for any reason, they will recommence with the same Job Network member’. DEWR has advised the ANAO that the Guidelines ‘could have spelt out the policy more precisely’ (4 February 2005).

⁴³ Related matters are examined more closely in ANAO 2005, DEWR’s Oversight of Job Network Services to Job Seekers, Audit Report No.51, 2004–05.

⁴⁴ Centrelink–Job Network letter to existing participants in the Job Network.

⁴⁵ DEWR, Active Participation Model Implementation Committee, 4 August 2003.

expressing dissatisfaction or complaining about the services delivered, but exercising their option to change provider.⁴⁶

Informed choice—new job seekers

2.25 Following transition, DEWR expected Centrelink to inform new job seekers of the intended permanent relationship between them and the Job Network provider they selected or to which they were allocated. DEWR provides a pamphlet for Centrelink to give to unemployed people at registration (or during an information seminar, if this occurs first).

2.26 The Business Partnership Arrangement (BPA) between the DEWR Secretary and Chief Executive Officer, Centrelink sets out the services Centrelink delivers for DEWR,⁴⁷ including the information DEWR requires Centrelink to give to unemployed people.⁴⁸

2.27 The ANAO found that, although one of these requirements is that 'Centrelink will obtain job seeker preference for a JNM'⁴⁹ it does not include an obligation for Centrelink to advise the unemployed of this and other DEWR requirements governing their attachment to Job Network providers.

2.28 The Preparing for Work Information Seminars are a primary vehicle for giving job seekers information to help them choose a provider.⁵⁰ However, the BPA requires the seminars to be held only 'where practical'. They do not consistently take place before the unemployed person has been required to select a provider,⁵¹ and core information products, including the DEWR pamphlet, were not consistently given to job seekers during these seminars.⁵²

2.29 Whether the job seeker has an informed choice therefore currently depends substantially on the content of the DEWR pamphlet. This pamphlet states that 'You will be asked to choose a Job Network member in your local area'.⁵³ It also states that 'In most cases you will be able to choose ...'.⁵⁴ It adds

⁴⁶ DEWR advice to the ANAO of 4 February 2005.

⁴⁷ The BPA 2003–06 between DEWR and Centrelink was signed on 23 December 2003.

⁴⁸ BPA 2003–06, Schedule D, section D2, Provision of information to job seekers.

⁴⁹ BPA 2003–06, Schedule D, point D7.4.2.

⁵⁰ The timing and conduct of these information seminars and the provision of information to job seekers more generally is examined in detail in the ANAO 2005, *DEWR's Oversight of Job Network Services to Job Seekers*, Audit Report No.51, 2004–05.

⁵¹ ANAO 2005, *DEWR's Oversight of Job Network Services to Job Seekers*, Audit Report No.51, 2004–05.

⁵² Around 37 per cent of seminars take place after registration. See: ANAO 2005, *DEWR's Oversight of Job Network Services to Job Seekers*, Audit Report No.51, 2004–05.

⁵³ 'Job Seekers: You guide to Job Network' (6111JN), under 'Step 1: Choosing your Job Network member'. See:
<<http://www.workplace.gov.au/workplace/Category/SchemesInitiatives/JobNetwork/JobNetworkBrochureSGuidesandFactSheets.htm>> (last viewed April 2005).

that the job seeker, having made the choice, will stay with the provider chosen by them until they have found work.

2.30 The pamphlet does not:

- advise how and when the job seeker can change provider;
- state that if the job seeker should leave the system and re-register within twelve months, they will be required to return to the same provider; nor
- advise that there are other DEWR 'business rules' which may constrain the job seeker's choice.⁵⁵

2.31 A decision to allocate a person to a provider can be reviewed only through DEWR's complaints system.⁵⁶ It is not clear how job seekers could become aware of the existence of this means of review (or how they may change provider) unless they were first to complain to DEWR.⁵⁷ This means that those jobseekers who comply without making a complaint could, therefore, be at a relative disadvantage in understanding the options available to them.

Implementing the one provider rule

2.32 The ANAO sought advice from DEWR on how it had implemented the policy that jobseekers be assisted by the one provider. In response, DEWR initially advised that that authority lies within the Job Search Plan (JSP).

If the question is how we can require job seekers to receive services from one Job Network member, then the answer is the Social Security legislation and, in particular, by force of the job seeker's activity agreement [ie. the PFWA/JSP]. Ie, an activity agreement requires the job seeker to undertake certain activities and, where applicable, some of those activities are required to be undertaken with the job seeker's Job Network member.⁵⁸

2.33 Once a job seeker had been referred to a provider and had remained unemployed for three months:

⁵⁴ The pamphlet does not explain what the cases not covered by 'most' are. However, this could be dealt with at the interview.

⁵⁵ An example of the other business rules is that DEWR gives priority to providers at the lower tolerance of their business share. If the unemployed person's preferred provider has achieved its upper tolerance of business share under DEWR's rules, he or she will be asked to nominate another provider, thereby limiting their choice.

⁵⁶ DEWR advised the ANAO that 'Concerns around the process may be subject to review by the AAT'.

⁵⁷ The pamphlet invites the job seeker to call the DEWR Customer Service Line only after they have raised their concern about the service they are getting from their provider with that provider.

⁵⁸ DEWR advice of 24 May 2004.

they are required to negotiate a Job Search Plan with their JNM, which is a formal part of their activity agreement. ... Once signed by the job seeker (and approved by Centrelink as being consistent with the Social Security Act) the JSP is binding on the job seeker and they cannot 'unilaterally' cease undertaking the activities they have previously agreed to. They can however ask for the JSP to be renegotiated at any time. Once registered with that JNM the DEWR system will only allow the job seeker to transfer to another JNM in [certain] situations ...⁵⁹

2.34 The JSP is a formal part of an unemployment payment recipient's activity agreement under social security law.⁶⁰ It sets out the tasks and measures that the Job Network provider and job seeker have agreed will help the job seeker's employment prospects. This includes the specific assistance to be provided to the job seeker by the provider. However, the ANAO found that there is no specific reference in the JSP to the job seeker staying with the one provider.

2.35 Later, DEWR advised the ANAO that the requirement to stay with a Job Network provider would be inappropriate for inclusion in a job seeker's JSP.⁶¹ Further, DEWR explained that such a requirement 'would not sit with the legislative framework and is not, in itself, something that would be subject to compliance action'. There is no penalty—and no basis for one—where the job seeker does not remain with the same provider.

2.36 Written guidance on the circumstances in which a job seeker can transfer from one provider to another is found in the DEWR Complaint Management guidelines. These guidelines refer to circumstances in which a request from a job seeker or a provider to transfer a job seeker to another provider may be approved or not approved.⁶² While these guidelines did reflect the Government's policy intent to minimise the reprocessing of job seekers among providers, they did not provide explicit criteria to help DEWR customer service officers to approve or refuse transfers. During the course of the audit DEWR updated its Complaint Management guidelines to provide criteria to help DEWR customer service officers to approve or refuse requests to transfer a job seeker to another provider.

⁵⁹ DEWR advice of 18 May 2004. The ANAO understands that, in May 2005, responsibility for approving JSPs was to be transferred to Job Network providers.

⁶⁰ The JSP forms a schedule to a Preparing for Work Agreement (PFWA), entering into which satisfies the requirement under Social Security law to enter into an activity agreement. The Job Network provider can require the job seeker to enter an activity agreement because they have been delegated power under s. 605 of the Social Security Act.

⁶¹ DEWR advice of 4 February 2005.

⁶² DEWR, *Employment Services Complaint Management Guidelines for DEWR Customer Service Officers* (February 2004), section 4.4, 'How to transfer a job seeker'.

Conclusion

2.37 In 1998, because legislation providing for case management services for the unemployed, the *Employment Services Act 1994* (ES Act), had not been repealed, the Government implemented the new arrangements under executive power.

2.38 The ANAO undertook a performance audit of the Job Network implementation⁶³ and examined the steps the department took to minimise the risk of legal challenges arising from the use of existing legislation and administrative authority. The existing legislation defines and specifies the operation of the case management system in providing employment services. One significant source of risk flowed from the need for any new service to be sufficiently different from case management to withstand legal challenge. In that earlier audit, the ANAO concluded that the department had addressed those risks particularly by increasing the differences between the new service types and case management, as defined under the ES Act.

2.39 The ANAO has found that, in designing ESC3, DEWR has considered the risk of a legal challenge arising from the further changes to the nature of Job Network services.

2.40 Key policy elements of the APM are for each job seeker to be assisted by a single Job Network provider and for them to have an opportunity to make an informed choice of provider. One of DEWR's requirements under its BPA with Centrelink is that 'Centrelink will obtain job seeker preference for a JNM'. The ANAO found that the BPA does not include an obligation for Centrelink to advise the unemployed of this and other DEWR requirements governing their attachment to Job Network providers. Seminars designed to provide job seekers with information to help them to choose a provider are held only 'where practical'. For these reasons, the ANAO concluded that informed choice does not take place in all cases. Further, the intention to have each job seeker assisted by only one provider throughout their period of unemployment is intended to be a cornerstone of the APM. This policy is intended to minimise the reprocessing of job seekers among providers. During the course of the audit DEWR updated its Complaint Management guidelines to provide criteria to help DEWR customer service officers to approve or refuse requests to transfer a job seeker to another provider.

⁶³ ANAO 1998, *Management of the Implementation of the New Employment Services Market*, Audit Report No.7 1998–99.

Recommendation No.1

2.41 The ANAO recommends that DEWR seek to ensure that unemployed people are able to make an informed choice of Job Network provider.

DEWR response

Agreed in principle, noting this is already in place.

Arrangements for job seeker choice are straightforward. Job seekers may choose an available Job Network member at the time of referral. Job seekers who make no choice will have a Job Network member assigned to them in line with Government policy. DEWR publishes ratings for Job Network from 5 Star to 1 Star performance to help inform job seeker choice. Star Ratings are available to Centrelink at the time of referral and are published on the JobSearch website and kiosks used by job seekers when they look for work. From September 2005 and as appropriate, job seekers will be asked to choose a Job Network member when they first contact Centrelink for NewStart Allowance. It is proposed that this will include access to local Job Network Star Ratings as part of the Centrelink customer referral script.

ANAO comment

2.42 The ANAO comments on job seekers' use of star ratings in Chapter 7, at paragraphs 7.34–7.36.

3. Modelling and Funding

This chapter discusses the financial modelling undertaken by DEWR to predict the financial consequences of implementing ESC3. It includes a review of DEWR's management of the actual resource effects of the first year of ESC3 operation.

Introduction

3.1 Budgeted expenditure on the Job Network made up more than half of DEWR's total appropriations before ESC3, comprising annual expenditure of around a billion dollars.⁶⁴ It was therefore important for DEWR to assess the financial implications of the changes. To do this, DEWR modelled the changed operation with the help of a consultant.⁶⁵

3.2 The ANAO examined the following:

- how accurately DEWR had estimated Job Network costs over the preceding years;
- DEWR's management of the modelling;
- DEWR's use of the modelling to predict the effect on the industry; and
- DEWR's management of the actual resource effects of ESC3.

Estimating Job Network funding

Structure of the payments

3.3 DEWR's main purpose for modelling was to estimate Job Network funding accurately. Payments to the Job Network under ESC3 fall into two categories:⁶⁶

- fees for services provided by Job Network providers to job seekers ('Job Network service fees'); and
- payments to providers upon their achievement of an outcome ('Intensive Support Outcome Payments'). DEWR pays an outcome

⁶⁴ Generally, the Job Network administered appropriations have formed around 55 per cent of all DEWR appropriations in recent years (see DEWR PBSs, 2000–01 to 2004–05). This has changed under the Administrative Arrangements Orders that followed the 2004 general election (26 October and 16 December 2004) and which transferred responsibility for income support payments to people of working age from FaCS to DEWR.

⁶⁵ The consultant was Econtech Pty Ltd.

⁶⁶ The Job Seeker account is a quarantined pool of funds that can be drawn on by the Job Network provider to purchase services and products for job seekers to help them to obtain work. The Job Network provider cannot retain unused funds.

payment where an intensive support job seeker starts and remains in continuous paid employment or education for a period of at least 13 weeks ('interim outcome') or 26 weeks ('final outcome').

3.4 DEWR expected that paying providers for outcomes rather than process would focus them on getting job seekers into employment. This was a principle underlying the Job Network approach.⁶⁷ However, DEWR had noted that, under ESC2, even when outcome rates had been improving: 'a greater proportion of Intensive Assistance expenditure still goes to up-front fees than outcome fees. Yet this is meant to be an outcomes-focused system'.⁶⁸

3.5 DEWR has stated that ESC3 has a greater 'outcomes focus' than earlier contracts. The change in payment structure meant 'half of the money' was now being paid as outcome fees:

Under the employment services contract 2, where we were very happy with the outcomes and the performance of that contract, the service fees versus the outcome fees were on a ratio of 60 to 40 — 60 per cent for service fees; 40 per cent for outcomes. Under the active participation model, the incentive for Job Network members to place people in employment has increased. The funding is now split fifty-fifty. They will not get that 50 no matter what; they have to place people in jobs before they get that payment.⁶⁹

Estimating resources

3.6 Previously, DEWR determined the number of places in the various programmes to be purchased from the Job Network at a set price and estimated likely numbers of placements leading to outcome fees that would be payable. From these figures, it could derive, for budgetary purposes, estimates of the cost of the system to the Commonwealth.

3.7 The introduction of the APM under ESC3 required a more sophisticated approach to estimate the internal flows in the continuum of increasingly intense services to be provided to job seekers. As well as the numbers of unemployed likely to be referred to the Job Network, DEWR needed to estimate the proportions of different categories of job seeker, the likely duration of each sort in each type of assistance (and hence, whether or when they would pass through the next 'gateway'), the exit or drop-out rates and how these would vary, outcome rates at various levels, and likely expenditure for the job seeker account (a new feature under the APM). DEWR needed to test all of this against potential fee structures for ESC3.

⁶⁷ Shergold, P. 2002, 'The OECD Review of Australia's Labour Market Policies', *The Australian Economic Review*, vol. 35, no. 1, pp. 92–6.

⁶⁸ DEWR presentation to NESA Industry Forum, February 2002.

⁶⁹ DEWR evidence to Senate Estimates, November 2003.

3.8 The results of the modelling would also depend on factors such as the number of job seekers entering the system, which itself depended on forecasts of economic conditions. These external factors will always affect predictions of expenditure for the Job Network. However, in this case, much of the effort was directed at ‘internal’ forecasting and modelling job seeker and Job Network provider behaviour under the new conditions of the APM.

3.9 The Budget estimates for administered funds appropriated for the Job Network for 1999–2000 to 2004–05 and the ‘actual’ figures (where available) for the same years are set out in Table 3.1 and Figure 3.1 (below).⁷⁰ By comparing these figures, it is possible to see how accurately DEWR’s Job Network funding requirements had been estimated in advance for each of these years.

Table 3.1

Budget estimates and actual expenditure for the Job Network⁷¹

Year	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05
Budget estimate (\$ 000)	1 033 591	960 503	903 853	913 120	927 190	1 005 888
Actual (\$ 000)	754 902	751 129	816 488	852 577	999 133	1 376 775
Actual as a proportion of Budget	73.04%	78.20%	90.33%	93.37%	107.76%	136.87%

Source: The ‘Budget Estimate’ for a year is the figure disclosed in the DEWR PBS for that year. ‘Actual’ is the figure disclosed in the Annual Report except that for 1999–2000, derived from a DEWR internal financial report and 2004–05 where the estimated actual disclosed in the PBS is used.

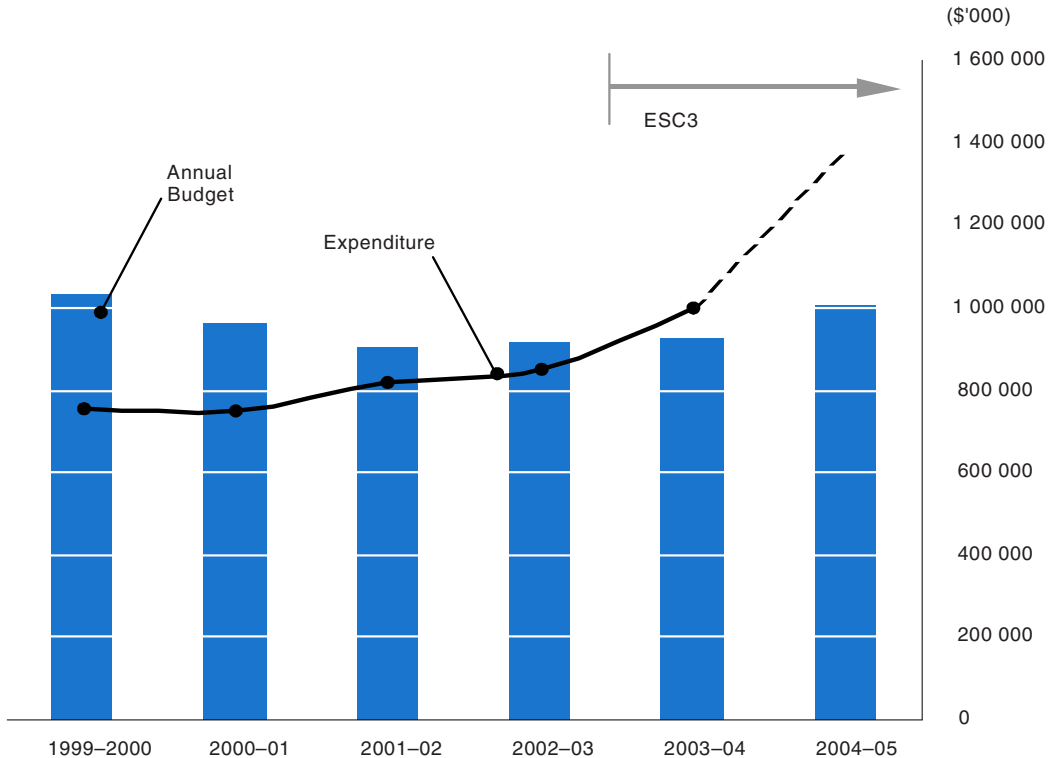
3.10 DEWR has acknowledged that, historically, it overestimated the budget for the Job Network. It has attributed this to overestimation of take-up and outcome rates.⁷² In addition, it has said, the mix of incentives for the providers of Job Network services had contributed to the ‘underspend’ by not ‘driving participation and outcomes sufficiently’.⁷³

⁷⁰ DEWR defines *administered items* in its PBS (2004–05, p. 209) as ‘expenses, revenues, assets or liabilities managed by agencies on behalf of the Commonwealth. Agencies do not control administered items. Administered expenses include grants, subsidies and benefits. In many cases, administered expenses fund the delivery of third party outputs’. In this case, payments to the Job Network comprise administered funds. These are separate from *departmental items*, which generally include DEWR’s own employee expenses, computer and other equipment assets. The funds being discussed here are administered funds, which flow from DEWR to the Job Network, primarily in service fees, outcome payments and reimbursement of Job Seeker Account expenditure. DEWR’s funding requirements for its own departmental costs (including those formerly known as ‘running costs’) are separate and provided through a departmental appropriation.

⁷¹ Job Network Funding is separately identified in the DEWR PBS from funding in the same administered appropriation for related services: Work for the Dole, Transition to Work and Indigenous Employment.

⁷² DEWR evidence to Senate Estimates Committee hearing, 3 June 2003. This remark applied to the pre-ESC3 period.

⁷³ Departmental Supplementary Senate Estimates brief for the hearing of 21 November 2002.

Figure 3.1**Job Network annual budget and expenditure**

Source: As for Table 3.1.

3.11 Figure 3.1 shows how DEWR's estimation of Job Network funding had been improving over the years leading up to the introduction of ESC3 in July 2003. With the introduction of the APM, there were further reasons for putting additional effort into expenditure prediction:

- DEWR was expected to keep Job Network expenditure within the then current forward estimates. DEWR told the ANAO that prices for Job Network services ultimately had to be based on what the department could afford.⁷⁴ DEWR was aware when costing its proposal on ESC3 that the Government expected any forecast underspend be returned to the Budget and not allocated to Job Network services. Options and costings were modelled and developed with a view to minimising the forecast underspend;⁷⁵ and

⁷⁴ DEWR briefing of 13 May 2004.

⁷⁵ DEWR internal email to Deputy Secretary, Employment, 28 February 2002.

- the APM would restructure service provision, based on the idea of a continuum of assistance and a flow of job seekers through various services. These changes, together with the prospect of involving a large number of unemployed, previously inactive in job-seeking, would have complex implications for Job Network operations.⁷⁶

3.12 DEWR believed that it did not have enough advance information on aspects of the APM.⁷⁷ This would add uncertainty to the modelling and limit its accuracy until the department could obtain empirical information after implementation.

Management of the modelling

3.13 To form a view on DEWR's modelling, the ANAO sought to identify:

- the role of the consultant;
- good practice in financial modelling, especially where—as in this case—spreadsheets are used; and
- DEWR's performance against these parameters. This includes the construction and use of the model.

The consultant's role

3.14 A clear statement of expectations as to a consultant's role and what they are to provide under their contract and by when, helps to ensure that the purchaser obtains what it needs, especially where the required work has a tight schedule.

3.15 DEWR's contract with the consultant was for the 'provision of a project leader to supervise a departmental team conducting a costing exercise into proposed improvements to Job Network services'. In addition, the consultant was to provide written confirmation that the models and tools used in the tasks undertaken by the departmental team were appropriate and robust.

3.16 The contract specified that the work was to be performed 'to a standard recognised as a high professional standard by the industry to which the Consultant belongs' and required that sensitivity analysis be conducted.⁷⁸

⁷⁶ At one point before ESC3 implementation, DEWR expected that the numbers of commencements under ESC3 would be around three times those under ESC2. See Access Economics 2003, *Final Report: ESC3 Star Ratings Preliminary Research and Development Project*, p. 6, p. 18.

⁷⁷ Advice from DEWR, briefing of 3 October 2003.

⁷⁸ It required that sensitivity analysis be conducted against a range of scenarios to 'identify scenarios that produce acceptable outcomes in terms of government expenditures, financial viability of Job Network Members, and possibly labour market flows'.

3.17 Under the contract, the Commonwealth would retain intellectual property rights in the work done. This means that DEWR owned the model.

3.18 The parties signed the contract on 26 February 2002 and it was to terminate on 15 March 2002. DEWR wished to use the results of the consultant's work as an input to government consideration of its proposals for ESC3, which was due to commence only a few weeks later, in mid-March 2002. Thus, the schedule was very tight.

3.19 DEWR told a Senate Estimates Committee that the modelling drew on the specialist knowledge of the consultant firm, which the department described as 'a highly specialised organisation in the area of labour market modelling'.⁷⁹ The contract shows that the specialist knowledge the consultant was offering included economic modelling, labour market modelling and project management.⁸⁰ However, the consultant advised DEWR that 'it was not feasible to allow for different economic scenarios in the model' because of the timetable for its completion.⁸¹

3.20 The consultant found it necessary to reconstruct the department's existing costing model. The department then adopted the consultant's model as a basis for future development.

3.21 DEWR obtained the output and assurances it required from the consultant. The use of both DEWR staff and the consultant's staff to develop the model allowed greater flexibility in undertaking the work, which was appropriate given the short time available for the work to be completed.

Financial modelling: better practice

3.22 DEWR could have developed its financial model for the operation of ESC3 using any of a range of tools, including specialised financial modelling applications or more general tools such as a database or a spreadsheet. The most common approach is the last of these, that is, to use a spreadsheet. Further development of the model has continued this arrangement.⁸²

3.23 Having selected a tool for a particular task, care needs to be taken to manage the risks associated with that choice.⁸³ Spreadsheets are easy to use and

⁷⁹ DEWR evidence to Senate Estimates, 6 November 2003.

⁸⁰ DEWR advised DoFA in relation to the model that 'In principle, economic parameters could influence factors such as the flow of different types of registrations, dropout rates and outcome rates'. (DEWR email to DoFA, 8 March 2002.) DEWR also advised DoFA that a 'significant amount of research is needed to get properly to the bottom of this'. It is not clear whether DEWR undertook this research.

⁸¹ Email from the consultant to DEWR, 27 February 2002. The time available was limited by DEWR's need to complete its ESC3 proposal for government consideration before the 2002 Budget.

⁸² DEWR, EMC decision, 19 July 2004.

⁸³ See Appendix 3. The ANAO has set out a select bibliography of guidance on spreadsheet development and abstracted from that a minimal set of better practice principles.

amendment by staff with relevant business knowledge, are flexible, quick and generally available. They are an industry standard for office staff to manipulate numerical data.

3.24 Spreadsheets generally lack controls and audit trails, and are inherently hard to test (because there is no enforced structure and they can be amended at any time). This also means that spreadsheets are prone to error.⁸⁴ However, DEWR advised the ANAO that it 'believes in using spreadsheets as the benefits far outweigh the risks'.⁸⁵

DEWR's management of the development of the model

3.25 Industry experience shows that documentation is often ignored and it is unlikely that anyone other than the person who built the spreadsheet will know its assumptions and how it works, to enable them to modify or further develop it. Indeed, the absence of documentation is one of the principle risks of the use of spreadsheets as a modelling tool.⁸⁶

3.26 DEWR stated that the assumptions used in the model were based on DEWR's experience with ESC2 and with the labour market as a whole. DEWR has also provided a general account of the assumptions used and their sources.⁸⁷ However, DEWR has stressed on several occasions the large number of assumptions involved (some 200). Many of them would have some uncertainty, and it would be prudent to test the implications of potential variations. Therefore it is reasonable to expect that these would be documented systematically, along with sources, dates and tolerances.⁸⁸ This would allow further testing of scenarios (sensitivity analysis) and modification of the model over time.

3.27 At the conclusion of the original modelling work, the consultancy firm stated in its letter to DEWR,⁸⁹ as required under the contract, that it had reviewed the assumptions on which the costing was based (such as registration rates, outcome rates and take-up rates) and considered that they were appropriate:

⁸⁴ See Panko (2000). Much of the literature draws on Panko's research. However, Lawrence, R. J. and Lee, J. 2004 (Financial Modelling of Project Financing Transactions, paper presented to the Institute of Actuaries of Australia Financial Services Forum, August) provide more recent Australian research also showing high error rates in financial models built on spreadsheets.

⁸⁵ DEWR advice of 4 February 2005. DEWR did not advise how it had assessed the specific risks associated with the ESC3 modelling work in coming to this view.

⁸⁶ See Appendix 3.

⁸⁷ DEWR, Model Explanations for ANAO, August 2004.

⁸⁸ Also, it would add risk to draw on specialist labour market knowledge held by a consultant without documenting the ways in which that knowledge had been brought to bear on the assumptions used.

⁸⁹ The letter was dated 8 March 2002.

we have reviewed the key assumptions of the JN3 costings and consider that they are now appropriate and we certify that the calculations in the costings model based on the assumptions are now error-free.

3.28 Given that DEWR retained the model, the department could also have kept specific evidence of that review, including any documentation or files. This could have been used for future development and testing of scenarios and reduced the department's dependence on the consultant.

3.29 DEWR advised that there had been no documentation of the model, the assumptions on which it was based, the reviews conducted by the consultant or sensitivity analyses performed.⁹⁰ This means that it is not possible to examine readily the logic underpinning the model's construction or its testing.⁹¹ The consultant had provided no report on its work as none was required under the contract.

3.30 DEWR provided evidence at a Senate Estimates hearing in November 2003 that the consultant had returned to DEWR and further reviewed the model, based on the experience to date. That review, according to DEWR's evidence, validated the model as sound:

Having reviewed the experience to date under ESC3, the original model remains valid. To the extent that the experience with ESC3 has been different from originally predicted, this is not due to any shortcomings in the model itself. Rather it has been due to variations in inputs to the model, including jobseeker numbers and ESC3 policy parameters.

3.31 DEWR and the Department of Finance and Administration (DoFA) agreed in mid-2004 to develop a common estimates model to support Job Network estimate bids.⁹² This project to redesign the model was seeking 'more accurate expenditure forecasting for the remainder of ESC3'. Other project objectives include 'full documentation allowing for greater quality assurance' and easy manipulation for changing parameters and 'what if' circumstances.

3.32 DEWR advised the ANAO that the future development of the model included building a link to other forecasting models based on broader

⁹⁰ Documentation is to be provided in DEWR's current redevelopment of the model. DEWR advised the ANAO (5 February 2005) that 'Lack of documentation was identified as a problem with the original model and complete documentation has been provided in the latest modelling work that has been done'.

⁹¹ The ANAO has also observed a lack of systematic documentation in other contexts recently where agencies are using spreadsheets to perform calculations for significant Commonwealth programmes. See Audit Report No.38 2004–05, *Payment of Goods and Services Tax to the States and Territories*.

⁹² Letter from Deputy Secretary, Employment, DEWR, 28 May 2004 and response from Deputy Secretary, General Manager, Budget Group, Finance, 16 June 2004. DEWR advised the ANAO that it had agreed a protocol with Finance on the use and development of the latest model. However, in February 2005 it could provide only a draft version, dated November 2004.

economic projections. DEWR expects this to improve its capacity to update its financial forecasting in the light of changing economic and fiscal parameters.⁹³

3.33 DEWR provided the ANAO with a document outlining the structure, equations and updating procedures for the new model.⁹⁴ The consultancy firm states that it simplified and documented the model to allow greater useability and transparency. It also 'reduced the level of detail in the inputs and workings of the model subject to producing robust expenditure forecasts'.⁹⁵

Financial effect on the industry

3.34 Another purpose for the modelling was to devise a suitable price structure and to forecast the effect on the employment services industry.⁹⁶ DEWR recognised during early deliberations on the APM that, under the new model, financial viability was a potential problem for Job Network providers.⁹⁷

3.35 DEWR considered that the APM and ESC3 would mean the department and Job Network providers had to undergo major organisational change.⁹⁸ It is in DEWR's interests that the employment services industry as a whole remains sustainable and, hence, that changes such as ESC3 not cause widespread financial difficulties across that industry. Financial hardships in the industry could affect business capacity and viability, in turn affecting jobseekers adversely and thereby detracting from the achievement of the departmental outcome. Therefore, DEWR sought to assure the Government when the proposal for ESC3 was under consideration that the changes would not adversely affect the industry in general. Modelling the changes provided a basis for this reassurance.

3.36 DEWR could not have been expected to make reliable predictions of the financial consequences of the APM and ESC3 for individual providers. To do so with confidence, DEWR would have needed particular detail (such as a breakdown of a provider's revenue sources, including non-Job Network sources), and foreknowledge of provider expenditure patterns.

⁹³ DEWR advice of 5 February 2005.

⁹⁴ 'The Job Network Forward Estimates Model (FEM)—Detailed Equations and User Guide', report prepared by the consultant for DEWR, 24 November 2004, p. 1. This was provided to the ANAO in March 2005.

⁹⁵ *ibid.*

⁹⁶ This is apparent from the proposal at Annexure 1 to the consultant's contract with the Commonwealth.

⁹⁷ For example, a paper for the 2002 Employment Policy and Services Retreat (29–31 January) indicated that 'quarantining' part of the funds for the Job Network for the proposed Job Seeker Account ('JСКА') arrangements might reduce providers' profitability.

⁹⁸ DEWR, *ESC3 Transition Implementation Plan Discussion Paper*, October 2002.

Early analysis

3.37 Before government consideration of the ESC3 proposal, DEWR analysed, with the consultant's help, its effect on the viability and profitability of Job Network members. That analysis found that the changes would:

generally have a positive impact, especially on Job Network members that are currently investing heavily in their job seekers [*by using the proposed Job Seeker Account*]. The only providers that are likely to be worse off are any that do not spend on their job seekers and rely on up-front fees to maintain profitability.⁹⁹

3.38 DEWR's EMC considered a more detailed paper on this matter before the announcement of ESC3.¹⁰⁰ The results were again positive for the supply of Intensive Assistance.¹⁰¹ The paper concluded that 'particular strategies' might need to be considered for providers that relied heavily on Job Search Training or undertook Job Search Training only or Job Matching only. EMC directed that, after further analysis, another paper be brought to it on the effects of ESC3 on providers compared with ESC2.

3.39 The further paper (May 2002) concluded that 'there is currently a reasonable level of profitability within Job Network'.¹⁰² It said that revenue flows had been slow in the first six months of the previous (second) contract but this was likely to be less severe for ESC3. The paper said that:

To reduce any negative impacts on provider cash flow, it is important that all providers be operating smoothly as soon as possible. This means that they need to be operating at (or close to) capacity within the first month. It would also be preferable that there is not any kind of backlog created that would distract providers from delivering the full range of services to their job seekers. If transitional arrangements mean that there will be reduced cash flow in the early months of the third contract period, then advance payments or the like may need to be considered (these would expose the Commonwealth to higher levels of risk).

3.40 The nature of those risks was not made clear. However, it is reasonable to assume that advance payments were perceived as inherently risky insofar as they need to be acquitted and, sometimes, an overpayment would need to be recovered.

⁹⁹ DEWR, Intensive Support Group, email of 14 March 2002.

¹⁰⁰ DEWR, Employment Services Performance Branch, Job Network member viability—comparison between ESC2 and ESC3, 5 April 2002. This followed an analysis that used a sample of 20 actual providers' financial statements for 2000–01. It was subject to limitations in the data, including an inability to identify whether provider expenses were wholly or correctly attributable to Job Network functions or the amount being spent by them on activities in respect of job seekers. The paper did not provide an estimate of how sensitive its findings might be to these limitations.

¹⁰¹ 'Intensive Assistance' is the term used in the relevant document. Under ESC3 the corresponding service is known as 'Intensive Support, Customised Assistance'.

¹⁰² DEWR, Industry Viability under ESC3, 13 May 2002.

3.41 Significantly, the analysis assumed that providers would be close to their operating capacity from July 2003. If not, then providers could experience reduced cash flows in the ‘crucial early months of the contract period’.

Analysis after announcement of ESC3

3.42 The discussion paper *Employment Services: An Active Participation Model* (May 2002), included comment on the financial effects of the APM. This again stressed the expected correlation between use of the Job Seeker Account and a positive financial effect.

3.43 During subsequent industry consultation, existing providers expressed a range of concerns to DEWR about the payment regime and management of capacity under ESC3.¹⁰³ To respond to concerns about financial effects, DEWR asked the consultant to prepare a micro financial model (the Job Network Provider Calculator) to help individual providers to assess financial viability and model the flows.¹⁰⁴ Later, it also developed a second tool, the Job Network Revenue Calculator, for organisations considering entry into the market.¹⁰⁵

3.44 NESA, the industry representative body, told its members (May 2002):

Efforts are being made on a number of fronts to secure the Minister’s or the Department’s agreement to release some or all of the financial modelling undertaken by [the consultant] and associated assumptions about client flow and exit rates, transitional clients and all the many other variables (DEWR says there are more than 200) so that we can see how they have arrived at their assertion that most providers and especially those spending significant amounts on IA [Intensive Assistance] jobseekers will be financially better off from 1 July 2003.

3.45 DEWR’s EMC discussed the matter in July 2002 and agreed that the department should give providers as much information as possible.¹⁰⁶

The NESA–KPMG model

3.46 NESA undertook its own financial modelling to provide its members (a majority of the Job Network) with a tool that could be used for their own purposes, including estimating their specific flows of revenue and costs.¹⁰⁷

¹⁰³ DEWR internal paper, ‘Summary of Issues from Consultations’, 11 June 2002.

¹⁰⁴ This was announced by the responsible minister to those attending his briefing on the new Job Network arrangements on 24 May 2002.

¹⁰⁵ The first calculator was updated on 24 June 2002.

¹⁰⁶ DEWR, EMC minutes 8 and 10 July 2002.

¹⁰⁷ It engaged KPMG Actuaries for this purpose. See advice on NESA website, 5 August 2002.

DEWR provided advice to help the development of the NESA–KPMG model, which became available on 27 September 2002.¹⁰⁸

3.47 In October 2002, the department, using the NESA–KPMG model and average expense data for employment service providers, concluded that the APM was financially viable in all employment service areas.

3.48 In September 2003, Australian Bureau of Statistics (ABS) data became available to DEWR, which showed that the profitability of the Job Network had decreased between 1998–99 and 2001–02.¹⁰⁹ From this information, the profit margin achieved by Job Network providers had declined from 18.2 per cent in 1998–99 to 4.1 per cent in 2001–02. DEWR advised that the profitability of organisations that had Job Network contracts surveyed in 2001–02 was not solely contingent on Job Network activities: around half of their income was from other activities.

Management of the resource effects of ESC3, 2003–04

3.49 The ANAO considered how DEWR managed the actual resource effect of ESC3 implementation during the first year. This includes how it monitored expenditure for the various items comprising Job Network against the estimates devised through its modelling.

3.50 When ESC3 was proposed, it was expected not only to remain within the then forward estimates¹¹⁰ but also to yield savings of \$190.2 million over three years from reduced expenditure on employment services, as well as providing (separate) savings from reduced income support payments.¹¹¹

3.51 In June 2003, just before ESC3 commenced, DEWR stated (referring to its modelling):

We put in a huge amount of work, in the last 12 months in particular, with the development of our modelling tools and the use of some expert assistance in that area to refine our modelling. We now have an overall model that incorporates almost 200 different parameters—which is not a straightforward exercise—to then determine the estimated outcome levels and the impacts on finances from that. As a result of that, we believe we have significantly

¹⁰⁸ Further versions were made available by NESA in October 2002 and March 2003.

¹⁰⁹ See DEWR, EMC papers, 15 September 2003 ‘Profitability of Job Network Members (JNMs)’. The ABS information analysed was unpublished and had then only recently been made available from the ABS survey of Employment Services (ABS Cat. No. 8558.0).

¹¹⁰ This requirement was regarded as ‘imperative’ at the 2002 Employment Policy and Services Retreat (29–31 January). See DEWR, ‘Working Group Issues Paper: Job Seeker Flows and Pricing Structure’.

¹¹¹ DEWR emails of 1 March and 6 March 2002. Any savings likely to accrue from ‘breaching’ or payment suspensions and cancellations was not included in this calculation. The estimate of \$21.7 million a year from reduced income support payments was later reduced in consultation with FaCS to around \$12.3 million a (full) year.

strengthened our estimating capacity. Indeed, this financial year we are very close to our estimate in the way we are coming in with expenditure, so we are already seeing the results of that. Essentially, we have strengthened our estimating capacity, with some specialist assistance in that area, and developed an econometric model to support that.

3.52 DEWR said its estimating capacity was now likely to be ‘very much closer to the mark’. The modelling consultant had confirmed that the costings on which the APM was based were sound and it could be implemented within budget.¹¹²

Changes in estimates

3.53 DEWR tracks changes in likely expenditure during the course of the year. It provides monthly reports on employment services administered expenditure to its EMC.¹¹³ These show DEWR’s expenditure by each of the major constituent items for the appropriation (Job Placement, Job Search Support and so on). This is given for the current month and year-to-date, with updated forecasts for each month for the financial year. Figure 3.2 shows the expected full-year expenditure set out in these reports for 2003–04, the first year of ESC3.

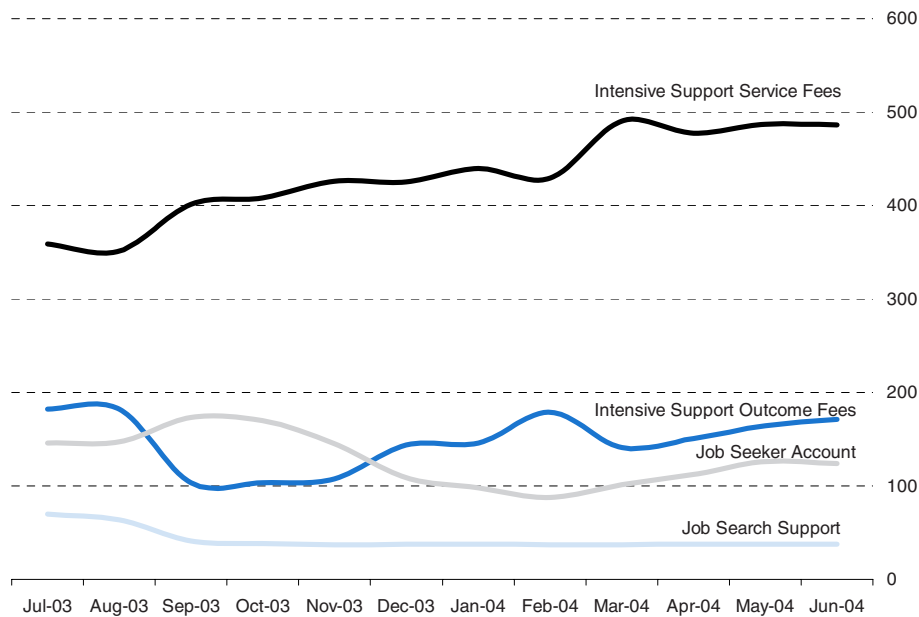
¹¹² DEWR, Senate Estimates brief, November 2002.

¹¹³ DEWR, Employment Services Summary Reports to EMC.

Figure 3.2

DEWR monthly estimates of full-year Job Network services expenditure, by major component, 2003–04 (\$m)

Note that these figures become more certain as the year elapses and an increasing proportion of the annual expenditure is actual.



Source: DEWR, Employment Services Summary Reports, 31 July 2003 to 30 June 2004.

Comparing forecasts with actual expenditure, by major elements

3.54 The ANAO analysed the elements of the Job Network budget forecast for 2003–04 and actual expenditure as reported at the end of 2003–04. The results are set out in Table 3.2.

Table 3.2**Job Network expenditure, 2003–04**

Item	May 2003 DEWR internal forecast		Year to date expenditure (30 June 2004)	
	\$m	%	\$m	%
Job Placement	85.000		69.653	
<i>Job Network Services:</i>				
Job Search Support	77.790	10.24	37.949	4.63
IS Service Fees	353.143	46.50	486.252	59.33
IS Outcome Fees	182.192	24.00	171.442	20.92
IS JS Account / TA	146.227	19.26	123.969	15.12
Sub-total—Job Network Services	759.352	100	819.611	100
<i>Job Network other:</i>				
NEIS	78.277		74.469	
HLS	2.297		2.297	
NHLIS	1.264		1.686	
EIF	1.000		0.953	
Residual ESC2	0.000		30.419	
Total—Job Network	927.190		999.088	

Source: DEWR, Employment Services Summary Report, 31 July 2003 and 30 June 2004.

3.55 DEWR had two break-ups of its Job Network expenditure budget at the beginning of 2003–04:

- a forecast documented in its Employment Services Summary reports (see column 1 in Table 3.2); and
- data and assumptions used in the Econtech model.

3.56 DEWR has advised that its Job Network budget for 2003–04 had been agreed between itself and DoFA using the Econtech model and on the basis of ESC2 performance data. According to DEWR, the profile of estimates by sub-program in this calculation, for the original ESC3 budget, had a different profile from the forecast DEWR itself developed and which is shown in Table 3.2.

Changes in estimates

3.57 Reflecting actual experience over the first year of ESC3, DEWR revised its expenditure forecast for Job Network services for 2003–04 several times during that year, as summarised below.

- (1) DEWR's estimate was \$927 million at the start of the financial year.¹¹⁴
- (2) DEWR revised this *down* to \$907 million at Additional Estimates.¹¹⁵ The department attributed the reduction primarily to delays in changes to disability services reforms (which would have flowed through to the Job Network) and to additional payments to Centrelink for implementation and hardware costs.¹¹⁶
- (3) DEWR revised this *up*, by \$34 million to \$941 million at supplementary additional estimates.¹¹⁷
- (4) The Minister for Finance and Administration agreed to provide a further \$50 million, raising the estimate to \$991 million.¹¹⁸

3.58 Ultimately, DEWR reported an overspend of \$8 million on the Job Network against the revised budget of \$991 million.

3.59 Over the first year of ESC3, DEWR paid some \$999 million¹¹⁹ to the Job Network compared with an initial estimate of \$927 million, an increase of about 8 per cent. This result was closer to the budget estimate than in most previous years (see Table 3.1).

Reasons for seeking more funds

3.60 The Portfolio Supplementary Additional Estimates Statement (PSAES, 7 May 2004) attributes the need for an additional \$34 million in 2003–04 to 'record high performance levels' by the Job Network under the APM. It states:

The exceptional performance being achieved means that Job Network members are receiving higher fees for outcomes than was originally expected in this first year of implementation of *An Active Participation Model* based on historical outcome rates. The revised estimates are based on these higher outcome rates (p. 10).

¹¹⁴ This and subsequent figures in this discussion have been rounded to the nearest \$1 million.

¹¹⁵ The date of the PAES was February 2004. However, this change had been anticipated in internal DEWR reports from October 2003.

¹¹⁶ These items required a transfer of resources from the administered item to departmental funds.

¹¹⁷ Portfolio Supplementary Additional Estimates, May 2004. Additional amounts of \$80.061 million and \$33.611 million were sought for 2004–05 and 2005–06 respectively.

¹¹⁸ This took place in June 2004. See DEWR, *Performance Review—End of Year Report 2003–04*, p. 21.

¹¹⁹ This figure does not reconcile with the year to date expenditure figure for 30 June 2004 in the ESSR, \$996.850 million.

3.61 In response to the ANAO's request for further advice on the reasons for the change in estimates, DEWR referred again to the PSAES, stating that:

The detailed text of those notes makes it clear that the revised estimates are based on the higher outcome rates achieved by Job Network members.¹²⁰

3.62 In its (internal) *Performance Review—End of Year Report 2003–04*, (p. 21), DEWR provides this explanation for the ultimate overspend against the budget as agreed to by the Minister for Finance and Administration:

An overspend in Job Network of \$7.9m on the revised budget agreed by the Finance Minister in June 2004, due to outcomes continuing to be claimed at a higher than anticipated rate and an increasing use of the Job Seeker Account.

3.63 In the event, ESC3 outcome performance rose more rapidly after implementation than the corresponding performance for ESC2. According to DEWR, this increase in outcome performance brought about the need for a change in estimates.

3.64 To verify this, it would be necessary to identify the data and assumptions that were used to underpin the Budget calculation using the Econtech model.¹²¹ However, DEWR has not been able to provide these figures.

3.65 The only data the ANAO has obtained on DEWR's earlier expectations of the break-up of its Job Network Budget for 2003–04 (from mid-2002) shows that it then had greater, not lesser, expectations of the proportion of funds likely to go to outcome fees (Table 3.3, 'ESC3 forecast (Econtech Model, May 2002)').

3.66 Table 3.2 also shows that, contrary to DEWR's expectations, the proportion of funds going to service fees in 2003–04 remained substantially greater than that going to outcome payments. This is further analysed against forecasts in Table 3.3.

¹²⁰ Email from DEWR to the ANAO, 20 August 2004.

¹²¹ DEWR advises that it would be necessary to compare the actual outcome level achieved under ESC3 with the detailed assumptions and ESC2 data that were used to underpin the Budget calculation using the Econtech model. Because the ESC2 and ESC3 outcome fees structures differ, comparisons are highly complex. DEWR has provided evidence that the growth in outcomes in the first year of ESC3 exceeded the level that could reasonably be predicted using the ESC2 data that informed the original budget modelling as agreed with DoFA. The new *Forward Estimates Model*, developed by DEWR in conjunction with DoFA in 2004–05, is expected to provide a foundation for testing the validity of assumptions and improving the accuracy of budget projections in future years.

Table 3.3**Structure of Job Network revenue streams 2003–04¹²²**

ESC2	ESC2 (May 2002)	ESC3	ESC3 forecast (Econtech model, May 2002)	ESC3 forecast (July 2003)	ESC3 actual (June 2004)
Job Matching	12%	Job Placement	12%	9.8%	7.8%
		Job Search Support	8%	8.3%	4.3%
Job Search Training	6%				
IA upfront fees	58%	IS service fees	37%	42.8%	54.7%
IA outcome fees	24%	IS outcome fees	23%	21.7%	19.3%
		Job Seeker Account	20%	17.4%	13.9%
	100%		100%	100%	100%
<p>Sources: (1) ESC2 and ESC3 forecast (May 2002)—Minister for Employment Services, 'Employment Services: an Active Participation Model' (slide presentation), 7 May 2002; (2) ESC3 forecast, July 2003 and June 2004, derived from DEWR, Employment Services Summary Report, 31 July 2003 and 30 June 2004.</p> <p>This table compares expenditure estimates and actual results across Job Network services and Job Placement services, combined, from May 2002 forward. There are similarities to the services but some care is needed in making comparisons between ESC2 and ESC3.</p> <p>The estimates of May 2002 (which DEWR identifies as flowing from its model) are distributed differently among items as compared with the forecast at the start of ESC3 (July 2003) and from the result reported internally by DEWR at the end of the first year of ESC3 (June 2004). In particular, the actual result shows:</p> <ul style="list-style-type: none"> the proportion of funds going to Job Placement, Job Search Support and the Job Seeker Account is substantially less than estimated; the proportion of funds going to outcome fees is less than estimated; and the proportion of funds going to service fees is much greater, and not very different from that attracted by Intensive Assistance upfront fees under ESC2. 					

¹²² The term 'revenue streams' is that used in the Minister for Employment Services, 'Employment Services: an Active Participation Model' (slide presentation), 7 May 2002 and relates to Job Network provider (and Job Placement organisation) revenue from DEWR. It should also be noted that, under ESC3, the Job Seeker Account reflects reimbursement of spending by the Job Network provider on the Job Seeker to facilitate their employment rather than 'revenue' to the provider.

3.67 DEWR has provided data to show that the proportion of Job Network expenditure going to outcome payments has gradually increased since the commencement of ESC3 and, for the first six months of 2005, slightly exceeded expenditure on service fees.¹²³

Conclusion

3.68 DEWR's purchase of employment services for the unemployed from the Job Network had cost around \$1 billion each year. For this reason and because of the scale of the changes introduced with ESC3, DEWR modelled the operation to help predict the financial consequences. DEWR recognised in advance that transition to a very different model of employment services would pose a challenge for estimating expenditure. The department sought to:

- keep within its budgeted forward estimates of expenditure;
- ensure that there would not be an unacceptable financial effect on the employment services industry; and
- increase the proportion of funds attaching to outcomes as compared to service fees.

3.69 DEWR made a considerable effort to improve its predictive capacity, engaging an expert consultant to help with its modelling. The use of both DEWR staff and the consultant's staff to develop the model allowed greater flexibility in undertaking the work, which was appropriate given the short time available for the work to be completed.

3.70 DEWR has depended on its consultant for assurance about the integrity and robustness of the model. Because the department prepared no documentation and required none, this left DEWR in a weaker position for future development. A project with DoFA to redesign the model for future estimates calculations provides an opportunity to address these shortcomings.

3.71 DEWR was helpful in providing information and advice to the industry association to help it with its own modelling, which was structured more towards use by individual Job Network members.

3.72 DEWR reported an overspend of \$8 million on the Job Network against a revised 2003–04 budget of \$991 million. DEWR has tracked and reported its expenditure in detail internally since implementation of ESC3. This shows that, in the first year of ESC3, the department used a greater proportion of funds to pay intensive support service fees (\$486 million) than to pay outcome

¹²³ DEWR advice of 8 July 2005. Expenditure on service fees was about \$247 million whereas expenditure on outcomes payments (comprising Job Placement payments plus Intensive Support outcome fees) was about \$256 million.

payments for job placements (\$171 million). However, DEWR reported that the proportion of funds going to outcome fees had risen to around 50 per cent by the end of the second year of the contract.

3.73 Job Network outcome payments and service fees are elements of Job Network services which, in turn, comprises part of the Job Network programme. The current level of aggregation of financial information does not allow external stakeholders to identify the contribution that outcome payments and service fees make to Job Network expenditure and any trends that reflect DEWR's success in making the programme outcome-focused.

Recommendation No.2

3.74 The ANAO recommends that DEWR document the development, use and maintenance of financial models where it uses such models for core business.

DEWR response

Agreed in principle, noting documentation is now in place. This is recognised in the Report.

This has occurred with the Forward Estimates Model developed in partnership with the Department of Finance and Administration in 2004.

Recommendation No.3

3.75 The ANAO recommends that DEWR provide in its budget documentation and annual reports a breakdown of estimates and actual expenditure on Job Network outcome payments and service fees.

DEWR response

Disagreed.

Job Network is a single programme and is reported as a single programme in accordance with government policy. DEWR will give consideration to additional explanatory information, where appropriate, as part of the normal process of reviewing the presentation of its Annual Report and other information publications.

ANAO comment

3.76 As set out in this chapter, in the management of the Job Network, there has been an increasing emphasis on paying for outcomes rather than paying for process. The recommendation is that DEWR provide information on an aspect of performance that is an important element of the programme and which has been the subject of Parliamentary interest. See, for example, paragraphs 3.3 – 3.5 and DEWR's response to this audit at paragraph 49 (see Summary and Recommendations at the front of this report).

3.77 The guidelines for the preparation of portfolio budget statements and annual reports set out minimum requirements and do not constrain the presentation of information to Parliament where it materially assists the understanding of programme performance. For example, the guidelines on portfolio budget statements indicate that 'information should be reported at an appropriate level, having regard to materiality, parliamentary and public interest'.¹²⁴ Such an approach is to be encouraged to better inform stakeholders, and to inform the further development of the relevant guidelines.

¹²⁴ See:
<http://www.finance.gov.au/budgetgroup/Other_Guidance_Notes/portfolio_budget_statements__p_bkup.html>.

4. IT Support for ESC3

This chapter examines DEWR's implementation of a new computer system, EA3000, to support the operation of ESC3.

Background

4.1 Information technology (IT) is essential to DEWR in meeting its business objectives and achieving its outcomes. ESC3 depended substantially on the timely implementation of Employment Assistant 3000 (EA3000), a front-end application comprising an integrated set of systems.¹²⁵ EA3000 was intended to replace an earlier system, EA2000. Whereas EA2000 was wholly mainframe-based, EA3000 is based on new technology¹²⁶ and runs on servers that interact with DEWR's existing mainframe systems. In effect, EA3000 provides a sophisticated 'front-end' to those mainframe systems.

4.2 DEWR's Employment Systems Group (ESG)¹²⁷ developed EA3000 for use by external service providers and departmental staff to manage the operation of Job Network services and to enable the department to monitor and regulate jobseeker flows. To implement EA3000, DEWR developed web services and Centrelink, as the 'gateway' to the Job Network, introduced applications to allow for the exchange and updating of job seeker information.

4.3 Both the Job Network providers and Centrelink must access the system for essential work under ESC3. Job Network providers—who formerly collected data on their own IT systems—are more dependent on EA3000 to perform Job Network services which, in many cases, comprise a large proportion of their business. This centralised structure has, from DEWR's perspective, advantages of achieving better control and lower interface costs. As a consequence, EA3000 is critical to ongoing operations.

4.4 Much of the development of EA3000 took place concurrently with the purchasing process conducted by DEWR for ESC3. DEWR advised that probity requirements constrained its consultation with industry over the design and development of the new application.

¹²⁵ The major IT systems supporting ESC3 comprise two separate but interactive components, EA3000 (the front-end, '.Net' based application) and the Integrated Employment System (IES) (the back-end application resident on the DEWR mainframe computer and handling about 95 per cent of the system functionality). EA3000 was designed from the ground up to take advantage of new web services technology and to conform to DEWR's three-tier '.Net' architecture model, that is, clear separation of presentation, business logic and data tiers.

¹²⁶ EA3000 is based on Microsoft '.Net' technology.

¹²⁷ DEWR IT is the responsibility of two departmental groups. ESG is responsible for employment systems and other applications for DEWR's Outcome 1. Information Technology Services Group (ITSG) is responsible for the IT infrastructure, planning and other systems, including applications for Outcome 2.

4.5 The first release of EA3000, providing initial, partial functionality, was implemented on 14 April 2003. The second, major release was on 1 July 2003, when ESC3 commenced.

4.6 Given the importance of EA3000 to the implementation of ESC3, the ANAO assessed whether:

- EA3000 was implemented on time and within budget; and
- it was developed within adequate IT governance arrangements.

Timeliness and budget

4.7 DEWR has reported, in successive annual reports, that it delivered EA3000 on time and on budget.¹²⁸ The only other variable that can be affected by timeliness and budget considerations is the actual content of the product to be delivered—the system requirements. The ANAO tested the department's claim, considering each of these three variables: business requirements, timeliness and budget.

Review of system requirements

4.8 To determine the business requirements for EA3000 the ANAO examined DEWR's plans and definition of requirements and conducted its own analysis of those requirements.

DEWR plans and definition of requirements

4.9 DEWR embarked on planning for the implementation of EA3000 in 2002 at the time of the announcement of the Active Participation Model (APM).¹²⁹ It established an internal governance structure, principally reflected through an Employment Systems Board (ESB)¹³⁰ and project teams in an effort to ensure requirements under ESC3 were implemented.

4.10 DEWR's ESB endorsed the adoption of a '.Net' platform¹³¹ and integration with the DEWR mainframe.¹³² For EA3000, DEWR planned to move

¹²⁸ DEWR Annual Report 2002–03, p. 77; DEWR *Annual Report 2003–04*, p. 16. DEWR does not provide official, supporting information such as a statement as to the timeframe, budget or actual cost of the development.

¹²⁹ At that time, the planning was wide-ranging, encompassing topics such as the platforms for EA3000, security, Centrelink, the role of the mainframe, the network, the proposed electronic diary, and the Australian JobSearch kiosks.

¹³⁰ ESB superseded the DEWR's earlier Employment Systems Subcommittee (ESS).

¹³¹ The term '.Net' refers to a proprietary technology for Internet-based software applications.

¹³² DEWR, email to ANAO from General Manager, ESG, 'Technical Discussion Outcomes Bowral', 30 August 2004.

systematically the presentation components, then business components and finally data in their entirety off its mainframe by July 2004.

4.11 In June 2002, DEWR established the project teams to develop functional modules (known as ‘trains’) of EA3000. These teams comprised representatives from ESG, including business analysts and developers, as well as DEWR business and policy areas. Each team was responsible for developing a Project Brief and Application Model to reflect technical aspects of the respective trains. DEWR advised that policy areas reviewed the final modules to ensure requirements were met.

4.12 From 26 June 2002, ESG developed the ESC3 Programme Brief,¹³³ which represented an overall planning and control document of functions it was to develop and implement.¹³⁴

4.13 In July 2002, DEWR developed a ‘wish list’ of requirements for EA3000. This determined for each module those items which were within or external to the scope of development.

4.14 DEWR advised that around September/October 2002, approximately 95 per cent of core requirements were determined. In October 2002, ESG management undertook a scoping review in an attempt to reduce functional requirements by about 20 per cent. Following this review, DEWR deferred, simplified, changed or removed some of the originally planned features of the system.

4.15 DEWR’s Internal Audit found that, as at 4 December 2002:

- the EA3000 project was under stress. There was loss of key staff, difficulty in recovering slippage to tasks on critical path, and failure to deliver planned content despite considerable overtime being worked;
- there was a push to complete tasks to a timeline but not to quality criteria;
- policy areas were having difficulty resourcing ESB demands; and
- systems development processes were still evolving.

4.16 It warned that, given the timeline, DEWR might not be able to achieve the range of deliverables expected at implementation. These concerns were managed through the ESB.

¹³³ This was updated to 18 September 2002.

¹³⁴ Also, on 17 September 2002, DEWR prepared the draft document, ‘ESC3 Solution Architecture’, which provided a comprehensive architectural view of the ESC3 implementation, documenting the agreed solution approach and ensuring that the various architectural areas were consistent.

ANAO analysis of requirements

4.17 The ANAO tested how well the implemented application, EA3000, reflected business requirements.¹³⁵

4.18 The ANAO found that DEWR's system documentation for EA3000 was not current or complete. It was difficult to identify links between the overall Programme Brief and respective Project Briefs and Application Models. The ANAO found that it was not possible to track changes in requirements.

4.19 This is consistent with the view formed by DEWR's Internal Audit, which had concluded, in March 2003, that it was not possible to keep track of the scope of the project:

Changes to scope were apparently agreed within the course of the project (through project steering committee meetings, and so on) but there was no single point of reference for process success criteria. It was not possible to determine the degree of scope creep (either negative or positive creep) within the EA3000 project.¹³⁶

4.20 Because of overlaps and refinements in various modules, the ANAO could not identify where each phase of development began or ended, nor distinguish among development, enhancement and maintenance.

4.21 In mid-February 2003, Centrelink expressed concern about system changes and:

... the lack of documentation or authority or boundaries for a lot of the changes being made to systems and processes. This was difficult and dangerous when many incremental changes were made on an apparently informal basis.¹³⁷

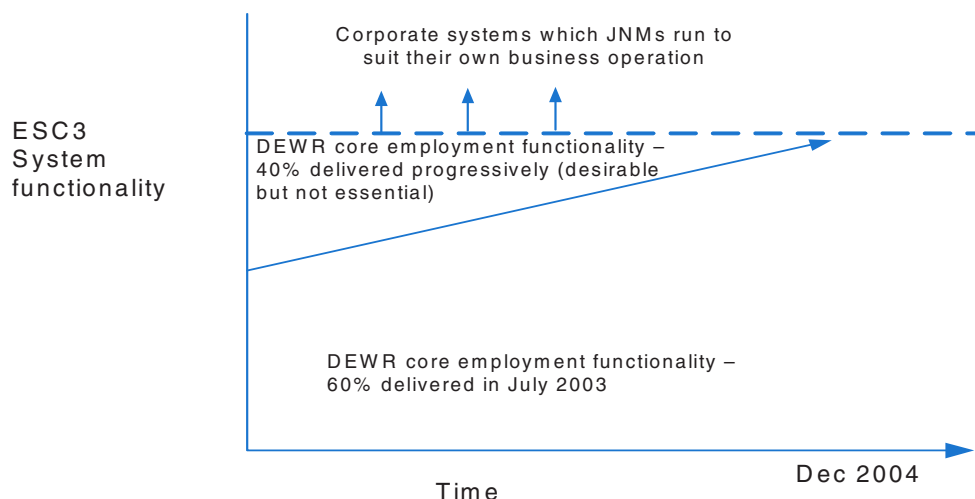
4.22 In March 2003, DEWR advised the NESA IT working group that the department would deliver some 60 per cent of DEWR core functionality by July 2003. DEWR expected to deliver the remaining 40 per cent by December 2003. (Other functionality which Job Network providers thought desirable was considered by DEWR to relate to each organisation's own corporate responsibilities and outside the scope of the department's IT systems.)¹³⁸ DEWR represented this by the diagram in Figure 4.1.

¹³⁵ Consideration was given to the Contract, the Request for Tender (RFT), the ESC3 Programme Brief (the overall planning and control document), Project Briefs and Application Models for each module, the Production Application Checklist (PAC) for EA3000 and other system documentation.

¹³⁶ *Review of EA3000 Project Environment, Performance Audit*, Interim Audit Report, circa March 2003, section 2.1.3, Project Management Process, p. 6.

¹³⁷ DEWR, Active Participation Model Implementation Reference Group Meeting, 14 February 2003.

¹³⁸ Early in the project DEWR stated in its planning documentation that 'there is also a desire to eliminate the need for JNMs [Job Network members] to purchase and use supplemental IT systems'. It is not clear how far this objective was sustained. DEWR, *ESC3 Solution Architecture*, 17 September 2002.

Figure 4.1**ESC3 system functionality: timetable for delivery**

Source: Provided by DEWR to NESA IT Working Group Meeting, 28 March 2003.

4.23 The ANAO reviewed project briefs and application models for each of the modules implemented with the major, 1 July 2003, release. These briefs and models were subject to internal and external walkthroughs and sign-offs by the DEWR project team.¹³⁹ Through the involvement of policy staff, changes arising from the development of the ESC3 contract and the RFT were reflected directly in the relevant project briefs or application models. The ANAO mapped requirements under the ESC3 contract and the RFT back to specific functional requirements to be developed within EA3000.

4.24 Although there is evidence of walkthroughs at the requirements definition stage, there was minimal evidence of signed acceptance tests for EA3000.

4.25 Following the 1 July 2003 release of EA3000, enhancements undertaken by ESG represented deferred functionality or operating efficiencies from the originally intended implementation.¹⁴⁰ DEWR stated in the relevant documentation that the scope of the immediately subsequent release (September 2003) was:

to address the following key areas:

¹³⁹ 'Internal walkthroughs' are internal to ESG and 'external walkthroughs' are performed with the Business and Policy areas of DEWR, that is, they are not external to DEWR.

¹⁴⁰ DEWR, EA3000, EA2000APM & AJS Applications, September 2003 Enhancement Release, Project Brief.

- Business based enhancements that are required to meet legislative requirements and/or improve business processes *to an acceptable level*.
- Implement functionality that was deferred from the July 2003 Release *which is necessary to the efficient functioning of the Job Network*.
- Performance improvement comprising both architecture and application elements [emphasis added].¹⁴¹

4.26 The Job Seeker Vocational Profile module provides an example of DEWR reducing scope and deferring functionality because of the time limitations associated with the 1 July 2003 release. With the September 2003 release, the revised module reflected enhancements and improvements to existing design, functionality, navigation and usability of the module and produced professional résumés to assist the job search activity of job seekers. An internal technical document for the Job Seeker Vocational Profile showed:

A portion of the customisation functionality was removed from the original project scope due to time limitations. Some of this functionality will be developed for the VP (Vocational Profile) Enhancement project. Based on feedback from Job Network users and job seekers, as well as internal research and usability testing, a range of usability and design issues have also been identified for improvement.¹⁴²

4.27 A detailed analysis by the ANAO revealed that with each subsequent release following the implementation on 1 July 2003, DEWR implemented substantial changes to principal modules for EA3000 to realise operating efficiencies and further business objectives.

4.28 The ANAO successfully performed detailed analyses to ensure which functions were implemented. DEWR maintained that, up to the implementation date, the implementation effort should be considered a 'development'; post-1 July 2003 efforts should be considered 'enhancement'. However, during the ANAO's fieldwork and the development stages, DEWR did not make formal distinctions between 'development' and 'enhancement' of systems.

4.29 The ANAO concluded, from its analyses of EA3000 and respective business requirements:

- at implementation (1 July 2003), DEWR delivered baseline functional requirements; and

¹⁴¹ In addition, functionality to support Preparing for Work Agreements, Job Search Plans Community Work Agreements, Participation Plans and Participation Agreements were delayed until December 2003. Screen rationalisation (Removal of 3270 screens to web services) remains outstanding and unfunded (Centrelink advice, 18 February 2005).

¹⁴² DEWR, ESC3 Job Seeker Vocational Profile, Phase 2, Project Brief, Initial Draft, Version 1.1, 9 July 2003.

- after implementation, the department provided major upgrades or extensive changes to enable the system to operate efficiently at an acceptable level.

ANAO review of system integration

4.30 Although a systematic planning approach was developed, EA3000 was not effectively integrated with existing systems as at the date of implementation on 1 July 2003:

- major implementation problems were encountered with the DEWR–Centrelink interface and, in particular, the operation of web services; and
- no significant load testing was performed before the 1 July 2003 implementation date. DEWR attributes this to the tight timeframes for the project. However, this contributed to the lack of availability and efficiency of EA3000 to system users.

4.31 In DEWR’s current environment the integration of EA3000 with existing systems is now effective. Both NESAs and Centrelink have expressed satisfaction with the recent performance and operation of EA3000.

Timeliness of the implementation

Scheduled implementation and operational difficulties

4.32 DEWR originally planned to release EA3000 in two major stages.¹⁴³ The first release was scheduled for 31 March 2003. It would enable preliminary processes such as making appointments in Job Network diaries for vocational profile interviews for job seekers. This was essential to transition to the new contract. The second, major release, was scheduled for 1 July 2003, the commencement date of ESC3.

4.33 The project was reported as being under stress by December 2002, when DEWR Internal Audit cited loss of key staff, difficulty in recovering slippage for tasks on the critical path and a failure to deliver content for the initial two builds (early versions) of the system, despite considerable overtime being worked.¹⁴⁴

¹⁴³ DEWR, EA3000 Production Application Checklist, Part A, Section 1.5, ‘Production Application Implementation Schedule’, p. 6.

¹⁴⁴ DEWR, Internal Audit report to Employment Systems Sub-committee, 4 December 2002.

4.34 In practice, the first release occurred on 14 April 2003, after a two-week delay.¹⁴⁵ DEWR advised that the delay was necessary because:

the combination of incomplete training [in the new IT systems for the Job Network Members], incomplete installation of CDs [additional installations of IT systems to Job Network members] and an application that has not passed all system tests [of the DEWR/Centrelink system interface] presents risks, which cannot be justified given the commencement date of the transition period is not time critical in the same way as the ESC3 1 July start date.¹⁴⁶

4.35 In the days before this implementation both DEWR and Centrelink were aware of the risks of the impending release, most particularly the interface between DEWR and Centrelink systems. However, in an exchange of letters, each implied that responsibility for the difficulties lay with the other.¹⁴⁷

4.36 A DEWR internal audit report for the EMC meeting of 9 April 2003 stated:

Internal Audit considers that while a system will be implemented on 14 April 2003, *it is highly probable that the implementation will have significant problems for a protracted period.* As a consequence it is reasonable to assume that a substantial ongoing effort will be required to support the 31 March/14 April release. This effort will have to be provided by staff who have been working under pressure for a significant period of time [emphasis added].¹⁴⁸

4.37 DEWR stated the following day that technical staff would have the system ready for 14 April implementation.¹⁴⁹ In response, Centrelink stated that both organisations would be ‘taking risks which would be unacceptable under international standards for systems implementation’. However, it was proceeding ‘to meet the political imperatives’ of ensuring that deadlines agreed with the Job Network were met.¹⁵⁰

4.38 Immediately before the major implementation on 1 July 2003, another DEWR Internal Audit review stated that:

if there was not a contractual requirement for the implementation of this system on 1 July, we would be strongly suggesting that implementation be

¹⁴⁵ At the Employment Systems Board meeting on 19 March 2003, DEWR’s confidence in key components of EA3000 being ready by the 31 March release date was 25 per cent. Centrelink also stated that its confidence was flagging due to an inability to do ‘end-to-end’ testing of the system.

¹⁴⁶ Letter from Deputy Secretary, Employment, DEWR, 20 March 2003; Network News Update—Bulletin Overview, 20 March 2003.

¹⁴⁷ Letters of 9 April and 11 April 2003 from the CEO, Centrelink to the Secretary, DEWR and letter of 10 April 2003 from the Secretary, DEWR to the CEO, Centrelink.

¹⁴⁸ DEWR, EMC paper, Internal Audit Report for EA3000, agenda item 4.1, meeting of 9 April 2003.

¹⁴⁹ Letter of 10 April 2003 from the Secretary, DEWR to the CEO, Centrelink.

¹⁵⁰ Letter of 11 April 2003 from the CEO, Centrelink to the Secretary, DEWR.

deferred for at least one month. The main reason for this is the current position in relation to the functionality and performance testing of the Build 6 version of the system.¹⁵¹

4.39 Upon implementation, the system exhibited instability and intermittent unavailability.¹⁵² Major system failures and regular system ‘outages’ (periods of complete unavailability) were reported to DEWR’s Employment Systems Board.¹⁵³ Response times sometimes became lengthy and unacceptable to users, and ‘time-outs’ occurred.¹⁵⁴

4.40 DEWR became aware of the difficulties and sought to address them. It acknowledged that its own daily monitoring might well report on the health of the EA3000 system in DEWR, but this was ‘not necessarily representative of the end-user experience’.¹⁵⁵ It also improved its computer processing capacity by adding many more servers.¹⁵⁶

4.41 DEWR acknowledged to the Job Network that there were ‘significant problems ... particularly in Centrelink–DEWR systems interactions’.¹⁵⁷ The IT difficulties were assessed as one of the two major problems affecting transition to ESC3 at this time.¹⁵⁸

4.42 Achieving operational stability remained a challenge for DEWR until August–September 2003.¹⁵⁹ The department later stated that delivering its major releases on time has ‘often been at the cost of compromised quality as testing and training timeframes are compressed to compensate for overruns in earlier project phases’.¹⁶⁰ DEWR has stated that IT for ESC3 took five weeks to be stabilised, and that this is ‘well ahead of industry standards for such a large

¹⁵¹ *The EA3000 System ‘Go Live’ Readiness Audit*, p. 3. ESB was advised on 25 June 2003, only a few days before implementation, that ‘load testing had begun’.

¹⁵² Weekly letters from the DEWR Deputy Secretary, Employment, to all Job Network CEOs from 12 May 2003 throughout transition record the difficulties that DEWR acknowledged it was having with systems.

¹⁵³ DEWR, Employment Systems Sub-Committee/Board minutes, 4 June 2003.

¹⁵⁴ ‘Timeouts’ are where transactions fail because processing takes too long and the attempted transaction is terminated by the system.

¹⁵⁵ Email from ESG, DEWR to the Job Network, 19 June 2003.

¹⁵⁶ In June 2003, the then 9 dual processor servers were supplemented by a further 9 quad processor servers, increasing capacity by almost 3 times.

¹⁵⁷ Letters from the DEWR Deputy Secretary, Employment, to all Job Network CEOs, 12 May 2003.

¹⁵⁸ The other problem related to high rates of non-attendance at interviews. This is taken up in Chapter 5. See the Minister for Employment Services, letter of 27 June 2003.

¹⁵⁹ The response time problem was reported as resolved at DEWR’s Employment Systems Board meeting of 17 September 2003. Centrelink has confirmed this assessment.

¹⁶⁰ DEWR, ESB, ‘Brief for IBM on Proposed Project Engagement’, 20 October 2003.

project'.¹⁶¹ DEWR's 'stocktake' of APM/ESC3 implementation showed that, by November–December 2003, EA3000 was 'mostly working now'. DEWR staff observed that, as they worked through the stocktake they 'saw the system settle'.¹⁶²

4.43 The instability of IT systems and the DEWR–Centrelink interface had an impact on Centrelink and the Job Network. The impact of transition on job seekers is considered in Chapter 5.

*Impact on Centrelink*¹⁶³

4.44 The immediate consequences of instability and intermittent unavailability were that, for several weeks after 14 April 2003, Centrelink was severely constrained in its ability to:

- complete job seeker registrations or JSCIs;
- make referrals to Job Network members;
- transfer job seekers to the Job Network;
- book appointments in Job Network members' diaries; or
- conduct JSCI supplementary assessments.¹⁶⁴

4.45 The minutes of the Employment Systems Sub-committee (involving both DEWR and Centrelink personnel) show that Centrelink also experienced problems within its own systems during the course of implementation.

4.46 Because the APM is a continuum, any delay at the start has ongoing consequences. Centrelink's primary contribution to employment services is at the start of the APM continuum.¹⁶⁵ When the supporting IT systems, in particular, EA3000, were unacceptably slow or unavailable, Centrelink resorted to manual workarounds. This inherently delayed the referrals and affected the rate at which job seekers attended Job Network appointments (although it is not possible to estimate the size of this effect reliably).¹⁶⁶

¹⁶¹ DEWR *Annual Report 2003–04*, pp. 16 and 51. DEWR provides no further information as to what industry standards this refers.

¹⁶² DEWR, APM Stocktake presentation, 21 January 2004.

¹⁶³ Centrelink, various ministerial submissions, June 2003.

¹⁶⁴ DEWR, Active Participation Model Implementation Reference Group, 18 July 2003, Joint Report on Network Situation.

¹⁶⁵ Centrelink advice to ANAO February–March 2005. This also affected other functions such as referrals to non-DEWR programmes that required job seeker registration (for example, the Personal Support Programme).

¹⁶⁶ Attendance rates of job seekers at Job Network providers are discussed in the next chapter.

Centrelink undertook manual work to deal with the backlogs created. DEWR later paid Centrelink for this work.¹⁶⁷

Impact on the Job Network

4.47 To obtain a user perspective on the implementation of EA3000 the ANAO sought the views of Job Network CEOs.¹⁶⁸

4.48 Most Job Network CEOs reported having problems with the implementation. Overall, the comments provided by CEOs to the ANAO about EA3000 implementation were strongly critical. Consistent points made among those comments were perceptions that, at implementation, EA3000:

- was an ambitious project introducing massive change very quickly;
- was not fully functional for some months after implementation; and
- had not been piloted and seemed not to have been adequately tested.

4.49 There was also a widespread view that training for the Job Network had been inadequate and that the implementation difficulties had consequential costs and inefficiencies for Job Network providers over the following six to nine months.

4.50 The ANAO also received positive comments from the Job Network about the communication efforts and skills of senior DEWR IT officers during the period of implementation difficulties.

4.51 The majority of CEOs believed that implementation problems had been fully or mostly resolved about a year later, at the time of the ANAO survey in August 2004, as shown in Figure 4.2.

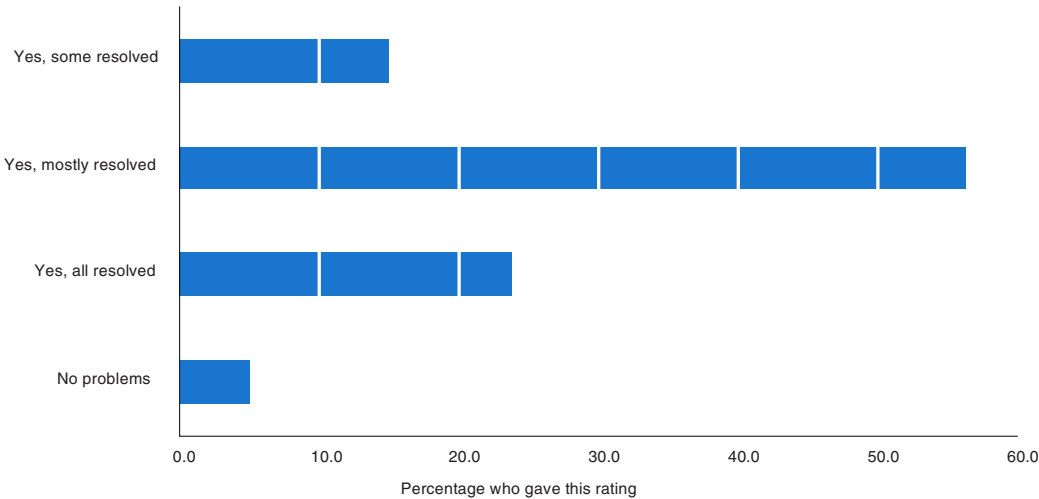
¹⁶⁷ Centrelink advises that DEWR payments for workarounds amounted to about \$5.5 million.

¹⁶⁸ Details of the questions posed and responses are set out in Appendix 2.

Figure 4.2

Job Network CEOs’ view on EA3000:

Did you have problems with the implementation of EA3000 and, if so, have they been resolved?



Source: ANAO survey of Job Network CEOs, August 2004.

4.52 At the time of the ANAO survey (August 2004), the Job Network CEOs had developed a more positive view of the system. Only just over a quarter of Job Network CEOs agreed or strongly agreed that EA3000 was unreliable. When asked to respond to the statement ‘EA3000 is easy to use, with comprehensible design, well-designed screens, and predictable behaviour’, slightly more CEOs agreed or strongly agreed (43.8 per cent) than disagreed or strongly disagreed (37.5 per cent). In response to the statement ‘EA3000 does not yet provide adequate functionality for the efficient operation of job network services’ CEOs’ views were balanced: 42.5 per cent agreed or strongly agreed and 42.6 per cent disagreed or strongly disagreed.¹⁶⁹

Conclusion: The timeliness of the implementation

4.53 The ANAO concluded that EA3000 was not wholly delivered at the commencement of ESC3. Although DEWR delivered baseline requirements for EA3000, the ANAO determined that:

- major implementation problems were encountered with the DEWR—Centrelink interface and the use of the system by Job Network providers;

¹⁶⁹ See Appendix 2, which also sets out responses to a range of related questions about EA3000.

- DEWR recognised the need to effect major system changes to improve business processes to an acceptable level or to allow for the efficient functioning of the Job Network.

4.54 Although DEWR established governance and consultative structures, neither Centrelink nor the Job Network CEOs perceived EA3000 as fully functional at the commencement of contract. However, later feedback reflects satisfaction with system performance. The improvements made after 1 July 2003 were, to a substantial extent, supplementary to the original development effort to enable the system to meet requirements or to realise more efficient processing.

The budget and cost of implementation

4.55 DEWR made no definitive statement in advance as to the projected cost of the system nor provided any official documentation against which its claim that EA3000 was delivered ‘on budget’ can be tested. Only after the event did DEWR provide statements as to the budget and costs of the system.

4.56 For example, in November 2004, in answer to a Senate Estimates question on notice as to the ‘final budget’ for EA3000, DEWR advised that the budget had been \$20.9 million.¹⁷⁰ DEWR later confirmed to a Senate Estimates hearing that the budget was attributed to work done in the financial year 2002–03.¹⁷¹ However, it is not clear to what extent this includes adjustments during the course of the year from any original budget.

4.57 In response to the ANAO’s enquiries, DEWR was unable to provide evidence showing that there was a specific budget prepared for the development of EA3000. It was able to provide, in October 2004, a document showing that estimated costs for EA3000 (including capitalised software and expenses) in 2002–03 were about \$21 million. In addition, costs of about \$26 million in 2003–04 (including capitalised software and expenses) were shown for enhancements to the system and other, related systems support.¹⁷²

4.58 The only evidence the ANAO found on original estimates of costs for EA3000 lies in the deliberations on the expected costs of ESC3 as a whole, just before government consideration of the proposal in March 2002. DEWR advised DoFA that the costs for systems development and enhancement to support the ESC3 changes were \$9.385 million.¹⁷³ The advice made it clear that

¹⁷⁰ Senate Employment, Workplace Relations and Education Legislation (EWRE) Committee, 2003–04 Supplementary Budget Estimates Hearing, 6 November 2004, Employment and Workplace Relations Portfolio, question number W278–04.

¹⁷¹ Hansard, Senate EWRE Legislation Committee, 19 February 2004, p. 68.

¹⁷² An additional \$10.9 million was expended by Centrelink over 2002–03 to 2003–04 on related IT costs.

¹⁷³ DEWR, email to DoFA, 8 March 2002.

this was to encompass the broad functionality later embodied in EA3000 together with all other IT-related changes for ESC3. However, the ANAO found no evidence that this was translated into any internal budget for the project.

4.59 DEWR did not have a formal, projected budget to implement the system, whose funds came from the normal operating budget for the relevant departmental output. Funds for the development of EA3000 are part of a departmental appropriation and lie within the total price for DEWR Output 1.2.1. Provided the funds are put to the purpose of the outcome for which they were appropriated, agency managers have the flexibility to adjust internal budgets as needs arise.

4.60 It is clear that EA3000 and related IT has cost substantially more than envisaged in early 2002. This may well have involved sound management decisions about changes in scope and content to the project. This would be understandable where a new technology is being used, and a tight deadline must be met, as in this case.¹⁷⁴ However, without evidence, this assessment cannot be made and it is not possible to confirm that the project was delivered within budget.

IT governance

What is IT governance?

4.61 Agency governance is about how an organisation is managed, its corporate and operational structures, its culture, its policies and strategies, and the ways in which it deals with stakeholders. It is concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes/results.

4.62 IT governance is an integral part of agency governance. IT governance ensures that the agency's IT strategy is aligned with and supports the agency business strategy, control structures are implemented, IT-related risks are managed appropriately, IT resources are used responsibly and IT performance is measured and managed. In summary, IT governance is a system of control that ensures that business objectives are achieved.¹⁷⁵

¹⁷⁴ In November 2004, DEWR established that there was no provision in its project lifecycle method for budgetary and planning estimates made early in a project to be revised as design occurs and the solution is refined. DEWR, ESG, *Review of Organisational Project Maturity, Observations, Findings & Recommendations Report*, observation 4 and recommendation 4.

¹⁷⁵ CobiT Management Guidelines, Information Systems Audit and Control Foundation (ISACF), third edition, July 2000, p. 15.

4.63 An IT control framework helps business managers to understand and manage the risks associated with implementing new technologies. It shows stakeholders how well they have met this objective.

4.64 The audit had regard to international standards for assessing an organisation's maturity, such as the Capability Maturity Model (CMM), the Capability Maturity Model Integrated (CMMI) and Control Objectives for Information and Related Technology (CobiT). CMM is a yardstick against which it is possible to judge the maturity of an organisation's software development process.¹⁷⁶ As an adaptation of CMM, CMMI offers a means to improve an organisation's ability to manage the development, acquisition and maintenance of products and services; enables assessment of organisational maturity and process area capability; identifies priorities for improvement; and provides guidance on implementation of improvements.¹⁷⁷ CobiT provides a generic process maturity model¹⁷⁸ as a guideline to evaluate the level of development of an organisation's IT processes with consideration of respective controls and activities. The maturity model approach presents a succinct summary of grading an organisation through six levels from non-existent (the lowest level), to optimised (the highest level).¹⁷⁹

4.65 The following CobiT principles of IT governance were considered by the ANAO:

- responsibility for approving IT strategies, budgets and structures resides at board level;
- the management structures for IT are appropriate and effective; and
- the organisation's audit committee ensures that IT is included in the programme of audits, reviews the results of audits and follows up on recommendations.

DEWR IT governance

4.66 DEWR has divided responsibility for IT into two principal groups, generally aligned in accordance with its outcome structure. Employment Systems Group (ESG), responsible for EA3000 and other employment systems, supports applications for Outcome 1. IT Systems Group (ITSG), responsible for

¹⁷⁶ Although CMM was developed by the Software Engineering Institute for assessing the maturity of software development capability, CobiT has derived from it a very similar model for assessing control over IT processes as a whole.

¹⁷⁷ See: <<http://www.sqi.gu.edu.au/cmmibin/courseUpcom.cgi>>.

¹⁷⁸ CobiT Generic Maturity Model, CobiT Management Guidelines, IT Governance Institute, Third Edition, July 2000, pp. 11; 116–117.

¹⁷⁹ See Appendix 1.

the IT infrastructure, planning and other systems, supports applications for Outcome 2. DEWR's IT Applications Branch of ITSG and ESG are treated as separate development groups. Respective committee structures support each group.

4.67 Employment Management Committee (EMC), chaired by the Deputy Secretary, Employment, is the prime decision-making forum for matters relating to Outcome 1 within DEWR and was formed to represent the board of management for that purpose. It is also required to focus strategically on business planning, policy, performance and resource management, ministerial relations, broader organisational and corporate management issues on a cross-group basis for the whole of Outcome 1.

4.68 EMC oversees the proceedings of various subcommittees, including the Employment Systems Board (ESB, which superseded the earlier Employment Systems Sub-committee), which is the management steering committee for all Outcome 1 Information Technology, including EA3000. ESB was chartered to oversee the management of DEWR's project teams and the implementation the system modules (the 'trains') to ensure that requirements under ESC3 and the RFT were implemented.

4.69 The IT audit function is incorporated in DEWR's Internal Audit Branch, which is overseen by DEWR's Audit Committee.

4.70 The ANAO found that ESB met regularly through the period of EA3000 development and implementation. DEWR's own Internal Audit reports found matters requiring attention were reported to ESB and EMC, including reporting of risk assessments at most meetings. Proposals for additional resources, for changes in project scope and restricted testing to meet deadlines were discussed in these forums. In addition, the Board was aware of the daily high-level meetings that took place leading up to the project deadline, outcomes of which were reported to the Board and the Committee.

4.71 Internal Audit took an active role in providing an independent view on the EA3000 development. Internal Audit reports were regularly considered by ESB. Internal Audit also arranged for the preparation of a range of more detailed reports relevant to IT development for ESC3 and EA3000 in particular:

- *Review of the EA3000 Project Environment*, (interim report, March 2003; final report, July 2003); and
- *EA3000 'Go Live' Readiness Audit and ESC3 Transition Audit*, (June 2003).

4.72 DEWR formally responded and agreed to most of recommendations of the *Review of the EA3000 Project Environment*. DEWR prepared no formal response to the *Go Live* and *Transition* reviews.

4.73 In the case of the *Review of the EA3000 Project Environment* (interim report), Internal Audit reported difficulty in getting access to project resources. They attributed this to the 'aggressive project timeframe and intense project workloads'. Similarly, in its report on the *EA 3000 'Go Live' Readiness Audit* Internal Audit had to do its work in a way that minimised the impact on staff 'under extreme pressure and stress'. There is a risk, in these circumstances, that management access to independent assessment of the status of a critical project can be limited.

4.74 The ANAO reviewed the internal audit reports, performed during the development of EA3000, and found that Internal Audit had identified significant weaknesses in ESG's general IT control framework. These included weaknesses with system development (including project management; standards and procedures; quality management; internal training; risk management; requirements definition and design; testing, including lack of load testing; post-implementation review); security; monitoring and review; business continuity; user training and support.

4.75 The Audit Committee followed up on recommendations of DEWR Internal Audit reports, with a report on recommendations made, action plans, status reports and the identity of the group responsible.

Post-implementation assessments and process improvements

4.76 The ANAO reviewed ESG's post-implementation environment, following the implementation of EA3000; that is, the period after July 2003.

4.77 DEWR engaged an external consultant to provide advice to ESG.¹⁸⁰ In December 2003, the consultant prepared a report proposing a proprietary management framework.¹⁸¹

4.78 DEWR did not proceed with the proposal but, in the course of his work, the consultant undertook a maturity model assessment of ESG. The proposal was aimed at raising ESG's capability to level 2 in some areas and level 3 in others.¹⁸²

4.79 The ANAO evaluated the consultant's report and found that, in December 2003, six months following the implementation of EA3000, ESG's IT general controls environment continued to reflect significant weaknesses in systems development (including project management; quality management;

¹⁸⁰ DEWR engaged IBM to serve in a consultancy capacity.

¹⁸¹ RAC Capability Assessment: Findings and Recommendations: DEWR RAC Implementation Planning, IBM, 16 December 2003.

¹⁸² See Appendix 1, *Maturity Models for IT development*. On this internationally-accepted scale, ranging from 0 (least mature) to 5 (most mature), level 3 represents an 'average' degree of maturity.

risk management; requirements definition and design; testing; and acceptance testing).

4.80 The ANAO found that, during the development of EA3000 (from mid-2002 to mid-2003), ESG had not embraced certain key controls, which DEWR attributed to the aggressive timeframe for implementation of 1 July 2003 and the use of new technology and development techniques. The consultant's report showed, however, that ESG had still not implemented key controls.

4.81 In February 2004, DEWR agreed with the majority of the recommendations from the Internal Audit reports prepared during the implementation of EA3000. DEWR Audit Committee minutes show that ESG had embarked on effecting the relevant changes. As of October 2004, Internal Audit reported outstanding weaknesses in the areas of quality management, change management, post-implementation reviews and continuity management. For the identified weaknesses, Internal Audit provided respective findings and recommendations, which are consistent with those identified by the ANAO in the course of its review. DEWR management responded to the identified control weaknesses.

4.82 In late 2004, after the fieldwork for the present audit had concluded, DEWR obtained further consultancy advice¹⁸³ on ESG's maturity. In November 2004, a consultant prepared the report, *DEWR Employment Systems Group—Review of Organisational Project Maturity: Observations, Findings & Recommendations Report*, which found that:

DEWR ESG is very close to having attained CMMi [Capability Maturity Model Integration]¹⁸⁴ Level 2 capability, and that any further organisational development required for attaining Level 2 is relatively straightforward.

The author also considers that good progress is being made across a number of Process Areas towards the attainment of Level 3 capability.¹⁸⁵

4.83 In December 2004, DEWR engaged a consultant to prepare a '*Project Plan: CMMI 2004–05 Process Improvement Project*'. The project plan acknowledges, as background, that past system releases had shown weaknesses in several areas, which had had an impact on release quality. This

¹⁸³ DEWR further engaged IBM to serve in a consultancy capacity.

¹⁸⁴ The Capability Maturity Model Integration is a further development based on CMM but oriented to enabling integrated process improvement within organisations without the need to implement multiple models. See the Software Engineering Institute: <<http://www.sei.cmu.edu/cmm/cmms/cmms.html>>.

¹⁸⁵ DEWR Employment Systems Group, *Review of Organisational Project Maturity: Observations, Findings & Recommendations Report* (November 2004), p. 4. Report prepared for DEWR by IBM Australia.

had been identified in the two Internal Audit reports referred to above and by the ANAO.¹⁸⁶ The project was expected to be complete by August 2005.

Conclusion

4.84 Implementing ESC3 involved substantial systems development for DEWR and Centrelink, including the move to web services technology. To a significant extent, the ESC3 initiative relied upon a major DEWR IT release, Employment Assistant 3000 (EA3000). EA3000 is an application developed for use by external service providers and departmental staff to manage the operation of Job Network services and to enable the department to monitor and regulate job seeker flows. Centrelink, as 'gateway' to the Job Network, developed the capability for exchanging and updating of job seeker information between EA3000 and Centrelink systems.

4.85 The first release of EA3000 was on 14 April 2003. The second and major release was on 1 July 2003, when ESC3 commenced.

4.86 Centrelink and Job Network providers were dependent upon the timely implementation and proper functioning of EA3000. Centrelink staff used an interface between Centrelink and EA3000, particularly web services, to make its primary contribution to employment services, that is, to check job seeker registration and to make diary appointments with Job Network providers for job seekers. These initial steps were essential to a successful transition to ESC3. Developing VPs for both existing job seekers (the stock) and those referred during the transition period (the initial part of the flow) was a prerequisite to providing those job seekers with Job Network services after 1 July 2003 and ensuring a smooth start to ESC3.

4.87 From the first release of EA3000, major implementation problems were reported by Job Network providers and Centrelink staff. The risks associated with implementing a large, sophisticated and crucial system with new technology were heightened by a tightly restricted time frame. Although a systematic planning approach was developed by DEWR, no significant load testing was performed before the 1 July 2003 implementation date.

4.88 The consequences of IT system instability and intermittent unavailability, particularly with DEWR's systems, leading up to 1 July 2003, were that Centrelink was severely constrained in its ability to complete job seeker registrations, perform job seeker assessments, and book or confirm appointments for VPs. When EA3000 access was unacceptably slow or unavailable, Centrelink resorted to manual workarounds. This contributed to

¹⁸⁶ During the course of this performance audit, the ANAO provided DEWR with extensive working papers examining in detail IT general controls and their status during EA3000 development and, where possible, the post-implementation and current environments.

delays in referrals and affected the rate at which job seekers attended Job Network appointments. DEWR later paid Centrelink for the additional work undertaken to deal with the backlogs.

4.89 Achieving operational stability remained a challenge for DEWR until August–September 2003. The department later stated that delivering its major releases on time has ‘often been at the cost of compromised quality as testing and training timeframes are compressed to compensate for overruns in earlier project phases’. DEWR has also stated that IT for ESC3 was not fully operational from the outset. It said that the system took five weeks to be stabilised, and stated that this is ‘well ahead of industry standards for such a large project’.

4.90 DEWR has reported that it delivered the system on time and within budget. However, it is not possible to verify this statement. Although DEWR delivered baseline requirements, it did not clearly state its expectations about the functionality and likely cost of EA3000 in advance. Over several months after implementation DEWR substantially improved the performance of the system. While Job Network providers had encountered difficulties with the implementation of the system, the majority agreed that problems had been mostly resolved.

4.91 The ANAO acknowledges that since system implementation, ESG has recognised opportunities for improvement for IT processes. Particularly in more recent times and with the assistance of external consultants, ESG has improved its IT general controls environment and has gradually introduced changes to bring about a more mature IT operating environment.

5. Management of the Transition to ESC3

This chapter discusses DEWR's management of the transition from the previous employment services contract, ESC2, to ESC3 and provides an assessment of how well that was done.

Background

5.1 The introduction of the Active Participation Model (APM) represented a major change to the delivery of employment services requiring DEWR and Job Network providers to make substantial organisational change. Operational policy for the APM was implemented with ESC3, from 1 July 2003.

5.2 Implementation of APM was complex, involved a range of stakeholders and needed to be achieved quickly with minimal effect on job seekers. To achieve a smooth, timely transition for ESC3, the ANAO considered whether DEWR had established:

- a set of clearly articulated objectives for the transition;
- formal management and planning, including risk assessment; and
- performance criteria against which it could assess whether it was meeting its transition objectives.

5.3 Each of these areas is discussed under separate headings below. In addition, the ANAO examined the issues that arose with transition and assessed whether DEWR met the objectives that it had set for itself.

5.4 The ANAO also sought the views of the chief executives of Job Network providers on how well they perceived the transition had been managed, by a systematic survey. Selected results are in this chapter where relevant and detailed results are provided at Appendix 2.

Objectives for ESC3 transition

5.5 It is good practice to set out objectives in advance as this allows stakeholders to judge whether performance meets expectations. Well in advance of transition, DEWR articulated an objective of having a smooth process with no drop in performance between contracts.¹⁸⁷ It had stated in late 2001 that 'It is clearly important that the Government give attention to how it will move to Job Network three [ESC3] in order to try and ensure that dip in

¹⁸⁷ DEWR, minutes of Active Participation Model Implementation Reference Group, 16 July 2002.

performance [that occurred in the previous transition] does not occur for a second time'.¹⁸⁸ The Minister's May 2002 presentation on the APM specifically stated that a performance downturn was 'to be avoided for ESC2 to ESC3 transition'. Thus, the clear priority for DEWR was that the dip in performance that had occurred during the previous transition should not recur.

5.6 Before it began, DEWR established four principles for the transition to ESC3, endorsed by the Minister. These were to:

- minimise any disruption to services for job seekers and employers;
- minimise any reduction in outcomes achieved during the transition period;
- have all eligible job seekers referred to Job Network members contracted under ESC3 as quickly as possible; and
- provide, in consultation with the industry, a consistent, manageable flow of job seekers to Job Network members, which maintained appropriate cash flows.¹⁸⁹

5.7 DEWR drew upon the findings and lessons learned from the review of the transition between ESC1 and ESC2 in developing the strategies and plans for transition. The principles listed in paragraph 5.6 also reflect, either directly or indirectly, the lessons learned.

Management

5.8 DEWR's Employment Management Committee (EMC) oversaw the planning for transition to ESC3 until a sub-committee was established to manage the final planning and implementation of the APM. The APM Implementation sub-committee met, mostly weekly, from 4 November 2002 until 27 October 2003.¹⁹⁰ Extra-ordinary meetings were held as required.

5.9 The sub-committee was chaired by a Deputy Secretary and included members with major transition responsibilities.¹⁹¹ It was responsible, among other things, for the development and implementation of the Transition Management Plan, the APM Communications Plan, proposed changes to

¹⁸⁸ Secretary, DEWR, *Innovations in Labour Market Policies* Conference, 30 August 2001.

¹⁸⁹ DEWR, Minute to Minister for Employment Services (MBP 200206832), 16 Oct 2002.

¹⁹⁰ This covered the entire period of transition, from 14 April 2003 to mid October 2003.

¹⁹¹ Other sub-committees included the Programme Assurance and Risk Management Sub-committee—an executive level forum to support and advise EMC to maximise the performance and integrity of contracted services and actively control against programme risks; the Employment Systems Sub-committee (later the Employment Systems Board)—the project board for all Employment Business Systems development, including APM systems; the ESC3 Tender Review Committee—a committee to oversee the ESC3 tender.

Centrelink services and the National Contract Management Framework and DEWR's National Policy Clearing House.¹⁹²

5.10 During transition, DEWR also established and participated, with stakeholders, in a range of working groups, reference groups and working parties to progress transition work, address issues requiring individual attention and communicate and consult with stakeholders.

5.11 The committees and working groups put in place by DEWR to manage, coordinate and monitor the transition to ESC3 were comprehensive, involved senior management extensively and the department maintained detailed records of their deliberations. These arrangements also involved stakeholders in discussions about transition, issues that arose, and action to be taken. The ANAO considered that these arrangements were appropriate.

Planning

5.12 DEWR established a range of plans to underpin and guide the transition. These were: risk plans; a transition implementation plan; a training plan; a communications plan and a business continuity plan. These are discussed below.

Risk Plans

5.13 DEWR developed a Risk Management plan for Outcome 1. This was a high-level plan based on Outcome 1 Priorities (as set out in the DEWR PBS). The risk framework adhered to DEWR audit and governance requirements.¹⁹³ The plan provided a risk assessment and outlined management practices for the ESC programme of work. It focused on planning, tracking of risks and outlined action to minimise the risk and what needed to be done if the risk eventuated.

5.14 An ESC3 Active Participation Model Risk Management Plan was finalised in late August 2002. It listed 130 risks for transition, under various categories: Centrelink referral, Job Search Support, Job Placement, Intensive Support Services, contract management and specific risks to Indigenous job seekers.¹⁹⁴

5.15 DEWR developed treatments to mitigate the risks, which were monitored once the plan was implemented. The Employment Risk Management Sub-Committee received a detailed monthly status report on the implementation and effectiveness of risk treatments.

¹⁹² EMC—Active Participation Model Implementation Sub-Committee Terms of Reference.

¹⁹³ EMC, 12 Aug 2002, Agenda Item 6 and EMC, 9 Aug 2002, Agenda Item 6.

¹⁹⁴ It also covered the delivery of NEIS and HLS.

5.16 As well, DEWR prepared an ESC3 Programme Risk Management Plan. It outlined the approach for management of risks for ESC3, including tracking and monitoring risks, mitigation plans and controlling risks by addressing the results of risk tracking.

5.17 In December 2002, DEWR prepared an up-to-date risk management plan covering the major risks to be used for reporting to the APM Implementation Sub-committee. This was the Risk Management Plan for Transition to ESC3. The APM Implementation Sub-Committee received reports on the high-to-extreme risks and the Programme Assurance and Risk Management Sub-committee received monthly reports on the implementation of all risk treatments in the plan.

5.18 DEWR's risk management framework was developed to be consistent with better practice standards and approaches, particularly the *Australian/ New Zealand Standard 4360—Risk Management*.¹⁹⁵

5.19 The ANAO considered that DEWR's risk planning was comprehensive and had been conducted in line with appropriate risk standards.

Other planning

5.20 DEWR developed plans to inform stakeholders about, and guide the transition to, ESC3.¹⁹⁶

5.21 The range of plans included the following:

- The *Transition Management Strategy*—This outlined the major tasks and milestones for the transition from ESC2 to ESC3 for the period April to June 2003. This was available to stakeholders.
- The *Transition Implementation Plan Discussion Paper*—An industry discussion paper covering the period from the announcement of tender results (late March) until 30 September 2003.¹⁹⁷ This was for stakeholders, including the employment services industry, to review and provide written comments to DEWR (by early November) on the management of transition.¹⁹⁸ DEWR completed a final version, the Transition Implementation information paper, in consultation with

¹⁹⁵ The latest version of the standard was released in 2004.

¹⁹⁶ DEWR also delivered presentations around Australia to Job Network providers on Job Placement license issues for Job Network providers, performance management information, transition updates, and systems updates. The presentations were also used to convey information about completing VPs, training opportunities, remote access and VP fees.

¹⁹⁷ DEWR, Active Participation Model Implementation Sub-committee Minutes, 11 November 2002.

¹⁹⁸ DEWR, ESC3 Transition Implementation Plan Discussion Paper, October 2002.

NESA and posted it to the DEWR website along with the ESC3 tender documentation in early December 2002.

- The *Transition Implementation Plan*¹⁹⁹—This was developed to manage the transition of job seekers and providers to the new arrangements.²⁰⁰ EMC endorsed the plan and each weekly APM Implementation Sub-committee meeting reviewed it.
 - In January 2003, DEWR reviewed and extended this plan to become a single overarching plan to track progress on all sub-projects, internal departmental tasks, deadlines and deliverables for ESC3 implementation.²⁰¹ From that point, the plan became the Transition Implementation (Management) Plan with three major components (purchasing, IT Systems development and transition management). DEWR updated it, as required, during transition.
- A *change management/training strategy and training plan*—This was to address the maintenance and training of Job Network staff skills.²⁰²
- The *ESC3 Training Strategy*—This covered the provision of training to Job Network providers, DEWR staff, partner agencies and other stakeholders. As Job Network members developed their own training strategies they were invited to identify areas where DEWR could assist by supplementing training.²⁰³
- A *communications strategy*—This was developed for transition communications targeting stock job seekers, continuing and new Job Network providers, other employment service providers,²⁰⁴ employers, and Job Placement organisations. Secondary audiences were Centrelink staff, DEWR staff and the general public using all available channels, for example, brochures and relevant advertising. A communications strategy for the announcement and implementation of ESC3 and the APM was also developed to address the diverse, geographically dispersed audience.
 - A communication plan was developed to implement the strategy.

¹⁹⁹ The plan was based on the Transition Management Strategy endorsed by the Minister for Employment Services in July 2002.

²⁰⁰ DEWR, ESC3 Transition Implementation Plan Discussion Paper, October 2002, p. 4.

²⁰¹ DEWR, Active Participation Model Implementation Sub-committee, 13 January 2003, Agenda Item 3f.

²⁰² DEWR, ESC3 Transition Implementation Plan Discussion Paper October 2002 p. 15.

²⁰³ DEWR, *ibid*.

²⁰⁴ Included Community Work Coordinators (CWC) and New Enterprise Incentive Scheme (NEIS) /Harvest Labour Services (HLS) /Harvest Labour Information Service (HLIS) providers.

- *A Business Contingency Plan*—This was developed to determine the business response to shortfalls and faults in IT systems developed to support ESC3. This plan was primarily developed for EMC and project managers.

5.22 In summary, DEWR had developed an extensive range of plans to guide the transition to ESC3. These had served to inform stakeholders and had covered objectives, timeframes, tasks and responsible officers.

Performance criteria

5.23 To ensure that the principles, such as those DEWR established for the transition are met (see para. 5.6, above), it is important to have indicators against which performance can be assessed and remedial action taken as necessary. The ANAO found DEWR had set out, in a document relating to the role of DEWR's contract managers, performance measures to gauge the achievement of the four principles for transition. Those measures were:

- Outcomes achieved—quality and quantity vocational profiles;
- minimal downturn in performance;
- minimal complaints; and
- jobseekers at correct point in continuum (client stocks).²⁰⁵

5.24 The document providing these measures focused specifically on the role of DEWR contract managers in managing transition. These measures did not include specific standards or expected levels of performance against which empirical results could be compared. The ANAO has found no reports in terms of these measures or any subsequent reference to them.

Monitoring

5.25 DEWR's monitoring of transition included regular updates on progress against the risk management, transition, communications and training plans to the APM Implementation Sub-committee, daily reports to management and weekly Transition Business Reports to the Minister.²⁰⁶

²⁰⁵ These performance measures appeared in the DEWR document, *Employment Services Contract Management: The APM Model and NCMF [National Contract Management Framework] Directions*, 28 April 2003. This was approved by the APM Implementation Sub-committee on 28 April 2003 and endorsed by the Minister. It is not clear whether DEWR intended a one-to-one correspondence between the four transition objectives and these four measures. For example, 'minimal complaints' could relate to all objectives.

²⁰⁶ DEWR advised that monitoring took place through daily reports to the executive. The copies of these reports provided to the ANAO showed that they comprised extensive detail on EA 3000 operational activity, some of it being of a technical nature (numbers of mainframe transactions, response times and the like).

5.26 The weekly Transition Business Reports gave an operational summary of transition services statistics and information. They updated current issues including the referral letter process for stock job seekers, Centrelink's Streamlined Referral Process for flow job seekers, the operational level of DEWR and Centrelink IT systems, Vocational Profile (VP) appointments, job seeker commencements, incorrect referrals, mapping issues, financial viability of Job Network providers, systems readiness, job seeker flow numbers and low job seeker attendance at VP appointments.

5.27 The reports included daily diary session use for the current and next month,²⁰⁷ total Centrelink registrations, cumulative VPs, VP appointments scheduled and job seeker compliance. Over time, the reports included tables tracking job seeker VPs and initial appointments scheduled, and letters sent.

5.28 In relation to the four principles set for transition (para. 5.6, above), the reports broadly monitored the number of registrations of job seekers; VP appointments made and attended, the cumulative completion of VPs and transition payments to Job Network providers. These would have shown the flow of job seekers to Job Network providers and the progress towards VP targets.

5.29 DEWR had mechanisms in place to keep track of relevant data—for example, the numbers of complaints it received and quantity of VPs.²⁰⁸ However, the Transition Business Reports did not account for progress against the four measures mentioned above (para. 5.23) nor relate any performance information to the principles the Minister had endorsed (para. 5.6).

5.30 DEWR wrote to all Job Network CEOs regularly from mid-May 2003 through to late September 2003 (the 'Transition Update') providing comments and advice on the progress of transition and including a more summary 'transition business report' comprising a subset of the tables and graphs compiled by DEWR and provided to the Minister.

5.31 In December 2003, DEWR conducted an informal stocktake to determine whether the main elements of the APM were in place, identify any outstanding or emerging issues, and note lessons from implementation. The stocktake focused on immediate matters.²⁰⁹

5.32 DEWR monitored against timeframes and activities regularly. Monitoring activities during transition were conducted at a detailed and lower

²⁰⁷ Job Network providers were required to make diary appointments available for Centrelink Call Centre and automatic referrals for vocational profile interviews.

²⁰⁸ It also identified by 30 June 2003 a need to improve the quality of VPs, based on survey work it had undertaken.

²⁰⁹ DEWR has not undertaken a formal post-implementation review of the transition to ESC3.

level, often as issues arose. For example, this includes DEWR not monitoring directly against the Minister's four principles (para. 5.6).

5.33 Towards the end of the audit, DEWR provided the ANAO with a paper that sought to link the four transition objectives to what DEWR did monitor.²¹⁰ However, at no time during the project did DEWR explicitly monitor and report in terms of the four transition objectives endorsed by the Minister. Further, DEWR's *Annual Report 2003–04*, which reports the successful implementation of the APM, does not refer to the department's performance in terms of these four objectives.

Transition issues

5.34 Two major issues arose during transition.²¹¹ These were:

- difficulties with DEWR's computer system, EA3000, particularly for Centrelink;²¹² and
- low job seeker attendance at vocational profile (VP) appointments.

5.35 Individual job seekers enter the APM by attending their Job Network provider for a VP interview. Developing VPs for both existing job seekers (the stock) and those referred during the transition period (the initial part of the flow) was a prerequisite to providing those job seekers with Job Network services after 1 July 2003 and ensuring a smooth start to ESC3.²¹³

5.36 DEWR informed the Job Network that it estimated that, before 30 June 2003, some 450 000 job seekers would need to have VPs prepared and recorded on its IT system. This made it clear to providers that they should expect a substantial workload.²¹⁴ DEWR expected the balance of VPs (estimated to be some 300 000) to be completed by September 2003. It stated that 'all VPs for job seekers registered before 30 June 2003 must be entered on the system' by 30 September 2003.²¹⁵

5.37 By 27 June 2003, (only a few days before the start date for ESC3, 1 July 2003) nearly 451 000 VP appointments had been scheduled to take place by that

²¹⁰ DEWR, *The Transition Strategy's Four Objectives*, received 18 March 2005.

²¹¹ The then Minister for Employment Services identified these two issues in his letter of 27 June 2003 to the Prime Minister.

²¹² The management of the development of EA3000 is analysed in Chapter 4.

²¹³ DEWR, *Transition Implementation Plan Discussion Paper*, October 2002, p. 9.

²¹⁴ DEWR, *Transition Implementation Information Paper*, p. 17.

²¹⁵ DEWR, *Transition Implementation Information Paper*, p. 6.

date but only 184 200 attendances had been recorded.²¹⁶ This, in turn, affected provider workloads and diminished their cash flow.²¹⁷

5.38 When considering the issues that arose during transition, it is important to bear in mind that the APM is a *continuum* of service.²¹⁸ Therefore, any problem affecting that initial VP was likely to have ongoing consequences on services for job seekers, delaying long-term job outcomes and lowering cash flow to providers. This is because providing Job Network services and achieving long-term job outcomes for job seekers both attract payments from DEWR.²¹⁹

5.39 The ANAO therefore examined DEWR's management of the low attendance rate and the consequential cash flow problem.

Low attendance rate

5.40 A NESA Board meeting on 5 July 2002, nearly a year before commencement of ESC3, recorded an explicit concern that DEWR's financial modelling of ESC3 had not considered failure-to-attend rates.²²⁰ Industry representatives stated at that meeting that conservative estimates of failure-to-attend rates were 20 per cent but were as high as 80 per cent in some locations. They thought this was likely to have a major effect on revenue flows. This advice was given in a discussion of ESC3 design aspects that could affect the Job Network financially. The minutes record that the responsible Minister (who attended the meeting) found all of this advice useful. He had suggested that the modelling experts, together with DEWR and NESA, should meet as soon as possible in the following week to discuss and review the modelling that had taken place.²²¹

5.41 Given the importance of DEWR's transition objective of having VPs recorded for existing job seekers, the ANAO would have expected the department to consider this in planning for transition, including in risk plans.

²¹⁶ DEWR, Transition Business Report, week ending 10 October 2003. Note that other, earlier editions of this report provide slightly different figures. It is assumed that this, the last report of this kind provided by DEWR, gives the most settled and accurate account. By 10 October, 1.146 million appointments had been scheduled and 477 497 attendances recorded.

²¹⁷ DEWR–FaCS–Centrelink joint minute to ministers, with a copy to the Prime Minister, 18 July 2003.

²¹⁸ See Chapter 1.

²¹⁹ Generally, an *interim outcome* is achieved by a job seeker remaining in continuous employment or appropriate training for 13 weeks; a *final outcome* is achieved after 26 weeks.

²²⁰ The financial modelling is examined in Chapter 3.

²²¹ DEWR officers attended this meeting. The ANAO asked DEWR what action had followed from the Minister's request. However, DEWR has not provided a response.

5.42 Neither DEWR's Transition Implementation Plan Discussion Paper (used for industry consultation, October 2002) nor the subsequent Transition Implementation Information Paper identified the risk of non-attendance. The former listed two options for managing the booking of VP interviews. Under the option DEWR adopted, call centres were to 'follow up with job seekers who do not attend appointments'. It did not give an expected rate of failure to attend.

5.43 DEWR emphasised to the ANAO the level of detail with which it dealt with this risk.²²² In doing so, it drew attention to the risk management plan.

5.44 DEWR had identified job seeker non-attendance in an early (July 2002) risk management plan in the following terms: 'Job Seekers might not turn up for interview appointments and Job Network provider staff will be underutilised'. This was assessed as 'High (probable)'.²²³ The plan shows that DEWR expected that compliance arrangements would minimise 'no shows' and that Job Network providers 'should be able to cope through overbooking'.

5.45 In a subsequent version of the plan 'Job seekers not attending VP interviews' is specifically identified. The outcome listed for this includes 'Job Network providers not getting their service fee'.²²⁴ This was listed as a risk to do with 'Centrelink readiness' and the treatment was 'DEWR ESC3 communication strategy (market testing of letters to job seekers)'.²²⁵

5.46 Reports on risk were, at this point, undertaken by exception, with only risks classified as 'unacceptable' drawn to the attention of the APM Sub-Committee. The risk management report to the APM Implementation Sub-Committee²²⁶ included this risk—non-attendance—with the annotation:

Any lag in implementing suspensions because of resource constraints will delay engagement with job seekers group and impact on the uptake rate. Existing treatments: DEWR ESC3 Communication Strategy (market testing of letters to job seekers completed). Compliance action to follow up DNAs [Did Not Attend].

5.47 DEWR told the ANAO that: 'EMC endorsed the plan which was considered each week, after 20 January, as a standing item'. However, the risk was downgraded from high to medium at the meeting of 17 February 2003 and not further monitored at this level until the risk began to be realised. The

²²² DEWR advice of 4 February 2005.

²²³ The first occurrence is in DEWR, ESC3 Risk Working Party—Interim risks, 9 July 2002; subsequently it appears in the interim report of a consultant to DEWR on its ESC3 risk management plan, Risk 11 (p. 5).

²²⁴ DEWR, Risk Management Plan for Transition to ESC3, December 2002, Risk No.14, p. 14.

²²⁵ Paper prepared for an agenda item for the EMC meeting scheduled for 13 January 2003.

²²⁶ The APM Implementation Sub-Committee is a sub-committee of DEWR's EMC.

reason recorded for downgrading was 'the Centrelink multi-purpose contact strategy script'.

5.48 The regular letters from DEWR to Job Network CEOs (mentioned in para. 5.30) show that Job Network members began reporting low attendance by mid-May 2003. DEWR was 'currently investigating the incidence, cause and need for corrective action'.²²⁷ The letters of 2 and 10 June 2003 highlighted a 'significant drop off in the number of job seekers attending Vocational Profile (VP) appointments'. DEWR said it was working with Centrelink to work out what could be done.

5.49 By 17 June 2003, improving attendance was accorded 'priority number two' (after stabilising the IT system). The letter of 1 July 2003 shows that Centrelink was introducing a 'follow-up regime' immediately for VP interviews. In addition, the cash flow implications had been recognised:

we are closely examining the job seeker flow estimates on which financial revenue estimates were modelled and comparing these with actual job seeker vocational profile flows given the poor attendance rates.²²⁸

5.50 However, DEWR gave evidence to a Senate Estimates hearing in November 2003 that it had assessed the likely attendance rate and that 'The very low attendance rates came as a surprise to all'.

5.51 When the low attendance rate became apparent in implementation, the agencies involved, DEWR, Centrelink and FaCS, participated in an Interdepartmental Committee (IDC) chaired by the Department of the Prime Minister and Cabinet (PM&C). The agencies analysed the attendance rate and reported to ministers in mid-July 2003. Their report showed that, of approximately 690 000 job seekers that had been referred for a VP interview,²²⁹ 75 per cent were getting an activity tested payment and, therefore, were required to attend. The remainder were getting a non-activity tested payment and their attendance was voluntary. About 22 per cent of the activity tested job seekers failed to attend and 49 per cent of the non-activity tested ones failed to do so.

5.52 The three agencies found that elapsed time between contact with a job seeker and the appointment date correlated strongly with the probability of failure to attend the VP appointment. The optimal elapsed time was believed

²²⁷ Circular letter to Job Network CEOs from Deputy Secretary, Employment, DEWR, 19 May 2003.

²²⁸ Circular letter to Job Network CEOs from Deputy Secretary, Employment, DEWR, 1 July 2003.

²²⁹ The figure of 690 000 in the minute to ministers by the three agencies is apparently inconsistent with the data reported in Transition Business Reports to ministers. The Report for 25 July 2003 shows 642 388 cumulative appointments had been made by 18 July 2003 and that for 10 October 2003 shows that 639 224 had been made by 18 July. Further, the report for 25 July 2003 shows that, to that point, some 626 608 transition referral letters had been despatched and 558 572 VP referral letters had been sent.

to be two days. The agencies advised ministers that they were taking action to improve attendance rates.

5.53 On 6 August 2003, DEWR wrote formally to Centrelink outlining a plan for joint work to improve to the attendance rate.²³⁰ In addition, more effective compliance arrangements were due to commence in September 2003 involving the suspension of payment to activity-tested job seekers who failed to comply. Furthermore, agencies had agreed that job seekers on non-activity tested payments would be more actively encouraged into the Job Network.

5.54 The low attendance rate had also led DEWR to review this aspect of its model.²³¹ DEWR then had its consultant undertake that work.²³² The consultant adjusted the modelling to take account, inter alia, of a downward revision of the number of clients entering the Job Network, a revision down of those transferring from ESC2 to ESC3 and an increase in the number of clients in some programmes due to 'widening' of gateways.²³³

5.55 The ANAO concluded that DEWR did take action to address the attendance rate problem. The ANAO notes, however, that the risk of a low attendance rate had been identified clearly a year earlier at a NESA Board meeting.

Cash flow to the Job Network

5.56 Cash flow for the independent organisations that comprise the Job Network is the responsibility of the management of each of them. However, many are substantially dependent on the business they obtain from DEWR. Through the industry CEO forum, Job Network providers told DEWR they had concerns about their potential cash flow during the first months of ESC3, as they took on the new service delivery arrangements. DEWR began considering options to alleviate this at its APM Implementation Sub-committee meeting on 4 June 2003.²³⁴

5.57 By 11 June, it was apparent that cash flow concerns were due to the high non-attendance rate. DEWR concluded that 'this was a crucial issue on which the Minister needed to be briefed'.²³⁵

²³⁰ Letter from the Secretary, DEWR, to the Chief Executive Officer, Centrelink, 6 August 2003.

²³¹ The financial modelling is examined in Chapter 3.

²³² Letter of 18 August 2003.

²³³ The consultant noted that a fourth factor had not yet been taken into account: this was the lower than expected rate of commencement. DEWR advised the consultant that this was a delay rather than a reduction and that all clients should have commenced within six months.

²³⁴ DEWR, APM Implementation Sub-committee, 4 June 2003, Agenda item 3d, *Addressing Financial Viability Concerns for JNMs in ES2-ESC3 Transition Period*.

²³⁵ DEWR, APM Implementation Sub-committee, 11 June 2003, item 4i.

5.58 The responsible minister conducted a meeting/video conference with Job Network CEOs on 26 June 2003. He indicated that DEWR would work with NESAs to find out the effect that lower-than-expected attendance was having on Job Network provider revenue as compared with their reasonable expectations from financial modelling undertaken by DEWR and by NESAs.²³⁶

5.59 DEWR agreed several changes to payment arrangements with the NESAs CEO and Chair, and then obtained the Minister's approval for them.²³⁷ Changes in July 2003 were to address the consequences low attendance. They included:

- an advance of service fees to Job Network providers for all job seekers expected to commence in Intensive Support Customised Assistance from 1 July to 31 October 2003 to make the actual flow of revenue equal to that planned and modelled (cost: about an additional \$100 million);
- an additional amount paid for completion of VPs for job seekers who had failed to attend to 30 June 2003 to help offset additional expenses incurred by providers in that period in anticipation of interviews that could not take place because of non-attendance (cost: about \$15.7 million); and
- payments to Job Network providers to remind job seekers to attend VP interviews (cost: about \$17.5 million).

5.60 These measures would cost \$133 million, of which \$100 million comprised advance payments for services expected to be provided and \$33 million was for the purchase of additional services.

5.61 At the end of July 2003, the major issue raised at the NESAs Board meeting was:

... the continuing difficulties being experienced by Job Network members with low attendance rates at interviews and the flow-on impact this has on their caseload and financial management. It was made clear that this is an immediate issue for the employment services industry.²³⁸

5.62 A second change to payment arrangements was made in September 2003. It would pay for all Intensive Support review contacts with job seekers

²³⁶ DEWR originally undertook financial modelling of ESC3 to assess the costs of the new model of operation. NESAs subsequently constructed its own financial model to help Job Network providers work out the implications for their own financial viability. The financial modelling is discussed further in Chapter 3.

²³⁷ DEWR, minute to the Minister for Employment Services, 8 July 2003.

²³⁸ Letter from the Secretary, DEWR, to the Chief Executive Officer, Centrelink, 6 August 2003.

quarterly in advance for *expected* appointments.²³⁹ The payment would not be subject to acquittal based on actual attendance by job seekers.

5.63 Low attendance rates against the expected number of VP interviews early in transition should have highlighted the fact there would be a downstream effect on cash flow to Job Network providers. DEWR's own modelling had predicted financial problems if Job Network providers were not close to their operating capacity at the start of ESC3. However, in the event, there was a response to the industry's cash flow problem.

Achievement of transition objectives

5.64 The ANAO has made a specific assessment against each of DEWR's transition objectives (para. 5.6, above).

Minimise any disruption to services for job seekers²⁴⁰

5.65 DEWR interpreted minimising disruption to services for job seekers as ensuring that, during the transition period, 'job seekers continue to access high quality employment services and these services (including those provided by Centrelink) are not disrupted'.²⁴¹ As noted above, DEWR identified some measures to assess disruption although the ANAO has seen no evidence that it monitored them.²⁴²

5.66 While DEWR conducted regular surveys of job seekers (the Job Seeker Omnibus Survey (JSOS)), it did not ask specific questions about transition or use this mechanism to gauge the level of disruption to job seekers.

5.67 One indicator, identified by DEWR (see para 5.23, above), of the degree of disruption to job seekers is the level of complaints from job seekers recorded by the department over the transition period. Figure 5.1 sets out the numbers

²³⁹ DEWR, Active Participation Model Implementation Committee, meeting of 1 September 2003. The proposal had been discussed first with industry representatives, who had supported it. The Committee decided to revise financial arrangements in three ways. The third is the most significant:

- Payment for initial contacts for transition clients that do not coincide with a payment point.
- Increased numbers of job seekers entering Intensive Support customised assistance for specialist, remote and new sites in particular, and generally as capacity becomes available.
- Payment of a fee for service at the beginning of each quarter to cover all Intensive Support Review interviews, referral and re-referral interviews expected to be conducted during the quarter based on the Department's modelling and paid to providers on the basis of market share as a proportion of total.

²⁴⁰ Minimising disruption to services for employers was also part of this objective. However, those services are not part of Job Network services and are outside the scope of this analysis.

²⁴¹ DEWR, Transition Implementation Information Paper, p. 3.

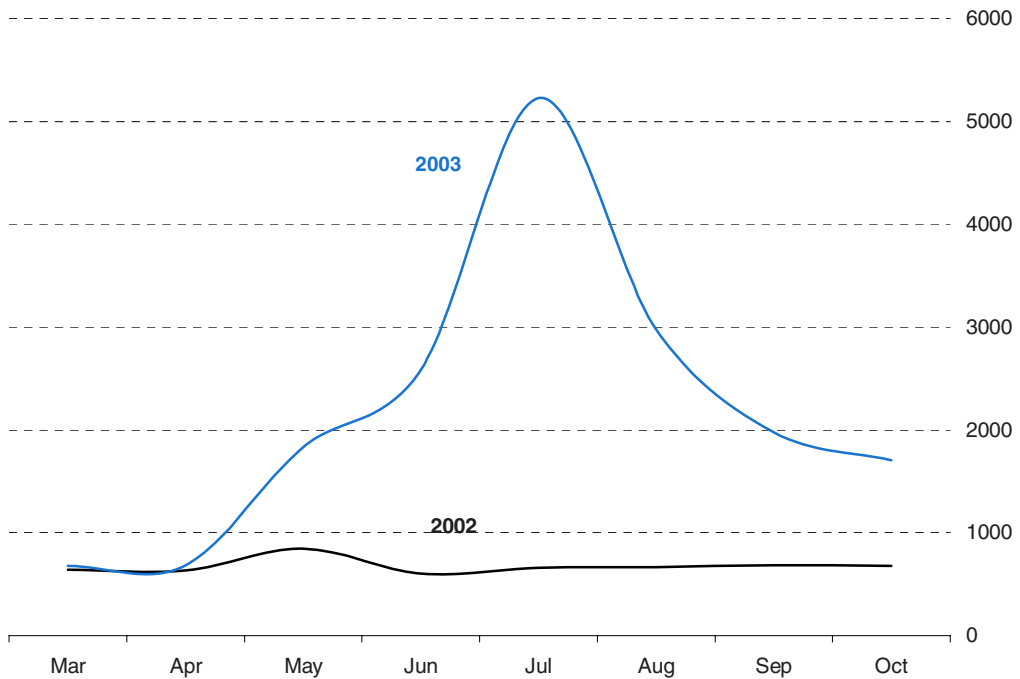
²⁴² DEWR has stated in its paper of 18 March 2005 that its monitoring of the dispatch of letters to job seekers during transition allowed it to assess its progress against this objective. However, the ANAO notes that DEWR itself made a particular point in its own earlier analysis of compliance that 'posting a letter does not mean that the job seeker receives the letter'.

of complaints per month for the period of transition and, for comparative purposes, for the corresponding period in the previous year.

Figure 5.1

Number of complaints about Job Network services recorded by DEWR, by month

March–October 2002 and March–October 2003



Source: ANAO analysis of data supplied by DEWR.

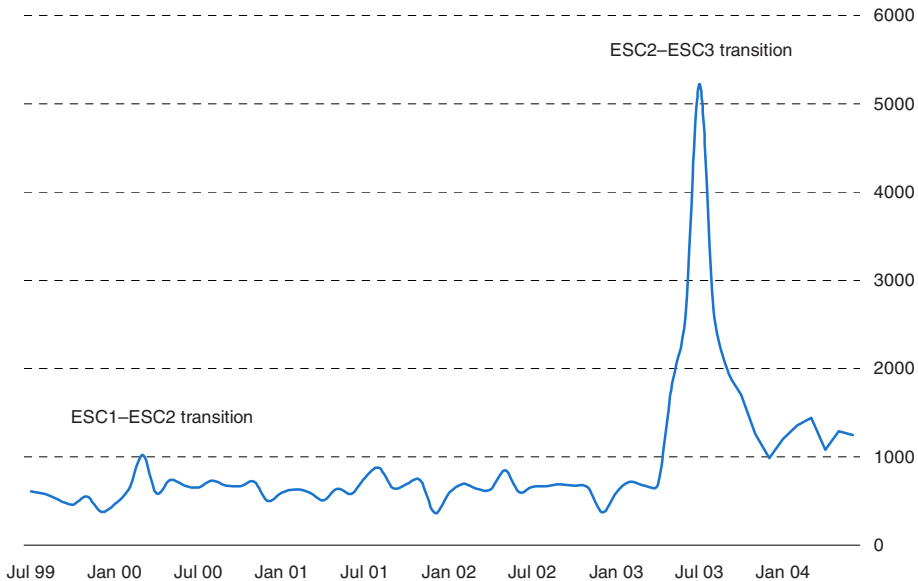
5.68 The number of complaints per month rose substantially during transition in 2003. The ANAO's analysis of DEWR data shows that, for much of this period, a considerable proportion of these complaints related to the choice of Job Network provider.²⁴³

5.69 Some rise in the receipt of complaints in a period of major change would be expected. A comparison of complaints data during the previous transition period, that is, from ESC1 to ESC2 is set out in Figure 5.2.

²⁴³ Some 6050 of 13 297 complaints (45 per cent) recorded over the period April to August 2003 concerned provider choice. DEWR's internal analysis of the data expressed concern that the total number of provider choice complaints was likely to be greater than was being recorded (DEWR, Provider Choice Complaints During Transition, 1 April – 16 July 2003).

Figure 5.2

Number of complaints about Job Network services recorded by DEWR, by month, July 1999—June 2004



Source: ANAO analysis of data provided by DEWR.

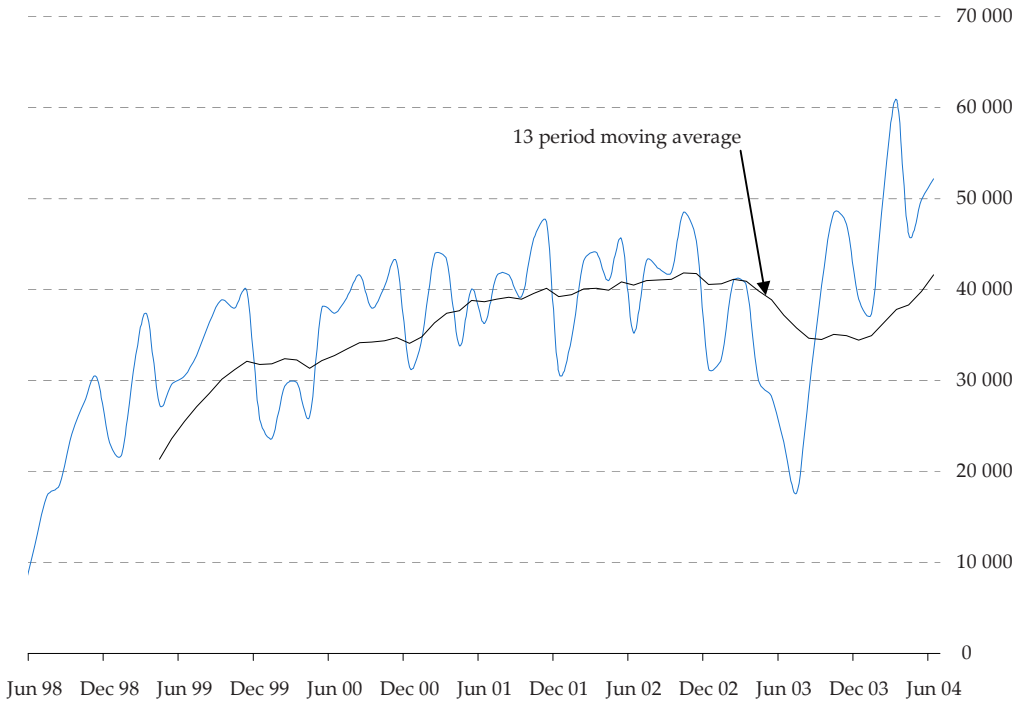
5.70 The monthly rate of receipt of complaints recorded by DEWR during transition to ESC3 was the highest over the entire period from mid-1999 and exceeded that experienced in the previous transition period. When the rate fell after transition, it settled at a higher level than was typical before ESC3.²⁴⁴

5.71 A further proxy indicator to the level of disruption to job seekers is the number of placements made during the transition period. Figure 5.3 shows the number of placements recorded by DEWR over the life of the Job Network. This data is subject to the influence of variables such as the state of the job market.

²⁴⁴ DEWR advised the ANAO that it is unclear as to the reason for the increase in complaints after transition. At the same time as ESC3 commenced, the APM was introduced, which required continuing involvement of job seekers in employment services resulting in more people engaged in those services at any one time. The increase in complaints may relate to this increase in engagement. In addition, the contract introduced explicit requirements of the providers to operate a complaints register. This may have increased awareness of the availability of complaints procedures.

Figure 5.3

**Numbers of job seeker placements reported by DEWR,
by month, April 1998–June 2004**



Source: Data provided by DEWR.

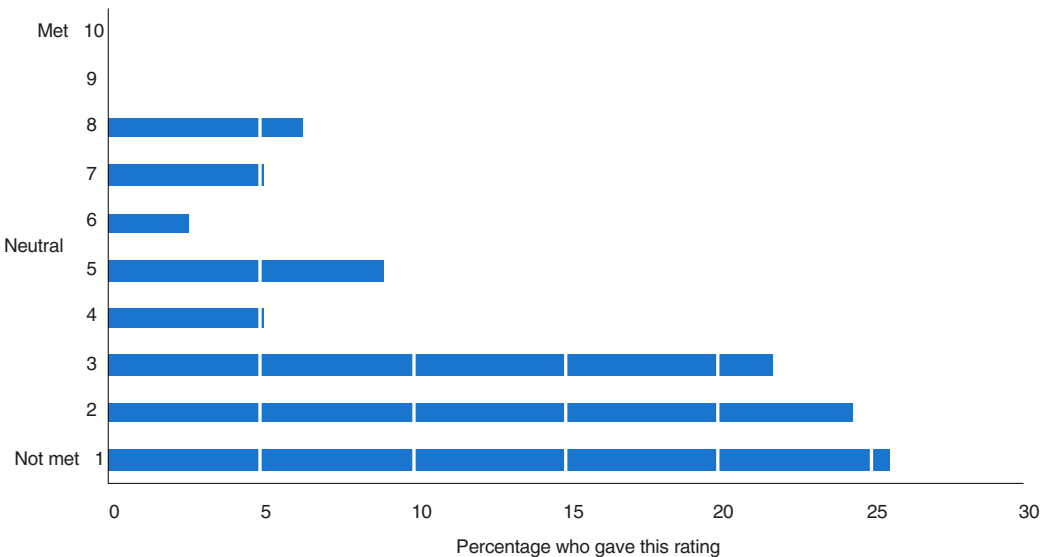
5.72 The downturn in numbers of placements in mid-2003 was substantial. When a moving average of the same data series is taken to smooth seasonal variations, a pronounced dip (with a lag) in the trend for placements is still apparent for the same period. As in the case of the previous transition, the performance recovered and rose to a higher level than before.

5.73 In the survey of Job Network provider CEOs, undertaken by the ANAO, the majority took the view that the DEWR objective for transition to cause minimal disruption to job seekers was not met or only partially met (see Figure 5.4 and Appendix 2).

Figure 5.4

Job Network CEOs’ view on transition: disruption of job seekers

How well do you think DEWR’s objective during transition of ‘minimising any disruption to job seekers’ was met with respect to your own organisation?



Source: ANAO survey of Job Network CEOs, August 2004.

5.74 The data on the downturn in job placements and the rise in complaints is evidence of disruption to services to job seekers. In both cases these indicators exhibited poorer results than during the previous transition. The fact that Centrelink was unable to complete certain basic tasks reliably for several weeks (such as completing job seeker registrations, performing assessments and make referrals—see Chapter 4) provides further evidence of disruption.

5.75 DEWR has agreed with the ANAO that services to job seekers were disrupted during transition.²⁴⁵ However, it was unable to provide the ANAO with an analysis of that disruption.²⁴⁶

Minimise any reduction in outcomes achieved during the transition period

5.76 For the previous transition period—from March to June 2000—DEWR estimated that there had been about a 30 per cent drop in Intensive Assistance interim outcomes compared with the previous year. DEWR has observed a

²⁴⁵ DEWR email advice to the ANAO, 23 February 2005.

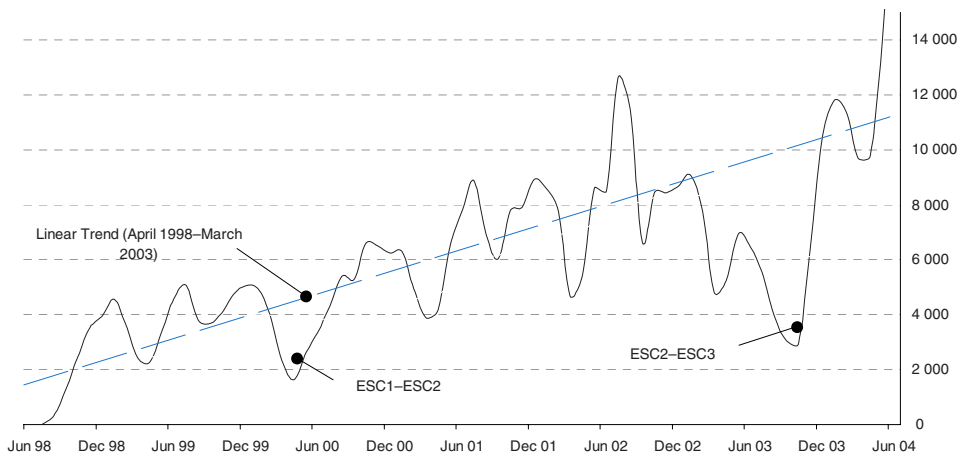
²⁴⁶ DEWR has stated to the ANAO that ‘there was only a marginal decrease in job seeker satisfaction levels’ during transition. The department drew this conclusion from its own analysis of its own survey data.

downturn each year in April, which it attributes to seasonal factors.²⁴⁷ However, in 2000 the downturn was more substantial. DEWR attributed this to the effect of transition from ESC1 to ESC2.²⁴⁸ DEWR confirmed to the ANAO that the 'Invitation to treat' and purchasing process for ESC3 was designed to minimise the contract transition effects.²⁴⁹

5.77 Interim outcomes show a long-term rising trend with seasonal peaks and troughs and a more marked trough in April each year (Figure 5.5).

Figure 5.5

Number of interim outcomes reported by DEWR, by month, April 1998–June 2004



Source: Data provided by DEWR.

5.78 The longer downturn that DEWR attributed to the first transition is evident in early-to-mid 2000. As well, there is a marked downturn in interim outcomes recorded in mid-to-late 2003. The ANAO is not aware of any factors affecting performance in this period other than the transition from ESC2 to ESC3. This downturn must be viewed in relation to the scale of the change which, in the transition to ESC3, was greater than in the transition to ESC2.

²⁴⁷ It takes three months continuous employment to achieve an interim outcome and the seasonal downturn is three months after the Christmas period.

²⁴⁸ See, for example, DEWR May 2002, 'Employment Services: an Active Participation Model', p. 5.

²⁴⁹ DEWR advice of 4 February 2005.

5.79 DEWR observed declining performance against this objective.²⁵⁰ The department told the Job Network in the regular Transition Update letter that April had seen the first sign of a decline in anchored placements²⁵¹ since the commencement of ESC2. DEWR urged providers to keep a close eye on their Interim Outcomes and arranged for an individual report to be emailed to them on anchored placements for each organisation. This was the first sign DEWR had seen of declining performance during transition.²⁵²

5.80 A comment in a later Transition Update letter shows that DEWR perceived the declining performance as flowing from the Job Network putting greater effort into completing VPs.²⁵³ However, a simultaneous concern had developed within DEWR that the quality of those VPs was poor.²⁵⁴

5.81 DEWR has agreed that there was 'a very brief downturn in outcome numbers during the transition from ESC2 to ESC3'.²⁵⁵ The reported numbers of outcomes clearly recovered after transition but it is evident that the effect of the downturn from transition in 2003 amounted to a loss or delay of many thousands of interim outcomes or, long term jobs as defined in DEWR's Job Network Performance Profile reports.²⁵⁶

5.82 In its survey of Job Network CEOs, the ANAO sought a response to the question 'How well do you think DEWR's objective during transition of "minimising any reduction in outcomes" was met with respect to your own organisation?'

5.83 The majority of Job Network provider CEOs took the view that the DEWR objective to minimise any reduction in outcomes during transition was not met with respect to their organisation (see Figure 5.6 and Appendix 2).

²⁵⁰ Although this demonstrates that DEWR was monitoring against this parameter, this data was not included in the Transition Business Report DEWR gave to its Minister. For example, the Transition Business reports for 23 and 30 May 2003, signed by the Deputy Secretary, Employment, do not mention the drop in anchored placements or the implication for declining outcomes performance.

²⁵¹ An anchored placement is a record indicating that the Job Network member has placed a job seeker in a job. This can lead to an interim outcome, thirteen weeks later, if the job seeker has sustained the placement. The point, however, is that the rate of anchored placements is a lead indicator of the likely outcome rate in thirteen weeks' time.

²⁵² Letter from Deputy Secretary, Employment, DEWR, to Job Network CEOs, 26 May 2003.

²⁵³ Letter from Deputy Secretary, Employment, DEWR, to Job Network CEOs, 2 June 2003.

²⁵⁴ See DEWR, APM Implementation Sub-committee, 7 July 2003, 21 July 2003, 18 August 2003. A year later (July 2004) DEWR surveyed 1000 VPs and found that 80 per cent were of poor quality, 15 per cent of average quality and only five per cent were of good quality. See DEWR, EMC, 19 July 2004.

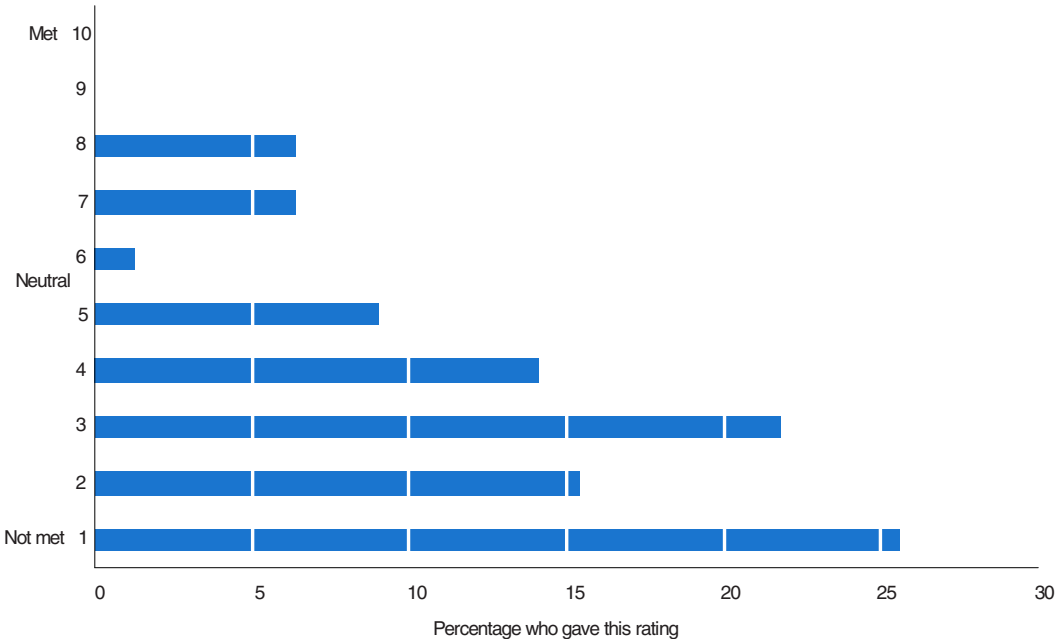
²⁵⁵ DEWR advice of 4 February 2005.

²⁵⁶ Job Network Performance Profile reports are monthly updates (from February 2004) of three data series: job vacancies, job placements and 'long-term jobs', available on DEWR's Australian Workplace website. These reports are discussed and analysed later in Chapter 6.

Figure 5.6

Job Network CEOs’ view on transition: reduction of outcomes

How well do you think DEWR’s objective during transition of ‘minimising any reduction in outcomes’ was met with respect to your own organisation?



Source: ANAO survey of Job Network CEOs, August 2004.

5.84 Without any other specification by DEWR of the meaning of ‘minimising any reduction in outcomes’ the ANAO has used the ESC1–ESC2 transition as a benchmark. The DEWR data clearly shows that reported outcomes dipped more substantially going from ESC2 to ESC3 than in the earlier transition.

5.85 DEWR has not provided an analysis of its performance in terms of its transition objective to minimise any reduction in long-term job outcomes. However, the department’s own data shows that reported outcomes dipped more markedly in the transition from ESC2 to ESC3 than in the previous transition. The views of the Job Network CEOs lend further weight to the ANAO conclusion that DEWR did not meet this objective.

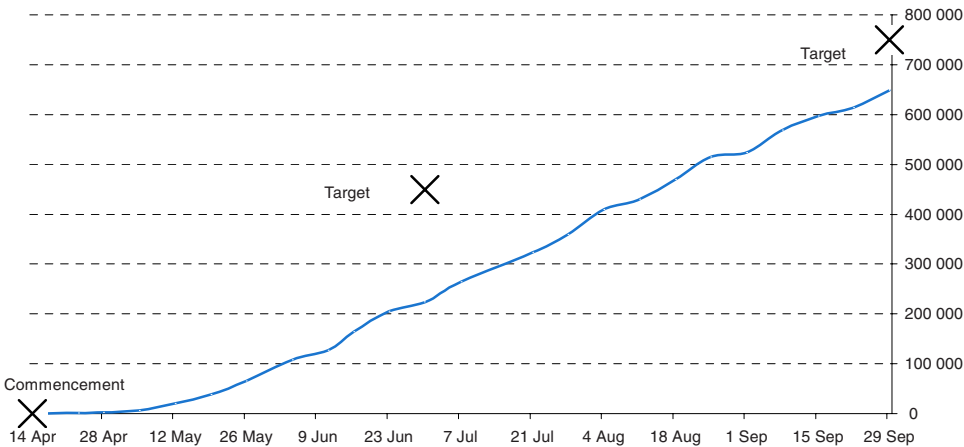
Job seekers referred to Job Network as quickly as possible

5.86 DEWR’s intention was to ensure that all job seekers eligible for Job Network services were attached to ongoing Job Network providers well ahead of the commencement of ESC3. The department described this as ‘one of the

principal aims of transition management’.²⁵⁷ Specifically, the department expected that 60 per cent or about 450 000 VPs would be completed by 30 June 2003 with the balance, about 300 000, completed by September 2003.²⁵⁸

5.87 DEWR monitored the completion of VPs throughout transition and progress was reported to each APM Implementation Sub-committee meeting. Figure 5.7 sets out the performance reported and DEWR’s own expectation of its performance.

Figure 5.7
Numbers of vocational profiles achieved and targets—2003²⁵⁹



Source: ANAO analysis of data provided by DEWR.

5.88 The data shows that the numbers of VPs achieved fell below DEWR’s target. By 30 June 2003, a total of 223 452 VPs were reported as completed, just under half of the target. By the end of the period, the position had recovered somewhat, although performance remained below the target.

5.89 DEWR provided no analysis of its performance in prompt referral of job seekers. The ANAO sought Job Network provider CEOs’ views on DEWR’s performance against this objective. (see Figure 5.8 and Appendix 2). Job Network CEOs had mixed views about the degree to which the prompt

²⁵⁷ DEWR, Transition Implementation Information Paper, p. 7.

²⁵⁸ DEWR, Transition Implementation Plan Discussion Paper, October 2002, p. 9., Transition Implementation Information Paper, p. 16.

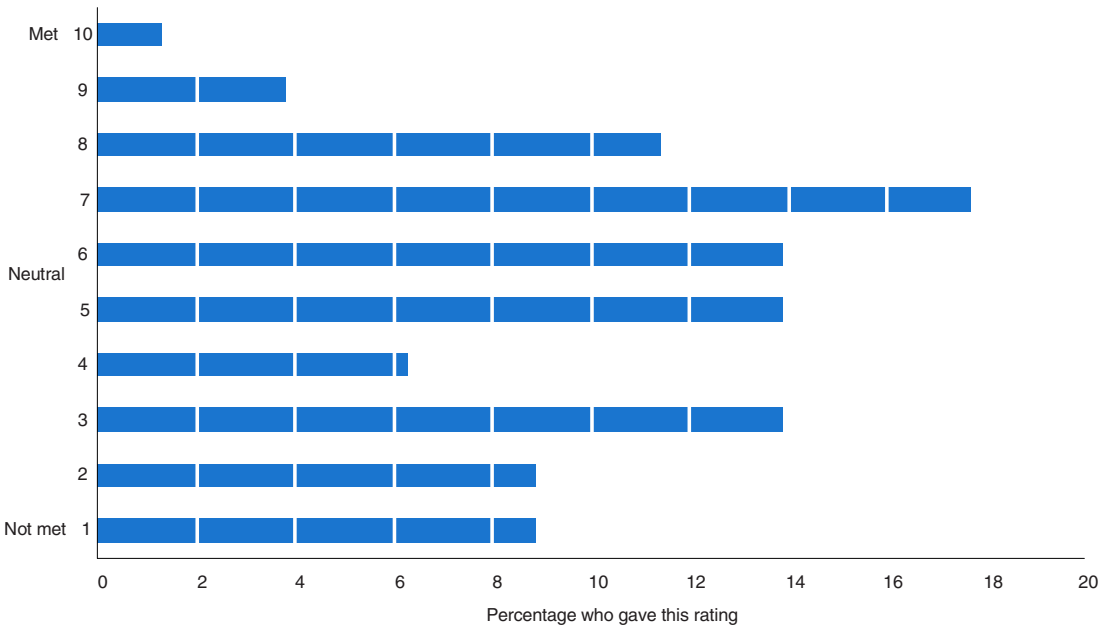
²⁵⁹ DEWR has told the ANAO that it did not have targets for VPs during transition (DEWR email of 18 March 2005). However, it is clear from DEWR documentation that DEWR’s expectations were treated internally as targets during transition.

referral objective was met, with nearly equal proportions tending to agree (48%) and disagree (52%).

Figure 5.8

Job Network CEOs’ view on transition: prompt referral

How well do you think DEWR’s objective during transition of ‘ensuring that eligible job seekers were referred to Job Network Members as soon as possible’ was met with respect to your own organisation?



Source: ANAO survey of Job Network CEOs, August 2004.

Maintain appropriate cash flows

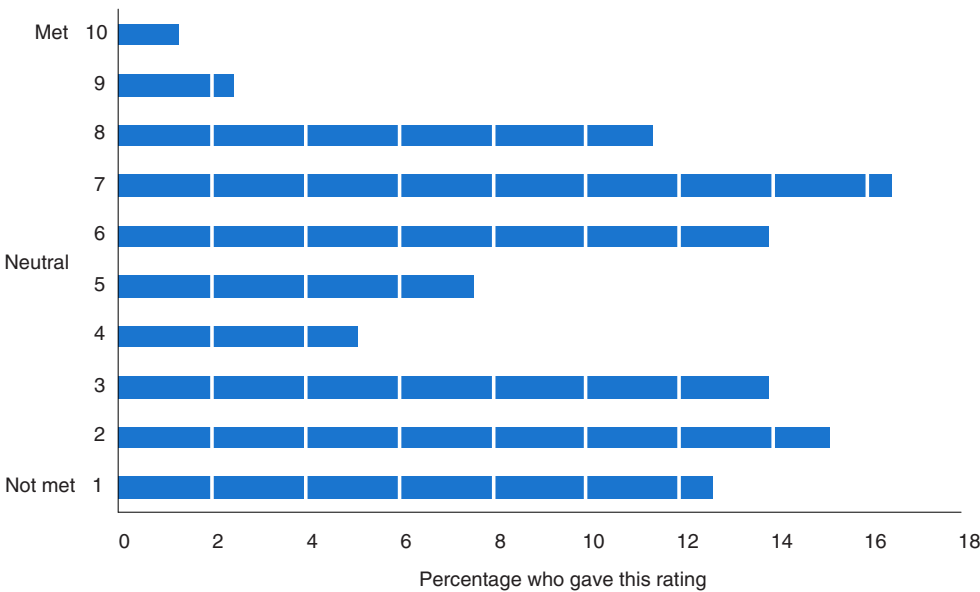
5.90 The earlier discussion of cash flow to the Job Network shows that DEWR had to take prompt action on two separate occasions to address cash flow difficulties in the Job Network (see paras 5.56–5.63).

5.91 Job Network provider CEOs had mixed views about the degree to which this objective was met (see Figure 5.9 and Appendix 2).

Figure 5.9

Job Network CEOs’ view on transition: sustaining cash flows

How well do you think DEWR’s objective during transition of ‘maintaining, in consultation with the industry, a manageable flow of jobseekers to job network members in order to sustain cash flows’ was met with respect to your own organisation?



Source: ANAO survey of Job Network CEOs, August 2004.

5.92 The action taken by DEWR dealt with the issue, at least in part. This is also supported by the fact that less than a quarter of CEOs (23.8 per cent) felt unsure about being able to manage the remainder of the ESC3 contract (See Appendix 2).

Compliance

5.93 In discussions over the attendance rate, DEWR drew the ANAO’s attention to the compliance factor of the APM, especially the requirement that all job seekers receiving activity-tested income support be referred to the Job Network. The compliance effect of active engagement of the whole of the population of activity-tested unemployment payment recipients has generally been referred to (for example, by the IDC referred to above) as ‘tree-shaking’. DEWR expected that active engagement of this population under the APM would identify some income support recipients who would cease to receive those payments, yielding savings to the Commonwealth.

5.94 Compliance effects from referral of the unemployed to various programmes have been observed before in the employment services programmes. For example, the Job Network Evaluation Stage 3 and DEWR net impact studies had shown compliance effects. Therefore, it was reasonable to expect a similar result from more widespread activation of the unemployed.

5.95 DEWR advised that 'While the term 'tree-shaking' (compliance effects) was not used in [*submissions to government on ESC3*], it was an implicit part of the theme of participation and engagement'.²⁶⁰

5.96 Generally, it is good practice to set out the expected performance level for a programme objective, to enhance accountability and enable proper management of performance. The Senate was advised in September 2003 in relation to compliance and unemployment payment recipients:

If a particular compliance regime is undertaken, we would have to make estimates of the sort of return that there would be. If a particular pool of unemployment recipients, who might have been contacted for X period, were then contacted and asked to come in, there would be an estimate somewhere of the number who would do that and the number who would be obliged to be suspended if they did not, but it is not a target.²⁶¹

5.97 When the ESC3 proposal was prepared, with input from other agencies, DEWR had estimated that around \$21.7 million a year would flow in ongoing 'offsetting savings' from the expected 'tree-shaking' effect upon Newstart and Youth Allowance recipients.²⁶²

5.98 In reviewing this aspect of the APM, the ANAO:

- examined the monitoring of this objective; and
- considered how this would interact with the other objectives.

Monitoring compliance effects

5.99 In late June 2003, DEWR analysis had indicated that 'around 5 per cent of income support recipients who should not have been in receipt of payments may have come off benefits as a direct result of the call-in for VP interviews, but this percentage would be even higher with timely and comprehensive follow-up action'.²⁶³ The concern here was that insufficiently rigorous action by

²⁶⁰ DEWR advice of 8 March 2005.

²⁶¹ The Hon. Senator Amanda Vanstone, Minister for Family and Community Services, 17 September 2003. Answer to a question without notice (Senate Hansard, p. 15423).

²⁶² DEWR emails of 1 March and 6 March 2002. Any savings likely to accrue from 'breaching' or payment suspensions was not included in this calculation. The estimate of \$21 million a year was later reduced in consultation with FaCS to around \$12.3 million a (full) year.

²⁶³ Letter from the Hon. Mal Brough MP, Minister for Employment Services to the Hon. John Howard MP, Prime Minister, 27 June 2003.

Centrelink may have been failing to terminate income support payments in all cases where this was now possible.

5.100 Later, when the IDC (referred to in para. 5.51, above) was formed, it gave priority to the ‘tree-shaking’ issue. It prepared a joint brief for ministers summarising the latest data. Specifically, it was intended to ‘describe how the data demonstrates the impact of the new approach in moving illegitimate claimants off the Centrelink customer base’.²⁶⁴

5.101 The IDC first reported on 18 July 2003, and set out as its first important finding, from a DEWR study, a compliance effect associated with job seekers being sent an appointment letter. This showed an increase in the rate at which activity-tested job seekers who had been sent an appointment letter left Newstart or Youth Allowance within four weeks, as compared with those not sent a letter. This increment in the rate was one percentage point for the first cohort observed, 1.4 per cent for the next, and 0.7 per cent for a third.

5.102 The analysis, although preliminary, concluded that transition to ESC3 was having a tree-shaking effect. Although this was difficult to quantify, even a small change, if sustained, would yield savings in reduced income support payments. The Minister commented that more work was needed here.²⁶⁵

5.103 A subsequent report to ministers by the IDC (21 August 2003) again focused primarily on compliance. This asserted that a compliance effect was being observed from VP appointments. The effect was estimated at 1.3 percentage points increase in the exit rate. Based on analysis by DEWR, the IDC estimated this would yield—provided the effect were sustained—savings from reduced income support payments of \$30 million to \$60 million a year. At that point, more rigorous compliance arrangements were about to be implemented (that is, those to take effect in September 2003).

5.104 FaCS provided to the ANAO its analysis of DEWR’s estimate of the compliance effects of the ESC3 VP interview letter.²⁶⁶ This shows that the effect was an additional cancellation rate of 0.5 per cent, which it translated into savings of \$1.14 million a year. It recommended further analysis be done later.

5.105 Although compliance effects of the APM and ESC3 implementation were the subject of considerable attention during late 2003 and a clear priority for the IDC, and although DEWR advised the ANAO that compliance was, at

²⁶⁴ Email from the Deputy Secretary, Department of the Prime Minister and Cabinet to senior officers of DEWR, FaCS and Centrelink, 7 July 2003.

²⁶⁵ DEWR, brief to ministers, 18 July 2003, handwritten comment by Minister for Employment and Workplace Relations.

²⁶⁶ FaCS, ‘Analysis of DEWR ESC3 Vocational Profile Interview Letter Compliance Aspects (“Tree Shaking”)', undated, provided to the ANAO 22 June 2004.

least, an implicit objective of the APM, it has not produced any revised analysis of the observed compliance effect.²⁶⁷

5.106 The ANAO concludes that, although the implementation of ESC3 was intended to yield a compliance effect upon the population of unemployment payment recipients, there has been no report against this objective. This means that it is not possible to assess how successfully it performed.

Interpretation of objectives

5.107 At the time of transition, the low attendance rate in the transition to ESC3 could lead to two distinct hypotheses: first, that the mechanism adopted by DEWR was not working as well as had been expected; second, that a tree-shaking effect was being observed. The early observations (para. 5.99 above) show that the department believed, at first, that it was observing a greater compliance effect than was advised later by the IDC. Indeed, DEWR cited the higher-than-predicted non-attendance as evidence of departmental expectations of compliance effects being exceeded.²⁶⁸ This also shows that, in the first instance, DEWR interpreted non-attendance as a compliance effect.

Conclusion

5.108 DEWR had undertaken extensive risk assessment and planning for the transition to ESC3. DEWR's intention was to ensure that all job seekers eligible for Job Network services were attached to ongoing Job Network providers well ahead of the commencement of ESC3. The department described this as 'one of the principal aims of transition management'. Specifically, the department expected that 60 per cent or about 450 000 VPs would be completed by 30 June 2003 with the balance, about 300 000, completed by September 2003.

5.109 DEWR had also taken into account previous experience, that is the transition from ESC1 to ESC2, and set four ministerially-endorsed objectives to be met during transition. These were to:

- minimise any disruption to services for job seekers and employers;
- minimise any reduction in outcomes achieved during the transition period;
- have all eligible job seekers referred to Job Network members contracted under ESC3 as quickly as possible; and

²⁶⁷ The report does provide an account of changes to the compliance regime during the year. See p. 52, 'Suspension and reconnection'.

²⁶⁸ DEWR, email advice of 8 March 2005.

- provide, in consultation with the industry, a consistent, manageable flow of job seekers to Job Network members, which maintained appropriate cash flows.

5.110 Two major issues arose during transition. These were difficulties with DEWR's computer system, EA3000, particularly for Centrelink (as explained above), and low job seeker attendance at VP appointments. When considering these issues, it is important to bear in mind that the APM is a *continuum* of service. Therefore, any issue impeding initial VP attendance was likely to have subsequent consequences on services for job seekers, potentially delaying long-term job outcomes and lowering cash flow to Job Network providers. The ANAO examined DEWR's management of these two issues and concluded that it took action to address them.

5.111 The ANAO's assessment against each of DEWR's transition objectives shows that:

- complaints recorded by DEWR during transition to ESC3 exceeded that experienced in the previous transition period;
- reported outcomes dipped more markedly in the transition from ESC2 to ESC3 than in the previous transition, though they recovered after transition;
- by 27 June 2003, (only a few days before the start date for ESC3, 1 July 2003) nearly 451 000 VP appointments had been scheduled to take place by that date but only 184 200 VP attendances had been recorded; and
- because the flow of job seekers to the Job Network was much lower than expected, Job Network members raised concerns about cash flows. These were addressed by two changes in payment arrangements. The first change, in July 2003, involved \$100 million advance payments for services that DEWR had expected to be provided and the purchase of \$33 million of additional services. The second change, in September 2003, allowed payments to be made quarterly, in advance, to Job Network providers for all Intensive Support Customised Assistance contacts with job seekers, for expected appointments.

5.112 On the evidence available, the ANAO concluded that DEWR largely did not meet the transition objectives. However, following implementation, the IT system was stabilised and job placements and long-term job numbers recovered within a few months, with job placements and long-term (13-week) job rates exceeding those recorded at a similar point in ESC2.

5.113 During the implementation of ESC3, DEWR did not explicitly monitor and report in terms of the four transition objectives endorsed by the Minister. DEWR's *Annual Report 2003–04*, which reports the successful implementation

of the APM, does not refer to the department's performance in terms of these four objectives.

5.114 DEWR did advise the ANAO that an additional factor in reviewing the low attendance during transition was DEWR's expectation that the compliance effect of the APM would identify some income support recipients who would cease to receive those payments. In early 2002, this was expected to yield annual savings of \$21.7 million to the Commonwealth. There has been no report against this expectation. It is difficult to discern whether, where unemployed people failed to attend appointments, this should have been interpreted as a compliance effect or by concluding that the transition process had not engaged the unemployed into the new arrangements as effectively as intended.

Recommendation No.4

5.115 The ANAO recommends that, when implementing a major change, such as the introduction of the APM, DEWR states all its operational objectives unambiguously in advance, and monitors and reports progress against these to stakeholders.

DEWR response

Agreed in part.

DEWR notes the ANAO's views that the links between transition principles and implementation reporting could have been clearer. However, as the Report acknowledges, the department undertook very extensive planning, documentation and measurement of implementation operational data. The department published this information widely to stakeholders including Job Network providers.

6. Performance Information

This chapter sets out the results of a review of the range of performance information provided by DEWR on Job Network performance, including in the context of DEWR's outcome and output structure.

Introduction

6.1 A sound performance information framework provides the basis for agency accountability. Portfolio Budget Statements (PBS) set out performance information first, with results reported later in annual reports.²⁶⁹

6.2 It is also important that performance information used for external reporting, such as an annual report, is consistent with and linked to information collected and used for internal monitoring and reporting. Having performance information is not an end in itself—it needs to be analysed so that information is used not only to monitor progress but also to steer the agency more effectively.²⁷⁰

6.3 A good performance information framework has clear, precise and relevant indicators that are drawn from policies and plans for the agency. Such a framework contains a balanced set of measures that address all important aspects of agency performance, with accurate and reliable systems, methods and bases for reference or comparison of performance.

6.4 Against this background, and to assess whether DEWR's arrangements for performance information on the Job Network were robust, the ANAO examined:

- reporting against the PBS framework in DEWR's annual reports to Parliament.²⁷¹ This assessment also includes a discussion about the reliability of the information provided; and
- the most prominent external reports that DEWR makes available, the Job Network Performance Profile. DEWR drew the ANAO's attention to this report, in particular, during the course of the audit.

6.5 During the course of the audit, the ANAO also noted DEWR's Labour Market Assistance Outcomes reports, which are published quarterly on the department's Workplace Internet site. These reports provide extensive

²⁶⁹ See the Department of the Prime Minister and Cabinet, Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies (as approved by the Joint Committee of Public Accounts and Audit): <<http://www.pmc.gov.au/guidelines/index.cfm>>.

²⁷⁰ ANAO 2002, *Performance Information in Portfolio Budget Statements: Better Practice Guide*, p. 33.

²⁷¹ See the Department of the Prime Minister and Cabinet, op. cit.

information for the previous 12 month period on participation in the employment services and employment and education outcomes measured three months after assistance. However, DEWR temporarily suspended the release of this report during 2003–04 (the period of primary focus for this audit) as there it had insufficient performance information to produce reliable outcome statistics following the change to employment services with the introduction of the APM.

Annual Report

6.6 An annual report sets out:

- the contribution the agency has made to achieving an outcome;
- actual performance against the related indicators in its PBS for both outcomes and outputs; and
- the reliance that can be placed on the information provided.

6.7 The ANAO raised particular issues in its *Annual Performance Reporting* performance audit in 2002–03, including in relation to DEWR. The first of the recommendations in the report was (in part) that agencies improve their annual reporting performance information frameworks by using intermediate outcome and/or explanatory text to better specify their own influence on, and contribution to, broadly stated or shared outcomes. DEWR agreed to this without qualification.

6.8 As well, the ANAO's audit, *Performance Information in Portfolio Budget Statements* (Audit Report No.18, 2001–02) had also found that:

The most frequent limitation identified was that effectiveness indicators did not measure outcome performance. This problem often occurred because the effectiveness indicators were influenced by other factors, such as general economic conditions, to a degree that might mask any direct effect of agency performance on the achievement of the outcome.

DEWR's contribution to Outcome 1

6.9 DEWR's Outcome 1 in the period under review was 'An effectively functioning labour market'.²⁷² A range of different factors, only some which are under the control of or subject to the influence of DEWR, is likely to bear upon the effective functioning of the Australian labour market. This means that DEWR needs to specify its contribution to that effective functioning.

6.10 Table 6.1 sets out the effectiveness indicators for Outcome 1 for the financial years 2002–03 to 2005–06.

²⁷² This had been changed to 'Efficient and effective labour market assistance' (PBS 2005–06, p. 17).

Table 6.1**Effectiveness indicators in the DEWR PBS, 2002–03 to 2005–06**

Outcome 1	An effectively functioning labour market
Impact	Maximise ability of unemployed Australians to find work
Effectiveness indicators	<ul style="list-style-type: none"> The average duration of unemployment relative to labour market performance Comparative labour market experience: long term unemployed; Indigenous Australians; mature-aged; people of culturally and linguistically diverse backgrounds; sole parents; people with a disability; and young people

Source: DEWR PBSs, 2002–03 to 2005–06.

6.11 The DEWR *Annual Report 2003–04* acknowledges, in its consideration of the employment operating environment during the year (p. 22), that changing patterns of economic growth were reflected in the Australian labour market.

6.12 DEWR told the ANAO that:

It can be inferred from Connolly and Cunningham [2004] and Connolly, Herd and Neo (2002) that *it is very difficult to determine quantitatively the effect of Departmental programmes (including Job Network) on the average duration of unemployment and the rate and incidence of long-term unemployment*—most of the explanatory variables reported in these two studies are largely outside the Department's influence and Job Network spending accounts for well under half of a per cent of GDP. This means that it is not feasible, at this stage, to link Departmental programme outcomes with the average duration of unemployment in a formal, empirical manner. Instead, the judgement of Departmental staff (informed by empirical work including that by Connolly and Cunningham 2004) is currently used to monitor and report on the influence of Departmental programme outcomes on the effectiveness indicators [emphasis added].²⁷³

6.13 The department also advised that it intends to improve its annual reporting on this issue, subject to priorities and resources:

²⁷³ Email from DEWR to the ANAO, 5 July 2004. The department also advised the ANAO that: 'While not necessarily endorsing everything in the paper by Connolly and Cunningham (2004) and noting that like most empirical studies, it is capable of being revised on the basis of additional data, redefinitions of statistics and modifications to the modelling approach, DEWR considers that it is a useful guide to which factors determining the average duration of unemployment are largely or wholly outside the Department's control (such as real GDP and the replacement ratio between unemployment allowances and the average wage), which factors are partly or potentially subject to Departmental influence (such as real Commonwealth spending on active labour market assistance per unemployed person) and how much of the variation in the average duration is unexplained and might partly reflect Departmental influences'.

Despite the empirical difficulties that would be involved, the Department has intentions of extending the quantitative analysis of effectiveness indicators and their links with variables which are partly subject to Departmental influence.²⁷⁴

6.14 One type of analysis that could help to identify the contribution of the department's efforts towards its Outcome 1 is its work on 'penetration rates'. The penetration rate measures the proportion of total vacancies filled in the Australian economy over a 12-month period that was accounted for by placements of job seekers registered with Job Network providers. The relevance of this factor is that the greater the proportion of jobs filled through the Job Network the more scope there is for the Job Network to have an effect on unemployment duration.²⁷⁵

6.15 DEWR provided a paper showing that, in the 12 months to February 2002, Job Network job placements accounted for approximately 15.6 per cent of all vacancies filled in the economy. This was an increase from 12.1 per cent in the year to February 2000. This does not reflect any effect of ESC3, which commenced after the period of analysis. However, it is an indicator of the extent of Job Network involvement in placing people in jobs.

6.16 Analysis of the penetration rate shows the level of vacancies in the Australian economy that are filled via Job Network involvement. This indicates that DEWR's capacity to achieve its Outcome 1 can be only partial and underlines the importance of identifying the specific assumptions about DEWR's contribution to its Outcome 1.

Effectiveness reporting

6.17 Performance information on outcomes should focus on effectiveness.²⁷⁶ There are two effectiveness indicators set out in DEWR's PBS. These are discussed separately below.

Average duration of unemployment relative to labour market performance

6.18 In reporting on average duration of unemployment relative to labour market performance, the DEWR Annual Report 2002–03 states (p. 29):

- the average duration of unemployment per unemployed person;
- the average duration of unemployment per labour force member; and

²⁷⁴ Email from DEWR to the ANAO, 5 July 2004. This would be consistent with DEWR's earlier agreement with ANAO findings in the audit of Annual Performance Reporting.

²⁷⁵ DEWR has agreed (February 2005) that such analysis would help it to identify its contribution to its new Outcome 3.

²⁷⁶ See: <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_management_princip.html>.

- a supplementary measure, the average duration on maximum-rate unemployment payments.

6.19 DEWR explains that each of these measures has its difficulties. The mean duration of unemployment per unemployed person can yield counter-intuitive results—it would decline in a downturn when many newly-retrenched people with zero unemployment are counted. The average duration of unemployment per labour force member, on the other hand, does not provide any sense of the length of time people spend unemployed. DEWR therefore reports both indicators.

6.20 DEWR stated that, for the first measure, it drew on Australian Bureau of Statistics (ABS) Labour Force Survey data for the ‘average duration of unemployment since the last full-time job that lasted at least two weeks’. It constructs information for the second measure by dividing aggregate weeks of unemployment by the number of people in the labour force. DEWR then seasonally adjusts and trends both measures to remove seasonal and irregular components before they are reported in the Annual Report.²⁷⁷

6.21 DEWR said that the information source for the third measure is its administrative data for unemployment allowees on full-rate Newstart Allowance (NSA) or Youth Allowance (Other than Full-time Students) registered at Centrelink.

6.22 In its *Annual Report 2003–04*, the department provides only the latter two measures. Although it had provided a reason for reporting average duration of unemployment per unemployed person in the 2002–03 report, it does not do so in the 2003–04 report and does not provide a rationale for leaving it out. Stability in reporting regimes from year to year is central to a performance management system.²⁷⁸ This not only makes the choice and specification of performance indicators one of the most important functions of performance reporting but also implies that changes should be explained.

6.23 The *Requirements for Annual Reports*, as approved by the JCPAA, suggest that annual reports include trend information where appropriate. DEWR presents two pieces of data in each of these annual reports for each of these three indicators—the values for the preceding June and at the conclusion of the respective financial year.

²⁷⁷ DEWR has stated its sources for these series in the *Annual Report 2003–04*, which it had not done the previous year.

²⁷⁸ Department of Finance and Administration and ANAO, *Better Practice in Performance Reporting*, April 2004, p. 5.

6.24 The ANAO accepts that the DEWR report provides an easy-to-understand 'snapshot' of the previous 12 months. However, more than two data points would be required to provide a reliable indication of a trend.²⁷⁹

Comparative labour market experience—disadvantaged groups

6.25 The Government's intended focus for ESC3 was on better targeting of assistance to those most at risk of long-term unemployment and helping them into employment. A second set of performance indicators for DEWR's achievement of its Outcome 1 is the mean duration on full-rate unemployment payments by disadvantaged group.²⁸⁰

6.26 Mean duration on full-rate unemployment payments is measured for seven groups: the long-term unemployed; indigenous Australians; mature age people; people of culturally and linguistically diverse backgrounds; sole parents; people with a disability and young people.²⁸¹

6.27 DEWR reports outcome performance for these groups. In both 2002–03 and 2003–04 year, the position had improved over the year for most groups (durations on full-rate unemployment decreased).²⁸²

Output reporting in Annual Report

6.28 Under the Performance Management Principles, output performance information relates to the quality, quantity and price of agency outputs.

6.29 In the DEWR *Annual Report 2003–04*, the department provides tables setting out performance indicators and actual performance by output, together with related commentary on each.²⁸³

6.30 Generally, the report provides a result against each of the indicators set in the relevant PBS. It follows better practice in presenting both a target and a result with some discussion of the achievement.

6.31 A particularly important output indicator is the 'Proportion of job seekers in employment and/or education/training (positive outcomes) three

²⁷⁹ DEWR has said that it will consider this comment in preparing its Annual Report 2004–05. If suitable data to provide a trend is not available cost-effectively, this could be stated.

²⁸⁰ DEWR advised that lack of available data means that it is not feasible to report average duration of unemployment for four of the seven specific client groups. Average duration on full-rate unemployment payments, which is available from administrative sources for all seven client groups, is used as a proxy measure.

²⁸¹ These groups are not necessarily exclusive. That is, in some cases a person may be a member of more than one group.

²⁸² Here, as with the general unemployment duration data discussed above, more than two data points would be needed to enable a trend to be identified reliably.

²⁸³ The relevant outputs are 1.2.1 and 1.2.2. See pp. 48–75. Similar material appeared in the Annual Report 2002–03 at pp. 55–86.

months following participation in Employment Services' (Table 8, p. 55). The data used to report against the indicator is sample-based, and it includes 'outcomes' in addition to those DEWR has paid the Job Network to deliver.

6.32 In a footnote, DEWR states (p. 56) that its post programme monitoring survey is the source of the 'positive outcomes' data used in this table. DEWR advised the ANAO that:

Positive outcomes are assessed in a survey conducted at the point in time three months after people leave assistance. The survey asks people whether they are employed and whether they are studying. Responding 'yes' to either of these questions will mean the person is counted as a positive outcome....

6.33 Positive outcomes reported by DEWR include not only certain paid outcomes under the contract with Job Network providers but also results for job seekers who did not attract an outcome payment for the Job Network from DEWR under that contract but have exited the system. The latter group may have found employment or entered training from their own efforts and of their own volition. However, they have responded 'positively' about their circumstances in DEWR's PPM survey. This definition may not be clear to readers of DEWR annual reports.

6.34 Including a clear definition of a positive outcome along with an explanation of the reliance that can be placed on the data would improve stakeholder understanding of the level and significance of DEWR's results. This includes making a distinction between gross and net outcomes.²⁸⁴ The Productivity Commission noted 'measures of gross outcomes mean little and have considerable capacity to mislead'.²⁸⁵ The ANAO acknowledges that it is methodologically difficult to determine net outcomes and it is likely that they can be estimated only in a major evaluation, such as DEWR has regularly done for the Job Network. However, there are benefits in being clear about what is being claimed wherever results are reported.²⁸⁶

Reporting on resources

6.35 Reporting on resources should provide a clear picture of actual results against budgets that were set out in the PBS (or variations set out in the PAES

²⁸⁴ Net outcomes exclude those who would have found jobs without the assistance of the programme. Gross outcomes do not. DEWR states that it uses its post-programme monitoring surveys to measure the net impact of assistance, that is, the impact of assistance after taking into account outcomes that would have occurred anyway (DEWR, Annual Report 2002–03, p. 43). However, it does not report these. See also Productivity Commission 2002, *Independent Review of the Job Network*, Report No.21, AusInfo, Canberra, Chapter 5.

²⁸⁵ Productivity Commission, op. cit. p. 5.24.

²⁸⁶ DEWR has agreed (February 2005) to explain the reliance that can be placed upon the data used in the annual report and to indicate that gross outcomes are used.

and, if applicable, the PSAES) for both outcomes and outputs.²⁸⁷ As well, it is necessary for decision-making to establish links between financial and non-financial performance through the use of efficiency measures.²⁸⁸

Outcome

6.36 The provision of an adequate explanation about the difference between original Budget estimates and the actual result in successive annual reports improves transparency of agency reporting. The interrelationship between reporting documents covering any one financial year (particularly PBSs, PAESs and agencies' annual reports) is referred to as the 'clear read' principle. It is a fundamental tenet of the government's financial management framework and accountability system.²⁸⁹ By comparing budgeted targets and figures to those actually achieved, this principle places a strong emphasis on compatibility between the two main documents (PBS and annual report) regarding budget and performance information.²⁹⁰

6.37 The ANAO found the following that DEWR's annual reports did not facilitate a clear read against Budget figures for the Job Network. For example:

- in the DEWR Annual Report 2002–03 (p. 67), the department sets out an actual performance 'target' expenditure of \$859.032 million for the Job Network and reports a result of \$852.577 million. It annotates this '0.8% under Budget'.²⁹¹ It does not explain that the figure it used as its 'target' was, in fact, the estimate it published for expenditure for 2002–03 in May 2003, when most of the financial year had passed and the department would have had substantial knowledge of its likely expenditure for the whole of that year. If DEWR had stated here its performance against the original published Budget figure for the year

²⁸⁷ See the Department of the Prime Minister and Cabinet (June 2004), *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*. Specifically, the requirements provide: 'The annual report must include: (1) a review of how the department has performed during the year in relation to the efficiency of the department's outputs and their effectiveness in terms of achieving the planned outcomes. ... The review must include: (a) reporting of actual results against the specific performance standards for the outcomes and the outputs set out in the PBS/PAES. See: <http://www.pmc.gov.au/guidelines/docs/annual_report_requirements.pdf>. See also: ANAO 2002, *Performance Information in Portfolio Budget Statements: Better Practice Guide*, p. 35.

²⁸⁸ See ANAO 2004, *Better Practice in Annual Performance Reporting*, p. 8.

²⁸⁹ Department of Finance and Administration and ANAO, *Better Practice in Performance Reporting*, April 2004, p. 5.

²⁹⁰ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, approved by the Joint Committee of Public Accounts and Audit under subsections 63(2) and 70(2) of the Public Service Act 1999, p. 3. See: <<http://www.pmc.gov.au/guidelines/index.cfm>>.

²⁹¹ Table 8: Performance Indicators and Actual Performance, Output 1.2.2—Employment Services, p. 67.

(\$913.120 million) its performance would have been 6.6 per cent under budget; and

- the DEWR *Annual Report 2003–04* (p. 56) reports a result of \$999.133 million expenditure on the Job Network against a target of \$961.007 million, and states that this is '4.0% over budget'. As is apparent from Table 3.1, the budget estimate in the PBS was \$927 190, making DEWR's result 7.6 per cent over its original budget.

6.38 In each case, DEWR could best meet the 'clear read' requirement by presenting results annually against the original PBS estimate, with whatever additional explanations are needed to explain any changes which may have taken place at additional estimates or any reclassification of proposed expense items. This would assist the Parliament and the public to judge *annual* performance from an annual report without the need to refer to a range of other documents.

6.39 DEWR has advised that:

DEWR acknowledges that the reader of the annual report must be provided with an explanation of the changes from original budget as per the PBS and the final budget. To do this in full would be impractical given the volume and complexity of the variance data, therefore DEWR suggests footnoting the performance table to provide the summary of changes. The footnote would refer to the source document and page number outlining the change.²⁹²

Output prices

6.40 The DEWR PBS 2003–04 sets out the estimated output prices for Outputs 1.2.1 and 1.2.2. The Annual Report does not reconcile results it provides on the price of outputs with those estimates. For Output 1.2.1, a target price of \$189.881 million is stated in the Annual Report and a result given of \$183.833 million, which is said to be '3.2% below budget' (p. 49). However, the figure in the PBS was actually \$190.437 million (p. 35). There is no explanation in the performance results table of the Annual Report as to how the original estimated price had fallen to a new 'target' price.²⁹³

6.41 As with the reporting of expenditure for outcomes, DEWR would more clearly satisfy annual reporting requirements if it provided an explanation, reconciling the final result with the original estimates in the corresponding

²⁹² DEWR advice of 25 February 2005.

²⁹³ Similarly, the PBS figure for the price of Output 1.2.2 was \$88.345 million (p. 35), whereas the 'target' in the performance results table in the annual report had grown 4.4 per cent to \$92.276 million, with a final result of \$98.430 million (p. 56). This result is reported as '6.7% over budget' whereas it is 11.4 per cent above the original published Budget estimate.

PBS. Again, DEWR has undertaken to provide additional information in annual reports to meet this objective.²⁹⁴

Efficiency

6.42 At the commencement of the audit, DEWR was not using an indicator to enable it to assess the efficiency of the Job Network. ANAO Audit Report No.11, 2003–2004 had recommended that agencies improve their annual reporting performance information frameworks by addressing all aspects of performance, especially indicators of effectiveness/impact.²⁹⁵ In its response, DEWR had said:

Qualification in relation to 1.b) iii: As employment services provided through administered appropriations, eg Job Network services, are integrated, it is not appropriate to report the individual service elements as the department pays Job Network providers for outcomes achieved. It is within the discretion of the Job Network provider to use the most appropriate mix of Job Network services in order to maximise outcomes for eligible job seekers. Further, such reporting would be inconsistent with new directions in Job Network implemented under the Active Participation Model for July 2003.

6.43 In 2003–04, most payments to Job Network providers for Job Network services are process payments based on service fees.²⁹⁶ The ANAO considers that the Job Network administered item could be put on an equal footing with DEWR outputs in terms of reporting efficiency of operations.

6.44 Previously, data has been presented publicly on the average cost per employment outcome for labour market assistance over the period July 1991 to December 2000.²⁹⁷ In this data, cost per outcome related to the average cost of an employment outcome (that is, the number of outcomes divided by the unit costs of job seekers assisted). This cost had been between \$4000 and \$5000 an outcome since the introduction of the Job Network.

6.45 DEWR holds the data on which these calculations were derived and, early in the course of the audit, advised that, because of resource constraints, it could update the data only to September 2001 (for which month the figure was \$4948 an outcome). DEWR has not made clear how this calculation was made

²⁹⁴ DEWR advice of 25 February 2005.

²⁹⁵ Recommendation 1.b)iii.

²⁹⁶ This comparison comprises the sum of Intensive Support service fees plus Job Search Support fees compared to Intensive Support Outcome payments. For the first year of ESC3 operation, 2003–04, the former was 75 per cent of the total of payments for these items to Job Network providers. On the latest figures provided by DEWR (31 January 2005) a relative increase in outcome-related expenditure had reduced this proportion to about 60 per cent. However, this does not invalidate the argument.

²⁹⁷ Shergold, P. 2002, 'The OECD Review of Australia's Labour Market Policies', *Australian Economic Review*, vol. 35, no. 1, pp. 92–6. Similar data was also prominent in DEWR's presentation to the NESA 2002 annual conference, entitled 'Making Research and Evaluation Work or Turning Findings into Action'.

but undertook to consider further updates in the context of ‘overall evaluation activities’.

6.46 In response to a question on notice from a Senate Estimates hearing DEWR advised that the ‘current average cost per employment outcome for job seekers engaged in the Job Network is \$3500’.²⁹⁸ DEWR has also included in its PBS 2005–06 (p. 44) a target of \$3800 for ‘Cost per employment outcome 3 months following participation in Job Network Employment Services Job Placement and Intensive Support’. DEWR advises that this measure will be based on the status of Job Network participants as assessed through its post programme monitoring survey (see para. 6.32). This is the method that has been used by the department historically for its cost-per-employment-outcome statistics. It allocates the cost of the Job Network (or its predecessor programmes, as appropriate) across all of those individuals who have responded positively to DEWR’s survey, including those who may have found employment substantially from their own efforts. It would improve transparency if, where DEWR reports performance in these terms, it makes it clear that outcomes for all job seekers who have received Job Network assistance are included, not just those who attracted a specific outcome payment from DEWR.

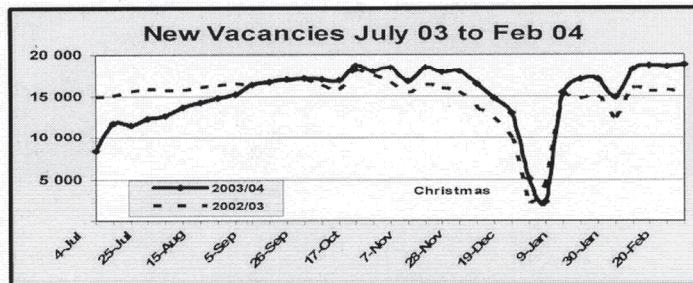
Job Network Performance Profile

6.47 Job Network Performance Profile reports are the most accessible and prominent public reports on Job Network performance. This short report, based on three graphs supplemented by a page of explanatory material, was developed as part of a communications strategy agreed with the Minister’s office in March 2004 to raise the profile of the Job Network’s performance in the face of media criticism.²⁹⁹

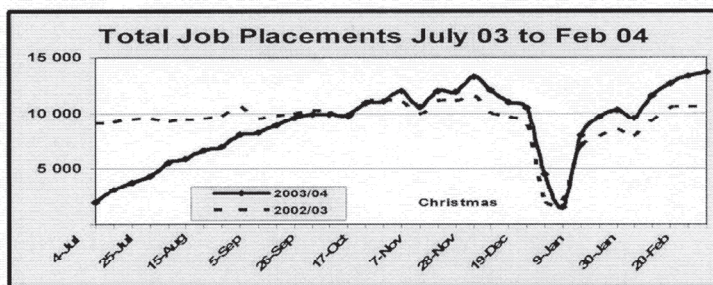
6.48 DEWR has prepared and published these reports monthly from February 2004. It is also included in the DEWR *Annual Report 2003–04* (pp. 58–59). They show weekly numbers for three ‘key indicators’, each displayed as a graph (an example is at Figure 6.1, below).

²⁹⁸ Senate Employment, Workplace Relations and Education Legislation Committee, Additional Senate Estimates Hearing, 17 February 2005, Question No. W263-05.

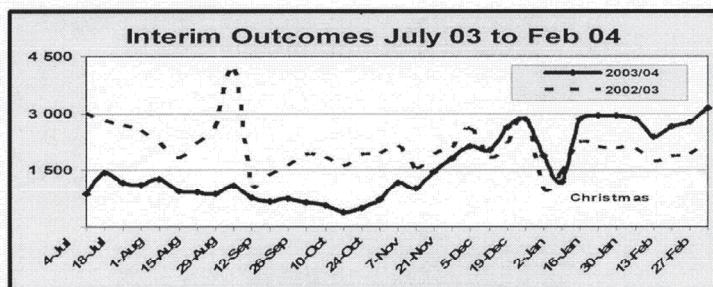
²⁹⁹ DEWR. Minute to Minister for Employment Services, 5 March 2004; DEWR, Provision of a monthly update was agreed by EMC in March 2004. These reports are the first item listed on the Job Network page of DEWR’s Australian Workplace website, under ‘Latest Job Network Performance Statistics’. This report also appears in the DEWR *Annual Report 2003–04*, pp. 58–59.

Figure 6.1**Job Network Performance Profile report****Job Network Performance Profile**

- Since 1 July 2003, over 530,000 new vacancies have been lodged on Job Search.
- From September 2003, following the transitional or 'establishment' phase of the new contract, vacancy numbers have been higher than in the previous year.
- Over 74,000 new vacancies were lodged on Job Search in February 2004 (20% higher than February 2003).



- Since 1 July, over 309,000 job placements have been recorded for people assisted through Job Network.
- Job Network members and Job Placement Organisations are currently recording an average of around 12,700 job placements per week.
- Around 51,000 job seekers were placed into jobs in February 2004 (24% higher than February 2003).



- Since 1 July, around 53,000 Interim Outcomes have been achieved.
- Record numbers of Interim Outcomes have been achieved in each of the last three months, with 10,300 recorded in December 2003 and 11,700 in January 2004 (the best December and January in the history of Job Network).
- In February 2004 a new monthly record of 11,000 Interim Outcomes (41 percent higher than February 2003), was also set.

Source: DEWR

6.49 These reports also provide comments about changing performance against the indicators, which are:

- new vacancies lodged on the Australian JobSearch database by Job Network providers and Job Placement Organisations;
- the total job placements providers record for job seekers, including those that may become long term job outcomes at a later stage; and
- long term job outcomes achieved for Intensive Support participants.

Vacancies

6.50 The number of vacancies lodged will vary with the effort expended by Job Placement licence holders, including Job Network providers. However, the number of vacancies on JobSearch will also reflect other factors such as the state of the economy generally.³⁰⁰ Thus it is not made clear to the reader to what extent the time series shown in the *Job Network Performance Profile* represents Job Network performance.³⁰¹

6.51 The expectation at the time the government agreed to the APM was that there would be a consequential increase in the number of vacancies on Australian JobSearch as a proportion of all advertised jobs. In practice, the indicator that DEWR has been using in its PBS and for internal monitoring has been the proportion of Internet vacancies on JobSearch as compared with the ANZ Job Advertisements series.³⁰² The target for 2003–04 was 40 per cent and the result, as reported in the DEWR *Annual Report 2003–04* (p. 55, with an explanation for the change, p. 58), was 33 per cent, a substantial decline compared to the previous year.³⁰³

6.52 By using a ratio, this indicator nets out the effects of exogenous factors such as the state of the economy. It is also more relevant to the expectations set when the government agreed to the APM and ESC3. This DEWR information is therefore a better indicator of performance than the time series used in the Job Network Performance Profile.

³⁰⁰ DEWR has not explained the extent it could attribute changes in the new vacancies time series to changes in job network performance and to what extent it is attributable to exogenous factors. Net impact has been reported in DEWR's earlier evaluation reports.

³⁰¹ This includes all Job Placement licence holders.

³⁰² See: <http://www.anz.com/australia/support/LibraryMedia/library_media.asp?GG=aj>
The relevant series are seasonally adjusted by the ABS. A potential difficulty that arises in using this ratio is that the ANZ Job Advertisements series itself draws its data in part from DEWR's Australian JobSearch. This means that any changes in DEWR's performance will tend to be understated as its figures form part of the denominator as well as the numerator in calculating this ratio.

³⁰³ DEWR reports a figure of 38 per cent for 2001–02 and 39 per cent for 2002–03 (DEWR Annual Report 2002–03, p. 66). The target in PBS 2005–06 (p. 43) remains 40 per cent.

Job placement

6.53 The second indicator, 'Total Job Placements' moves in concert with the first, for vacancies. This suggests that job placements are a function of the number of vacancies. Again, the reader's understanding of the contribution of the Job Network to total job placements would be improved if the effect of exogenous factors were identified and noted.

6.54 The report for June 2004 states that 'More than 518 000 job placements were recorded for people assisted through Job Network in 2003–04—a 16 per cent improvement on last year and the highest level in the history of Job Network'.

6.55 Further examination of placement data shows that not all of the recorded placements are wholly attributable to the Job Network:

- An internal DEWR report³⁰⁴ shows 518 358 'total placements' comprised 284 678 'eligible placements' and 233 680 other placements (including 'found own employment').³⁰⁵ An eligible placement is recorded when a Job Network member secures a vacancy from an employer, the vacancy is made available to all eligible job seekers through the Job Search national database, and a job seeker is subsequently placed into the advertised position by a Job Network member. Eligible placements provide the best indication of Job Network members' efforts in directly securing and filling job vacancies. 'Total job placements' include additional job placements for Intensive Support participants who, having received job search training or assistance purchased through the Job Seeker Account, found employment in vacancies that were not secured and advertised by Job Network members.
- However, 'eligible placements' includes only 219 404 paid placements. The other 65 274 placements are described as '*potential* paid placements'. This shows that, at the time the report was compiled, there was a prospect of these becoming paid placements but they could not yet be counted as such.

6.56 Since paid placements represent the Job Network achievement that DEWR is prepared to pay its providers for, it could be a better performance indicator than the Total Job Placements currently used in this report. In response to this point, DEWR has taken the view that recognising paid placements only would fail to acknowledge the large number of additional job

³⁰⁴ DEWR, Employment Services Statistical Report, 30 June 2004.

³⁰⁵ Total Placements include placements where a job seeker found their own employment and were not placed by a Job Network member. Under the Job Placement Licence agreement, 'found own employment' means 'an eligible job seeker has obtained employment without being matched, referred and placed by the provider'.

placements in which Job Network members have played a direct part, but which fail to meet the stringent criteria for outcome fee payment.

6.57 One of the principles upon which the APM is based is the effective configuration of incentives to service providers to achieve higher outcomes for job seekers.³⁰⁶ It is inconsistent for DEWR to report potential job placements that do not attract payments when its incentive structure is based on paying providers for actual placements.

6.58 DEWR's internal APM weekly report of 2 July 2004 shows that the paid placement figure of 219 404 represents a 12 per cent decline on the previous year's figure of 248 699. Moreover, of the paid placements in 2003–04, only 164 391 are 'fully Job Network eligible' job seekers (generally, these are job seekers in receipt of an activity-tested income support payment). This is the primary target group for achieving the government's intended savings from income support under the APM.

6.59 The weekly trend for paid placements at the end of 2004 was rising and was higher than for the corresponding period in the previous year.³⁰⁷

Outcomes

6.60 The Job Network Performance Profile report for June 2004 states that:

Around 107 000 long term job outcomes were achieved for disadvantaged job seekers and those unemployed for more than three months in 2003–04—11 per cent better than last year and, again, a new Job Network record. Around 18 000 long-term jobs were achieved in the month of June 2004—the highest monthly achievement level in the history of Job Network.

6.61 DEWR's internal Employment Services Summary Report (ESSR) for 30 June 2004 shows that 109 192 paid Interim Outcomes were achieved in 2003–04. However, some 13 746 of these are attributed to ESC2.

6.62 Generally, the Job Network Performance Profile provides notes comprising an outline of how the APM works and some explanation of the graphs. However, they could provide more explanatory text so that stakeholders understand what outcomes are actually being reported or which contract they are attributable to. For example:

- the inclusion of 'final outcomes', that is, a longer period of employment/ education (26 weeks) which also attracts an Intensive Support outcome payment from DEWR;

³⁰⁶ See Chapter 1.

³⁰⁷ DEWR advised the ANAO (February 2005) that the number of paid placements for the seven months of the financial year to end-January 2005 was 152 000.

- acknowledgment that, of the 40 290 final outcomes paid during for the 2003–04 financial year, 18 125 were attributable to ESC2;³⁰⁸ and
- that long-term *unemployment* is defined by DEWR as registration at Centrelink for more than 12 months, whereas long-term *employment* is achieved in only 13 weeks.

Conclusion

6.63 DEWR's Outcome 1 in the period under review was 'An effectively functioning labour market'. A range of different factors, only some which are under the control of or subject to the influence of DEWR, is likely to bear upon the effective functioning of the Australian labour market. This means that DEWR needs to specify its contribution to that effective functioning.

6.64 DEWR told the ANAO that:

It can be inferred from Connolly and Cunningham [2004] and Connolly, Herd and Neo (2002) that *it is very difficult to determine quantitatively the effect of Departmental programmes (including Job Network) on the average duration of unemployment and the rate and incidence of long-term unemployment*—most of the explanatory variables reported in these two studies are largely outside the Department's influence and Job Network spending accounts for well under half of a per cent of GDP. This means that it is not feasible, at this stage, to link Departmental programme outcomes with the average duration of unemployment in a formal, empirical manner. Instead, the judgement of Departmental staff (informed by empirical work including that by Connolly and Cunningham 2004) is currently used to monitor and report on the influence of Departmental programme outcomes on the effectiveness indicators [emphasis added].

6.65 Under the Performance Management Principles, output performance information relates to the quality, quantity and price of agency outputs. In the DEWR *Annual Report 2003–04*, the department provides tables setting out performance indicators and actual performance by output, together with related commentary on each. The ANAO found that DEWR would more clearly satisfy annual reporting requirements if it provided an explanation, reconciling the final result with that originally estimated in the corresponding PBS.

6.66 DEWR has recently re-established an indicator to enable it to assess the efficiency of the Job Network. This will provide a 'cost per employment outcome' for those who are employed or studying three months after leaving Job Network assistance. It would improve transparency if, where DEWR reports performance in these terms, it makes it clear that outcomes for all job

³⁰⁸ DEWR, Employment Services Summary Report, 30 June 2004.

seekers who have received Job Network assistance are included, not just those who attracted a specific outcome payment from DEWR.

6.67 The most frequent and prominent report on Job Network activity is DEWR's Job Network Performance Profile. However, the ANAO concluded that DEWR could use better measures of Job Network Performance than those currently reported in this document, which would:

- exclude results attributable to external factors (such as economic trends) or which were achieved by job seekers without the direct help of DEWR's providers; and
- give due emphasis to the Government's primary target group, income-tested income support recipients.

Recommendation No.5

6.68 To enable the Parliament and the public to gain a better understanding of DEWR's performance for its Outcome 1 and, more particularly, the performance of the Job Network, the ANAO recommends that DEWR:

- clarify its output performance reporting to clearly identify the contribution to those outputs of programmes such as the Job Network and measures such as the introduction of ESC3; and
- re-cast its Job Network Performance Profile so as to identify the influence of external factors on the data presented.

DEWR response

Agreed in part.

DEWR plans to report on the effectiveness of Job Network while accounting for the influence of external factors as part of its regular evaluation reports. However, it is not practical to conduct and report valid assessments of this kind in the context of the Job Network Performance Profile report which is designed to provide reliable and readily understood indices of Job Network assistance for employers, job seekers and the wider public. Such evaluation has not been possible before now due to the need for long run data, including on sustainable job outcomes.

ANAO comment

6.69 As the report explains, the Job Network Performance Profile relates more to activity than performance, with much of that activity attributable to externalities, rather than Job Network effort alone. The effect of externalities can sometimes be netted out, if a suitable basis for comparison can be found (see paragraphs 6.51–6.52). The recommendation proposes that the department be explicit in its performance reporting where externalities bear substantially on the items reported.

7. Provider Performance Management

This chapter examines how DEWR manages the performance of its Job Network providers, including its star ratings system and its method of business reallocation.

Introduction

7.1 The Job Network has been operating as a network of competing independent providers since 1998. Therefore, it is reasonable to expect that a system of provider performance management would be in place. At the time of the ANAO's fieldwork DEWR had two separate systems for monitoring and managing provider performance. They are based on:

- first, the performance measures set out under ESC3; and
- second, DEWR's star ratings system.

7.2 The ANAO assessed whether DEWR had used these systems to measure and manage performance.

7.3 One part of management performance under the contract is the mechanism that DEWR uses to reallocate Job Network provider business shares during the course of ESC3. This business reallocation mechanism, which uses the star ratings, is also discussed below. The ANAO examined whether that mechanism is robust.

ESC3 performance measures

7.4 The ESC3 request for tender (RFT) describes the performance management arrangements as follows:

Job Network members' performance will be assessed against key performance indicators specified in the contract. ... All information gathered by DEWR may be used to assess a service provider's performance and compliance. Performance will be assessed both against the contract and in comparison with other providers.³⁰⁹

7.5 In the contract with the providers (ESC3), the three key performance indicators (KPIs) are each set in the context of a specific objective and a statement as to how DEWR will assess performance against that KPI. These KPIs are set out in Table 7.1.

³⁰⁹ DEWR, Request for Tender, *Employment Services Contract 2003–06: General Information and Description of Services*, (the 'Yellow Book'), p. 29.

Table 7.1**ESC3 objectives and key performance indicators**

Objective	KPI	Standard/target
(1) To help Eligible Job Seekers find work as quickly as possible.	Average time taken for Eligible Job Seekers to achieve employment placements.	None set
(2) To maximise outcomes for Eligible Job Seekers—particularly the long-term unemployed and those identified as highly disadvantaged.	The proportions of Fully Job Network Eligible Job Seekers for whom outcome payments are paid.	None set
(3) To maximise the delivery of high-quality, ethical employment services.	DEWR satisfaction with the delivery of services in compliance with the Employment Services Code of Practice and Service Guarantee.	Established through Employment Services code of practice and Service guarantee [See separate performance audit, 'DEWR's oversight of Job Network services to job seekers'.]

Source: Notes: (1) Each of the above is followed in the contract by a statement explaining which information DEWR will use to assess performance for that indicator. (2) In DEWR's assessment of Job Network provider performance KPI 3 has only two possible values—pass and fail—whereas KPI 1 and KPI 2 can clearly take a range of values depending on the level of performance achieved.

7.6 KPI 3 is a central element of a separate performance audit focusing on DEWR's Oversight of Job Network Services to Job Seekers and is not considered further in this chapter.

7.7 KPIs 1 and 2 link directly to DEWR's Outcome 1 and the related Output 1.2.2, that is, Employment Services (see Chapter 6). This alignment between the intended outcome and the KPIs to assess providers maintains a 'line of sight' through the programme, which can produce an easily understood relationship between what individual Job Network providers do and their contribution to the achievement of the Outcome.³¹⁰ Both are quantitative, unambiguous and measurable. They could be measured in either absolute terms or within an acceptable range of performance. DEWR decided not to set specific standards for either KPI 1 or KPI 2 in ESC3.

³¹⁰ In assessing Job Network provider performance KPI 3 is intended to serve as a 'hurdle'. Most providers are expected to continue to pass. Failing this KPI can be the result of not satisfying either the Employment Services Code of Practice or the Service Guarantee and/or failing to comply with ESC3 generally.

7.8 DEWR has stated to the ANAO that:

the setting of targets would decrease the incentive for continuous improvement once the target had been reached. The Star Ratings are a relative measure continually raising the performance of individual JN members.³¹¹

7.9 DEWR could, however, set and adjust targets from time to time and achieve among the Job Network a similar incentive to improve performance continually.

7.10 The contract states, for KPI 1 and KPI 2, that 'DEWR will assess performance against this key indicator'. However, DEWR does not measure and report on individual provider performance against these indicators. In practice, the department collects the data that could be used for these two KPIs but it is not aggregated and used to prepare reports in terms of these indicators. The underlying data is used, with other information, in DEWR's separate star rating system, which has become its central performance management mechanism (the star rating system is discussed below).³¹²

7.11 The lack of availability of reports against these KPIs drew comments from Job Network provider CEOs, in the ANAO's survey of them in August–September 2004. For example:

There is, as yet, no performance report available to measure KPI 1 so we cannot know how well we are doing.

JNMs [Job Network Members] need to be able to see a report relative to timeliness given it is a major KPI. All efforts with [DEWR] Contract Management to gain this information as a request has been negative.

7.12 DEWR advised the ANAO that 'The performance reports available to JN members include highly detailed information on the job outcome rates referred to in KPI 1 and KPI 2'. However, it has not provided any documentary evidence of such reports.

7.13 DEWR is not monitoring or reporting directly against the indicators that it had set out in ESC3. This would involve calculating and recording the average time taken for eligible job seekers to achieve employment placements and the proportion of fully Job Network eligible (FJNE) job seekers who attract outcome payments.

³¹¹ DEWR advice of 4 February 2005.

³¹² In *Job Network: A guide to Star Ratings and Performance Information*, September 2003, DEWR stated that 'JN members' success in achieving outcomes for job seekers, as reflected in KPI1 and KPI2, will be assessed through the Star Rating system'. This guide was designed to inform Job Network members about the calculation of star ratings, and followed DEWR's consultations with the employment services industry based on two DEWR discussion papers.

7.14 The ANAO notes that the employment services industry has advised DEWR that, to strengthen contract conditions in the next contract round, ESC4: ‘the KPIs articulated within the contract should be used for ongoing performance assessment’.³¹³

The star ratings system

7.15 DEWR’s star ratings are the system it uses to assess the performance of its Job Network providers across Australia. The system began in March 2001 during the previous contract but is not mentioned in ESC3. Given the important role it has in DEWR’s performance management of the Job Network, it is not clear why this is the case.³¹⁴

7.16 The operation and calculation of the star rating system is discussed below. The ANAO then considers whether the system meets DEWR’s objectives.

Operation of star ratings

7.17 Star ratings are attributed to Job Network providers by DEWR. They are allocated at the Job Network provider site level, and range from one star (described by DEWR as indicating ‘room for improvement’) to five stars (representing ‘performance that is well above the average’) in half star increments.³¹⁵

7.18 DEWR adjusts Job Network providers’ business share at the site level, up or down, according to the star rating they have achieved (this process is discussed in detail below). In this way, DEWR uses star ratings as an incentive to improve provider performance through competitive pressure.

7.19 Star ratings measure relative, not absolute performance. This means:

- each site’s star rating compares it with every other site;
- if the performance of all sites across the Job Network were to change uniformly (up or down), their star ratings would not. Only a change in *relative* performance between any one site and all others can cause a change in a rating; and
- a site whose own performance is constant while the Job Network as a whole improves may experience a decline in its star rating.

³¹³ National Employment Services Association, Job Network—Meeting Australia’s Demographic Challenges, An Industry Discussion Paper, February 2005, p. 71.

³¹⁴ It is mentioned briefly in the ESC3 request for tender volume containing general information and Description of Services’ (the ‘Yellow Book’, p. 30) but not in the contract itself.

³¹⁵ These descriptions are given in DEWR, *Job Network Star Ratings*, July 2004, p. 3.

7.20 DEWR's decision to measure relative performance has important benefits, such as allowing for differences in general labour market conditions over time. There is no need to re-calibrate standards when the economy as a whole changes.

Calculating star ratings

7.21 DEWR calculates performance scores for each Job Network provider at the site level to gauge the performance of each provider, using a range of job seeker measures and weightings as set out in Table 7.2. It is not apparent from the table that these are, in fact, measures, as the table comprises a list of fee rates and a list of percentages used for weighting.

Table 7.2

'Performance Measures and Weightings—including Final Outcomes'

Job Search Support—total weighting 10%	Weighting for outcome type
Job Placement Fee—job seekers who are <i>Job Search Support Only Eligible</i> —\$165 Bonus Payment—job seekers who are <i>Fully Job Network Eligible</i> into a minimum 50 hours employment—\$165	4%
Job Placement Fee—job seekers who are <i>Fully Job Network Eligible</i> —\$275 Job Placement Fee—job seekers who are <i>Fully Job Network Eligible</i> and who have an unemployment duration of greater than 12 months ² —\$385	6%
Intensive Support —total weighting 90%	
Interim Payment—job seekers unemployed for 4 to 12 months—\$550 Interim Intermediate Payment—job seekers unemployed for 13 to 24 months—\$550 Interim Intermediate Payment – job seekers unemployed for 25 to 36 months—\$550 Interim Intermediate Payment—job seekers unemployed for 3 years or more—\$1,100 Final Intermediate Payment—job seekers unemployed for 13 to 24 months—\$550 Final Intermediate Payment—job seekers unemployed for 25 to 36 months—\$550 Final Intermediate Payment—job seekers unemployed for 3 years or more—\$1,100	<i>Education—4%</i> <i>Employment—16%</i>
Interim Outcome Payment—job seekers unemployed for 13 to 24 months—\$1,650 Interim Outcome Payment—job seekers unemployed for 25 to 36 months—\$3,300 Interim Outcome Payment—job seekers unemployed for 3 years or more—\$4,400	40%

Job Search Support—total weighting 10%	Weighting for outcome type
Final Outcome Payment—job seekers unemployed for 13 to 24 months—\$825 Final Outcome Payment—job seekers unemployed for 25 to 36 months—\$1,650 Final Outcome Payment—job seekers unemployed for 3 years or more—\$2,200	20%
Share of Interim Outcome Payments—all indigenous and highly disadvantaged job seekers at risk of long term unemployment and referred directly to Intensive Support	10%

Source: DEWR advice.

7.22 DEWR advised that it supplies detailed information to each Job Network provider to help them to track performance against these individual indicators.³¹⁶ However, it does not report publicly against each of the items in Table 7.2 separately. DEWR has assigned the weightings shown to each of the items in Table 7.2. These weightings are taken into account in the calculation of the overall performance score across all provider sites.

7.23 To calculate the score, DEWR uses performance data for each provider, which it draws from its computer system. It also seeks to control for certain external factors—those factors other than a Job Network provider’s own efforts that affect its performance. DEWR addresses this in the course of calculating star ratings by undertaking a statistical regression.

7.24 The other factors that can influence job outcome rates, and which DEWR controls for when it calculates star ratings, are: the local unemployment rate; the rate of employment growth in the region; the types of industries that are most prevalent in the region; the individual job seeker’s duration of unemployment; the job seeker’s age; the job seeker’s highest level of educational attainment; the number of job seekers with disabilities assisted at the Job Network site, and; the number of indigenous Australians assisted at the Job Network site.³¹⁷

7.25 The resulting rank order is then used to allocate star ratings according to a set distribution. (see Table 7.3).

³¹⁶ DEWR advice of 4 February 2005.

³¹⁷ DEWR advice of 22 June 2005.

Table 7.3**Distribution of star ratings among providers**

Star rating	Percentage of Providers
5	5%
4.5	12%
4	18%
3.5	21%
3	14%
2.5	11%
2	9%
1.5	6%
1	4%

Source: DEWR advice.

7.26 Although the regression adds complexity to the calculation of star rating, this is necessary to satisfy DEWR's intention to achieve comparability of performance for all the Job Network sites throughout Australia.

Use of the star ratings system

7.27 DEWR states that star ratings are used by:

- the department to drive improved performance;³¹⁸
- job seekers to assess the comparative performance of Job Network providers in their local area; and
- Job Network providers as a measure of performance.

7.28 The star rating system was used to help DEWR to determine the outcomes of the ESC3 *Invitation to Treat* and tender.

Improving performance

7.29 DEWR has stated:

JN performance has improved significantly over time. ... Despite this improvement the set distribution for Star Ratings has remained the same. This main-

³¹⁸ See 'Star Ratings Fact Sheet' at http://www.workplace.gov.au/WP/Content/Files/ES/Star_Ratings_July04_%20fact_sheet.pdf.

Also, DEWR, EMC, *Job Network – Business Reallocation*, Agenda item: 3e, meeting of 10 May 2004.

tains strong pressure on JN members, driving them to continuously increase the rates at which they achieve outcomes for job seekers.³¹⁹

7.30 DEWR uses the system for business reallocation during ESC3, by rewarding the best performers with a larger business share and sanctioning the poorest performers.³²⁰ DEWR advised that it has no evidence as yet on the subsequent behaviour and performance of those providers who have been subject to either sanctions or rewards under this mechanism.³²¹

7.31 The Productivity Commission stated that, as better practice is diffused throughout the industry and poor performers leave, the cardinal differences in performance from one to five star performers will reduce.³²² Thus opportunities for substantial performance improvements may diminish and the merits of culling the weakest performers (or re-allocating business to the best) will be less apparent.

7.32 However, DEWR states that there is still 'significant variation' in provider performance. In its view, while overall Job Network performance has improved greatly, there is still scope for major increases in the outcome rates achieved by lower ranked Job Network providers.³²³

Informing job seekers

7.33 Performance information about Job Network providers was rarely used by job seekers in choosing their provider, according to research commissioned by DEWR in late 2001. Previous contact with a provider and word of mouth information from other job seekers were more influential. Again, many job seekers stated that location of the provider was influential.³²⁴

7.34 The Productivity Commission's analysis of DEWR's job seeker satisfaction survey data led the Commission to conclude that awareness of star ratings by job seekers was probably low. Convenient location seemed to be the most important criterion to those making an active choice. It concluded that there is some doubt that even where a job seeker chooses a Job Network provider (as opposed to being allocated to one) their choice has been informed by the performance of the provider.

³¹⁹ DEWR internal briefing on Job Network star ratings, 3 May 2004.

³²⁰ EMC papers, May 2004. DEWR has provided details (23 February 2005) of the Milestone 2 Business Reallocation, showing that 27 providers were to be rewarded by an increase in business share and 24 providers sanctioned by a decrease.

³²¹ DEWR oral advice 22 February 2005.

³²² Productivity Commission 2002, *Independent Review of the Job Network*, Report No.21, Ausinfo, Canberra, 3 June, p. 11.36.

³²³ DEWR advice of 4 February 2005.

³²⁴ DEWR, *Evaluation of the Streamlined Job Network Access and Referral Pilot*, Final Report, April 2002, p. 41.

7.35 There have also been certain pragmatic limits to job seekers' capacity under ESC3 to use star ratings to compare Job Network provider performance. For example, no such ratings were available until April 2004, some ten months after the start of ESC3. This is due to the inherent lags in assessing performance where duration is a primary element in achieving the outcomes that count as good performance.

7.36 DEWR expects that job seekers will take account of star ratings to assess Job Network providers' performance:

The star ratings will be publicly released to inform job seekers and the wider public about the relative success of JN members in meeting KPI1 and KPI2. That is, their success in assisting unemployed people to find work as quickly as possible, and in maximising the number of job seekers for whom outcomes are achieved.³²⁵

Use by providers

7.37 The Productivity Commission found many contributors to its inquiry were critical of the model, and a main concern was a lack of transparency.³²⁶ DEWR has since made more information available and the ANAO has received several favourable comments about this in its survey of Job Network CEOs. For example:

More information from DEWR has helped to understand star ratings better—staff have been very helpful.

On commencement of the Star Ratings, we were given very little information on how they were calculated. However, more recently, we have been given quite a lot of information—this info. could have been given to providers from the start.

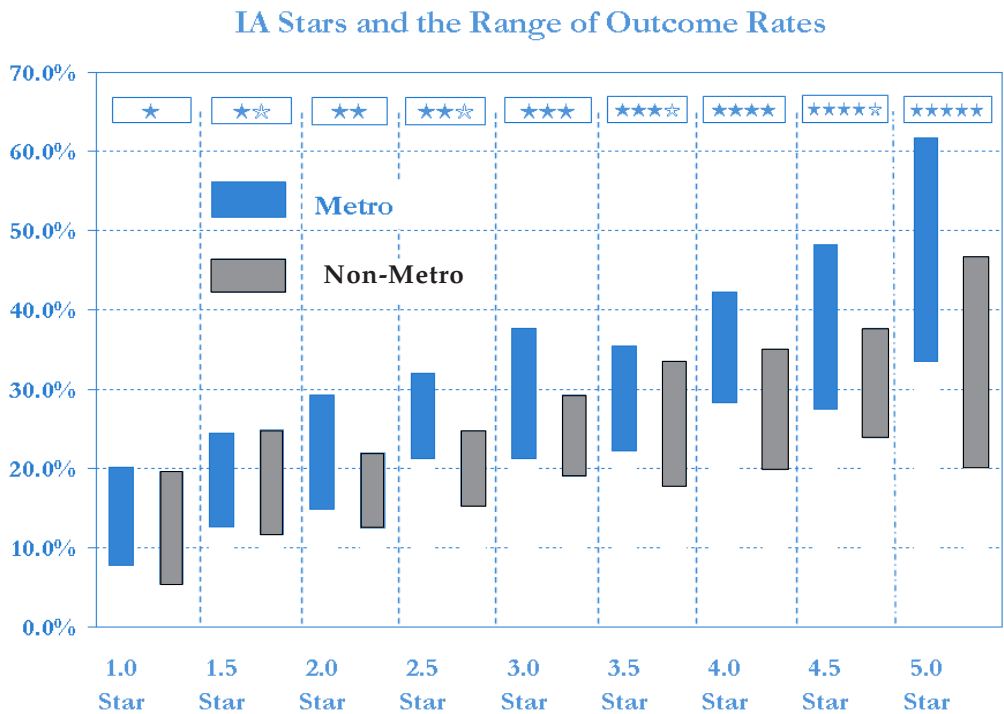
7.38 The additional information includes the range of outcome rates that providers of each star rating have achieved, divided into metropolitan and non-metropolitan providers (see Figure 7.1, below). This shows, for example, that, for each star rating (one star, one-and-a-half stars and so on), standards of performance expressed in outcome rates are generally higher for metropolitan than non-metropolitan providers.³²⁷

³²⁵ DEWR, *Job Network: A Guide To Star Ratings and Performance Information*, September 2003.

³²⁶ Productivity Commission 2002, *Independent Review of the Job Network*, Report No.21, Ausinfo, Canberra, 3 June, p. 11.37.

³²⁷ See DEWR, Job Network Star Ratings, presentation to NESA conference, August 2004. Outcome rates are the proportion of Intensive Support clients who attract an Interim Outcome payment from DEWR.

Figure 7.1



Source: DEWR, presentation on star ratings to the NESA annual conference, August 2004. The vertical axis represents outcome rates. The vertical bars represent the range of outcome rates achieved by Job Network provider sites with that star rating.

7.39 Achieving comparability across all providers, locally and nationally, clearly involves substantial effort on DEWR’s part in identifying the values of the factors in the regression and performing the necessary calculation. Extensive consultation has also gone into having the model independently verified by external consultants.

7.40 Figure 7.1 also shows how important the other factors in the calculation have become in a nationwide comparison. This is apparent where, for any given outcome rate, providers can have a widely differing range of star ratings. For example, there are non-metropolitan providers with a 20 per cent outcome rate across the range from one-and-a-half to five stars. Similarly, there are instances of metropolitan providers with outcome rates of around 34 per cent with from three stars to five stars.

Job Network understanding of star ratings

7.41 Commencing with the release of a discussion paper in November 2002, DEWR has made considerable efforts to inform Job Network providers about the calculation of star ratings. Details of weightings for each measure and

technical regression results have also been made available to providers by DEWR. DEWR advises that, in December 2003, it provided access to on-line reports on each provider site which details achievements against the star rating measures. Some aggregate statistics for the 137 Employment Services Areas are also included, allowing each JN member to broadly compare the performance of their sites with others. The department has also sought to improve providers' understanding of the calculation of star ratings through a series of information sessions in 2004 and 2005.

7.42 DEWR has achieved a substantial agreement among Job Network provider CEOs that they understand the star ratings system. The survey of Job Network CEOs conducted by the ANAO shows that nearly three-quarters (72.8 per cent) believe that they understand fairly well or very well how the ratings are calculated. Only 15.6 per cent feel they understand that fairly badly or very badly.

7.43 A lower proportion of respondents (55.3 per cent) felt fairly satisfied or very satisfied with the star ratings system. Just over a quarter (26.3 per cent) are fairly dissatisfied or very dissatisfied with it. One satisfied CEO said:

I think that star ratings are currently fair and agree with their use—they certainly drive performance! I believe that eventually stars should be used/developed via 'benchmarked' performance, rather than comparative performance as I think we will get to a stage where performance can only be pushed so far.

7.44 Some 44 per cent felt they had insufficient information to monitor their performance in the star ratings. Comments received from CEOs included the following:

More information required about the specific weightings (regression model).

Because we don't fully know (and possibly wouldn't understand) the full formula for star ratings we still 'guess' what our performance is.

Star Ratings weighting system should be available to providers.

There is no transparency in several factors in the star ratings, especially how labour market factors such as growth rates unemployment rates, etc., are included in the calculations.

7.45 The industry representative body, NESAs, has also stated, more recently:

While the star rating system has been in place since the first iteration of the Job Network the methodologies underpinning the star rating are not transparent to providers. The regression model is a complex statistical analysis which continues not to be well understood by providers. Early attempts to educate the industry on the star rating model adopted a very technical approach and did not achieve the increased understanding intended. The variables used in the regression model have not been adequately communicated to the industry.

... The industry believes the information currently supplied is insufficient for employment service providers to accurately assess comparative performance and predict star ratings.³²⁸

Reliance on ratings

7.46 DEWR needs to consider and advise users on the reliance that can be placed on star ratings measures. The PC had concluded in 2002 that the star ratings model was an important component of the Job Network. It recommended that it be retained but be continually refined and that an indication of reliability (such as a confidence interval) be provided. At the time the PC recommendation was first put forward (March 2002) the department stated that its experience was that the ratings at the site level varied considerably over time and ‘may be unreliable for many sites’.³²⁹

7.47 The Government response to the recommendation about providing an indication of reliability (September 2002) was that it would:

consider publication of some indication of the reliability of the published estimates. As a general rule, however, the Government would be reluctant to publish estimates which were statistically unreliable. If this occurred, such estimates would be accompanied by a warning as to their level of reliability.³³⁰

7.48 DEWR has pointed out that the analyses conducted by DEWR, Access Economics and the South Australian Centre for Economic Studies have concluded that the star ratings method is sound. With the benefit of this analysis (the majority of which was completed after the Productivity Commission had concluded its evaluation), DEWR is now confident that star ratings calculated at the site level are robust and reliable.

7.49 Overall, the ANAO found that the star ratings system is primarily a means for DEWR to press providers for higher levels of performance. While there remains substantial variation among Job Network provider performance the system has enduring value and DEWR can continue to use it with a reasonable expectation that it will continue to provide an incentive for further performance improvement. However, if DEWR’s other objectives for the system continue, there are opportunities for the department to:

- improve the transparency of the system by providing clear, regular updates to Job Network providers on their own performance in terms of the KPIs in the contract;

³²⁸ National Employment Services Association, *Job Network—Meeting Australia’s Demographic Challenges*, An Industry Discussion Paper, February 2005, p. 71.

³²⁹ DEWR, ‘Comments against [PC] Report Recommendations’, p. 10, March 2002.

³³⁰ *Government Response to the Productivity Commission Independent Review of Job Network*, See: <<http://parlsec.treasurer.gov.au/parlsec/content/publications/2002/JobNetwork.asp>>.

- include specific reference to the star ratings system and its method of calculation and operation in its contract with Job Network providers;
- ensure that job seekers are informed of star ratings and how they should be interpreted, before they are required to choose a Job Network provider; and
- inform all stakeholders of the confidence that can be placed in each element of its provider performance calculations.

Business reallocation

7.50 'Business reallocation' is the term used by DEWR to refer to its capacity under ESC3 to:

- sanction low performing Job Network providers by taking a portion of their ESC3 business from them; and
- rewarding high performing providers by giving them more business.

7.51 Business reallocation is inherently a 'zero-sum' decision. That is, the amounts of business allocated as a reward can comprise only the amount of business removed in sanctions, and vice versa.

7.52 The ESC3 RFT specifies that:

Business shares will be affected by performance. DEWR will conduct formal performance reviews at the end of each six-month contract milestone period. ... Milestone performance reviews will take into account all aspects of a provider's performance, including achievement against the key performance indicators. High-performing providers will be rewarded with additional shares of business in subsequent milestone periods. Those providers that have not achieved expected levels of performance will lose business.³³¹

7.53 DEWR advised the ANAO that 'star ratings are used as the benchmark for business reallocation as they are relative performance measures which treat each provider fairly and take account of a range of labour market circumstances'.³³²

7.54 As shown earlier in this chapter, star ratings are calculated on the basis of a different set of indicators from the key performance indicators in the contract. This means that the basis of business reallocation adopted in practice by DEWR differs from that originally set out in the RFT. However, the contract

³³¹ DEWR, Request for tender, Employment Services Contract 2003–2006 (the 'Yellow Book'), section 3.14.1

³³² DEWR, 'Business Reallocation and Performance Management Framework: JNMs' Understanding', undated paper provided to the ANAO, 22 March 2005.

does not mention star ratings or (again, in contrast with the RFT) relative performance measures of any kind.

7.55 The contract does contain provisions on the performance management of Job Network providers. Generally, its provisions are directed at providing DEWR with the authority to change a provider's business share and, in particular, to reduce it where the provider's performance is 'less than satisfactory'.³³³

7.56 As noted earlier (para. 7.7, above) DEWR has not set standards for Job Network provider performance, either in the contract or elsewhere. Moreover, the contract does not specify what level of performance DEWR considers to be satisfactory.

7.57 Therefore, from the contract, it is not clear how DEWR can determine when provider performance falls short of satisfactory. If the department cannot determine that a provider's performance is less than satisfactory, then it is not clear upon what basis it can decide to reduce a provider's business share and reallocate it to another. In short, this raises the question of whether the department has a sound basis in the contract for its method of business reallocation among Job Network providers. The less clear and specific the contractual performance regime is, the more likely the parties to ESC3 are to dispute the meaning of the regime and the less likely that the regime is contractually enforceable.

7.58 The specific risk is that, as there are no clear obligations in the contract to achieve any particular outcome performance, the performance data which DEWR uses to determine star ratings cannot be used as a sound basis for reducing a Job Network provider's business share or a contract termination under the contract's performance management clause (clause 12 of Part B).

7.59 The ANAO raised with DEWR the question of whether there are limitations in ESC3 for changing business allocation. In particular, the ANAO queried whether the department considered it was exposed to risks from there being no specified, objective performance standards. DEWR advised that it had assessed the risks associated with adjusting business levels during the current contract as being very low.³³⁴

7.60 The ANAO concludes that DEWR has accepted these risks and continues business reallocation among Job Network providers by the method it currently uses.

³³³ See, in particular, section 12 of Part B, *Specific Conditions for Job Network Services*. The contract does not mention star ratings.

³³⁴ DEWR, 'Business Reallocation and Performance Management Framework: JNM's Understanding', 22 March 2005.

Conclusion

7.61 DEWR does not directly measure and report in terms of the KPIs set out in the contract with Job Network providers. Instead, it uses a star ratings system to encourage performance improvement.

7.62 DEWR has used star ratings successfully as an incentive to improve performance. However, the system is not meeting all of the objectives set for it by DEWR; in particular, the available evidence shows that few job seekers make use of them to choose a provider. DEWR could also make it easier for Job Network providers to monitor their performance by making its use of weightings more transparent.

7.63 DEWR uses the star ratings approach to reallocate business based on the relative performance of Job Network providers, not their individual performance against agreed standards. The lack of specific performance standards in the contract is a potential weakness in the business reallocation mechanism. The department has accepted the risk and continues business reallocation among Job Network providers by its existing method.

Recommendation No.6

7.64 The ANAO recommends that DEWR:

- improve transparency by reporting against the performance indicators set out in the employment services contract;
- include specific reference to the star ratings system and its method of calculation and operation in its contract with Job Network providers;
- ensure that information on star ratings of providers is available to job seekers before they are required to choose a Job Network provider; and
- inform all stakeholders of the confidence that can be placed in each element of its star ratings calculations.

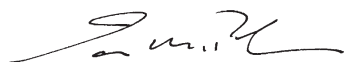
DEWR response

Agreed in part.

DEWR welcomes the acknowledgement of the robustness of the current Job Network performance management framework and the benefits of many of its features. DEWR notes the audit did not find inaccuracies in Star Ratings calculations. The department also notes that the Job Network Star Ratings provide a sound and reliable assessment of Job Network members relative performance against the contractual key performance indicators. Job Network members have access to an extensive range of job outcomes data which allow them to assess their performance compared to others, and a majority of Job Network members have reported they understand the calculation of Star Ratings.

ANAO comment

7.65 In this chapter, the ANAO has not commented on the overall robustness of the Job Network performance management framework. The ANAO's Recommendation 6 reflects three key findings: that few job seekers make use of star ratings (paras 7.33 – 7.36); the lack of explicit connection between the contract KPIs and the star ratings system (paras 7.10 – 7.14) and the risk that star ratings cannot be used validly for business reallocation (paras 7.56 – 7.60). The audit did not seek to verify the accuracy of the calculation of star ratings. This had already been the subject of extensive scrutiny by Access Economics and the South Australian Centre for Economic Studies.



Ian McPhee
Auditor-General

Canberra ACT
18 August 2005

Appendices

Appendix 1: Maturity models for IT development

The Software Engineering Institute (SEI) developed the Capability Maturity Model (CMM) for Software in 1991. As an industry standard to evaluate software development capabilities, CMM provides a framework describing the key elements of an effective software process. CMM presents an evolutionary improvement path in five levels from an ad hoc, immature process to a mature, disciplined process.

CMM was expanded into the Capability Maturity Model Integration (CMMI), which supersedes the software-CMM standard.³³⁵ CMMI offers a means to improve an organisation’s ability to manage the development, acquisition and maintenance of products and services; enables assessment of organisational maturity and process area capability; identifies priorities for improvement; and provides guidance on implementation of improvements.³³⁶ CMMI offers various models to suit an organisation’s process improvement needs, with consideration of a representation (continuous or staged) and a discipline (systems engineering, software engineering, integrated product and process development, supplier sourcing).³³⁷

The IT Governance Institute derived Control Objectives for Information and Related Technology (CobiT) maturity model, based on CMM from SEI. CobiT’s generic process maturity model provides a guideline to evaluate the level of development of an organisation’s IT processes with consideration of respective controls and activities. CobiT also presents an IT governance maturity model and management guideline and maturity models for 34 specialised IT processes.

Below are maturity levels descriptions for CobiT’s generic process maturity model and CMMI.

Level	CobiT	CMMI
0	Non-Existent. There is a complete lack of any recognisable processes. The organisation has not even recognised that there is an issue to be addressed.	[Not defined]

³³⁵ ‘Better Software The Aim of Global Trend’, David Braue, *The Age*, 12 August 2003, <<http://www.theage.com.au/cgi-bin/common/popupPrintArticle.pl?path=/artiles/2003/>>.

³³⁶ Refer to <<http://www.sqi.gu.edu.au/cmmibin/courseUpcom.cgi>>.

³³⁷ Capability Maturity Model Integrated (CMMI), CMMI for Systems Engineering/Software Engineering/Integrated Product and Process Development/Supplier Sourcing, Version 1.1, Staged Representation; (CMMI-SE/SW/IPPD/SS, V1.1, Staged), March 2002, pp. 2–5, <<http://www.sei.cmu.edu/publications/documents/02.reports/02tr012.html>>.

1	Initial/Ad Hoc. There is evidence that the organisation has recognised that the issues exist and need to be addressed. There are however no standardised processes but instead there are ad hoc approaches that tend to be applied on an individual or case by case basis. The overall approach to management is disorganised.	Initial. Processes are usually ad hoc and chaotic. The organisation usually does not provide a stable environment. Success in these organisations depends on the competence and heroics of the people in the organisation and not on the use of proven processes. In spite of this ad hoc, chaotic environment, organisations often produce products and services that work; however, they frequently exceed the budget and schedule of their projects. Organisations are characterised by a tendency to over commit, abandon processes in the time of crisis and not be able to repeat their past successes.
2	Repeatable but Intuitive. Processes have developed to the stage where similar procedures are followed by different people undertaking the same task. There is no formalised training or communication of standard procedures and responsibility is left to the individual. There is a high degree of reliance on the knowledge of individuals and therefore errors are likely.	Managed. The projects of the organisation have ensured that requirements are managed and that processes are planned, performed, measured and controlled. The process discipline reflected by maturity level 2 helps to ensure that existing practices are retained during times of stress. When these practise are in place, projects are performed and managed according to their documented plans.
3	Defined. Procedures have been standardised and documented and communicated through training. It is however left to the individual to follow these processes and it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices.	Defined. Processes are well characterised and understood and are described in standards, procedures, tools and methods. The organisation's set of standard processes, which is the basis for maturity level 3, is established and improved over time. These standard processes are used to establish consistency across the organisation. Projects establish their defined processes by tailoring the organisation's set of standard processes according to tailoring guidelines.
4	Managed and Measurable. It is possible to monitor and measure compliance with procedures and to take action where processes appear not be working effectively. Processes are under constant improvement and provide good practice. Automation and tools are used in a limited or fragmented way.	Quantitatively Managed. Sub-processes are selected that significantly contribute to overall process performance. These selected sub-processes are controlled using statistical and other quantitative techniques. Quantitative objectives for quality and process performance are established and use as criteria in managing processes. Quantitative objectives are based on the needs of the customer, end users, organisation and process implementers. Quality and process performance are understood in statistical terms and are managed throughout the life of the processes.
5	Optimised. Processes have been refined to a level of best practice, based on results of continuous improvement and maturity modelling with other organisations. IT is used in an integrated way to automate the workflow, providing tools to improve quality and effectiveness, making the enterprise quick to adapt.	Optimising. Processes are continually improved based on a quantitative understanding of the common cause of variation inherent in processes. Maturity level 5 focuses on continually improving process performance through both incremental and innovative technological improvements. Quantitative process-improvement objectives for the organisation are established, continually revised to reflect changing business objectives and used as criteria in managing process improvement. The effects of deployed process improvements are measured and evaluated against the quantitative process-improvement objectives. Both the defined processes and the organisation's set of standard processes are targets of measurable improvement activities.

Appendix 2: Job Network CEO survey

[Results of the survey of Job Network CEOs by the ANAO, August 2004]

The survey identified a total of 110 Job Network providers throughout the country which were contacted and asked to complete a questionnaire. A total of 80 responses were received, representing an effective response rate of 72.7 per cent.

When the survey was complete, the consultant provided a methodological note to test the hypothesis that the responses received in the survey is representative of Job Network provider organizations nationally. The analyses test the hypothesis that there were statistically significant variations in the responses by three criteria:

- type of organization;
- metropolitan or non-metropolitan location; and
- State base.

The results showed that there are no statistical significant variations in the responses to the survey across these three criteria. Judged against these three criteria, the survey is representative of Job Network providers nationally.

The APM and ESC3

How satisfied were you about the consultation by DEWR with you about the design of the Active Participation Model (APM)?

	Per cent
Very satisfied	26.0
Fairly satisfied	24.7
Neutral	27.3
Fairly unsatisfied	16.9
Very unsatisfied	5.2

Here is a list of statements about the Employment Services Contract 2003–06 (ESC3). Please say whether you strongly agree, agree, disagree or strongly disagree with each of these statements

... In its operation, ESC3 is sufficiently flexible to allow Job Network Members to tailor services for jobseekers

	Per cent
Strongly agree	2.5
Agree	55.0
Neither	10.0
Disagree	25.0
Strongly disagree	7.5

... The administrative work involved in implementing ESC3 detracts from our service to job seekers

	Per cent
Strongly agree	66.3
Agree	25.0
Neither	3.8
Disagree	5.0

... Overall, ESC3 is working well

	Per cent
Strongly agree	6.3
Agree	62.0
Neither	7.6
Disagree	19.0
Strongly disagree	5.1

... ESC3 is too prescriptive in specifying what Job Network Members must do.

	Per cent
Strongly agree	17.7
Agree	46.6
Neither	16.5
Disagree	20.3

... ESC3 provides me with an acceptable number of referrals

	Per cent
Strongly agree	7.6
Agree	38.0
Neither	12.7
Disagree	31.6
Strongly disagree	10.1

... I am confused about what services job seekers should be receiving.

	Per cent
Agree	3.8
Neither	11.3
Disagree	60.0
Strongly disagree	25.0

... We are unsure about being able to manage the remainder of the ESC3 contract.

	Per cent
Strongly agree	5.0
Agree	18.8
Neither	10.0
Disagree	36.3
Strongly disagree	30.0

... I can predict future business under the current contract with confidence.

	Per cent
Strongly agree	1.3
Agree	27.5
Neither	15.0
Disagree	27.5
Strongly disagree	28.7

Now some questions about the transition from ESC2 to ESC3. DEWR identified four criteria for a successful transition from ESC2 to ESC3:

- minimal disruption to services for job seekers and employers;
- minimal reduction in outcomes achieved during the transition period;
- all eligible job seekers referred to job network members contracted under ESC3 as quickly as possible; and
- maintain, in consultation with the industry, a manageable flow of jobseekers to job network members in order to sustain cash flows.

For each of the four criteria, please say how well you think these criteria were met with respect to your own organisation.

... Minimal disruption to services

		Per cent
Not met	1	25.6
	2	24.4
	3	21.8
	4	5.1
Neutral	5	9.0
	6	2.6
	7	5.1
	8	6.4
	9	0.0
Met	10	0.0

... Minimal reduction in outcomes achieved

		Per cent
Not met	1	25.6
	2	15.4
	3	21.8
	4	14.1
Neutral	5	9.0
	6	1.3
	7	6.4
	8	6.4
	9	0.0
Met	10	0.0

... Eligible job seekers referred to Job Network Members as quickly as possible.

	Per cent
Not met	1
	2
	3
	4
Neutral	5
	6
	7
	8
	9
Fully met	10

... Maintain a manageable flow of jobseekers to Job Network Members

	Per cent
Not met	1
	2
	3
	4
Neutral	5
	6
	7
	8
	9
Fully met	10

In the transition from ESC2 to ESC3, how satisfied were you in the way that DEWR managed any difficulties that arose, in terms of speed, effectiveness and concern for job seekers' welfare?

... the speed with which DEWR handled difficulties

	Per cent
Very satisfied	13.9
Fairly satisfied	29.1
Neutral	19.0
Fairly unsatisfied	32.9
Very unsatisfied	5.1

... DEWR's effectiveness in resolving problems

	Per cent
Very satisfied	13.9
Fairly satisfied	29.1
Neutral	22.8
Fairly unsatisfied	29.1
Very unsatisfied	5.1

... DEWR's concern for job seekers' welfare

	Per cent
Very satisfied	8.9
Fairly satisfied	20.3
Neutral	20.3
Fairly unsatisfied	43.0
Very unsatisfied	7.6

During the transition, how well did DEWR manage the stock of job seekers?

	Per cent
Very badly	9.0
Fairly badly	33.3
Neutral	26.9
Fairly well	28.2
Very well	2.6

And how well did DEWR manage the flow of job seekers?

	Per cent
Very badly	10.1
Fairly badly	35.4
Neutral	22.8
Fairly well	29.1
Very well	2.5

Comparing ESC2 with ESC3, to what extent has your autonomy in seeking outcomes increased or decreased? And how about flexibility in seeking outcomes, has that increased or decreased between ESC2 and ESC3?

... Autonomy in seeking outcomes

	Per cent
Much increased	7.6
Some increase	27.8
The same	25.3
Some decrease	17.7
Much decreased	15.2
No ESC2 experience	6.3

... Flexibility in seeking outcomes

	Per cent
Much increased	8.9
Some increase	29.1
The same	26.6
Some decrease	21.5
Much decreased	7.6
No ESC2 experience	6.3

How satisfied were you with the management information that DEWR supplied to you to manage your own responsibilities during the transition?

	Per cent
Very satisfied	16.5
Fairly satisfied	41.8
Neutral	6.3
Fairly unsatisfied	31.6
Very unsatisfied	3.8

And how satisfied were you with the amount of feedback you were able to provide to DEWR about the transition process and its effects on your organisation?

	Per cent
Very satisfied	13.9
Fairly satisfied	31.6
Neutral	24.1
Fairly unsatisfied	25.3
Very unsatisfied	5.1

Using this scale, please say whether the administrative work that is required to comply with ESC3 is too much or is about right.

	Per cent
About right	2.6
	3.8
	9.0
	29.5
Too much	55.1

In the transition from ESC2 to ESC3, some concerns were raised that might have affected how your organisation functions. Using the scale, please say how important each of these was to the work of your organisation in delivering job network services

... Predictability of job seeker flows

	Per cent
Very important	88.2
Fairly important	10.5
Not very important	1.3

... Financial viability of operating under ESC3

	Per cent
Very important	88.2
Fairly important	10.5
Not very important	1.3

... Use of the jobseeker account (JSKA)

	Per cent
Very important	51.3
Fairly important	42.1
Not very important	6.6

... Movement of jobseekers from one APM phase to another

	Per cent
Very important	47.4
Fairly important	46.1
Not very important	6.6

... Transfer of jobseekers from one Job Network Member to another

	Per cent
Very important	9.2
Fairly important	39.5
not very important	48.7
not at all important	2.6

And during the transition, how satisfied were you with how DEWR dealt with these issues?

... Predictability of job seeker flows

	Per cent
Very satisfied	24.7
Fairly satisfied	31.2
Neutral	29.9
Fairly unsatisfied	13.0
Very unsatisfied	1.3

... Financial viability of operating under ESC3

	Per cent
Very satisfied	32.5
Fairly satisfied	23.4
Neutral	16.9
Fairly unsatisfied	23.4
Very unsatisfied	3.9

... Use of the jobseeker account (JSKA)

	Per cent
Very satisfied	22.1
Fairly satisfied	10.4
Neutral	23.4
Fairly unsatisfied	44.2

... Movement of jobseekers from one APM phase to another

	Per cent
Very satisfied	18.2
Fairly satisfied	27.3
Neutral	27.3
Fairly unsatisfied	27.3

... Transfer of jobseekers from one Job Network Member to another

	Per cent
Very satisfied	5.3
Fairly satisfied	17.1
Neutral	39.5
Fairly unsatisfied	36.8
Very unsatisfied	1.3

Information Systems

How satisfied are you with DEWR's consultation with you on the design of EA3000?

	Per cent
Very dissatisfied	25.3
Fairly dissatisfied	25.3
Neutral	17.7
Fairly satisfied	26.6
Very satisfied	5.1

And how about DEWR's consultation with you on the implementation of EA3000?

	Per cent
Very dissatisfied	20.3
Fairly dissatisfied	30.4
Neutral	17.7
Fairly satisfied	26.6
Very satisfied	5.1

Did you have problems with the implementation of EA3000 and, if so, have they been resolved?

	Per cent
No problems	5.0
Yes, all resolved	23.8
Yes, mostly resolved	56.3
Yes, some resolved	15.0

Thinking about the operation of EA3000, how useful do you think the management reports were that were available from DEWR at the commencement of implementation? And what about their adequacy at the present time?

... DEWR's management reports at the commencement of implementation?

	Per cent
Very useful	11.3
Fairly useful	23.8
Not very useful	46.3
Not at all useful	18.8

... DEWR's management reports now?

	Per cent
Very useful	37.5
Fairly useful	52.5
Not very useful	8.8
Not at all useful	1.3

In terms of the training delivered by DEWR to you on all aspects of ESC3 (including EA3000), how satisfied were you about the following:

... the quality of the training?

	Per cent
Very satisfied	10.0
Fairly satisfied	25.0
Neutral	21.3
Fairly unsatisfied	33.8
Very unsatisfied	10.0

... the speed with which it was delivered?

	Per cent
Very satisfied	13.8
Fairly satisfied	21.3
Neutral	35.0
Fairly unsatisfied	27.5
Very unsatisfied	2.5

... how comprehensive the training was?

	Per cent
Very satisfied	7.6
Fairly satisfied	34.2
Neutral	22.8
Fairly unsatisfied	31.6
Very unsatisfied	3.8

... the accessibility of training

	Per cent
Very satisfied	19.0
Fairly satisfied	30.4
Neutral	20.3
Fairly unsatisfied	27.8
Very unsatisfied	2.5

Overall, do you think EA3000 requires too much input from you, requires too little input, or is it about right?

	Per cent
too much required	47.5
about right	52.5

Here is a list of statements about IT. Please say whether you agree or disagree with each of these statements

... DEWR's IT systems provide accurate policy information

	Per cent
Strongly agree	5.2
Agree	43.8
Neither	23.8
Disagree	25.0
Strongly disagree	2.5

... IT problem solving by DEWR is not adequate

	Per cent
Strongly agree	10.0
Agree	30.0
Neither	16.3
Disagree	38.8
Strongly disagree	5.0

... The information provided in EA3000 is accurate, current and comprehensive

	Per cent
Strongly agree	3.8
Agree	43.8
Neither	27.5
Disagree	23.8
Strongly disagree	1.3

... EA3000 is unreliable

	Per cent
Strongly agree	7.5
Agree	18.8
Neither	23.8
Disagree	43.8
Strongly disagree	6.5

... EA3000 is easy to use, with comprehensible design, well-designed screens, and predictable behaviour

	Per cent
Strongly agree	7.5
Agree	36.3
Neither	18.8
Disagree	28.7
Strongly disagree	8.8

... EA3000 does not yet provide adequate functionality for the efficient operation of job network services

	Per cent
Strongly agree	12.5
Agree	30.0
Neither	15.0
Disagree	38.8
Strongly disagree	3.8

Key Performance Indicators

The ESC3 contract uses three key performance indicators (KPIs):

- the average time taken for eligible job seekers to achieve employment placements;
- the proportions of fully job network-eligible jobseekers for whom outcome payments are paid; and
- DEWR satisfaction with the delivery of services in compliance with the Employment Services Code of Practice and Service Guarantee.

For each of the three KPIs, please say how satisfied or dissatisfied you are with each as a measure of how Job Network Members meet the requirements of their contracts.

... Average time for job seekers to achieve employment

		Per cent
Very dissatisfied	1	5.1
	2	10.3
	3	9.0
	4	14.1
	5	14.1
	6	6.7
	7	16.7
	8	21.8
	9	0.0
Very satisfied	10	2.6

... Proportions of jobseekers for whom outcome payments are paid

	Per cent
Very dissatisfied	1
	2
	3
	4
	5
	6
	7
	8
	9
Very satisfied	10

... DEWR satisfaction with the delivery of services

	Per cent
Very dissatisfied	1
	2
	3
	4
	5
	6
	7
	8
	9
Very satisfied	10

Now some questions about star ratings. As you know, star ratings are used by DEWR to evaluate Job Network Members' performance. How well do you understand how the ratings are calculated?

	Per cent
Very badly	3.8
Fairly badly	12.5
Neutral	11.3
Fairly well	50.0
Very well	22.5

Do you have too much information or not enough information to monitor your performance on the star ratings?

	Per cent
Too much information	2.6
About right	53.8
Not enough information	43.6

Overall, how satisfied are you with the star ratings system used by DEWR?

	Per cent
Very dissatisfied	3.8
Fairly dissatisfied	24.1
Neutral	17.7
Fairly satisfied	45.6
Very satisfied	8.9

Relationships with Centrelink

Next, we are interested in your relationships with Centrelink. How effectively would you say your organisation works with Centrelink to ensure jobseeker attendance at Job Network Member appointments?

	Per cent
Very effectively	12.5
Fairly effectively	61.3
Not very effectively	19.5
Not at all effective	6.5

In general, how accurate would you say the jobseeker information supplied to you by Centrelink is?

	Per cent
Very accurate	3.8
Fairly accurate	65.8
Not very accurate	27.8
Not at all accurate	2.5

Again in general terms, what about the speed with which Centrelink processes participation reports supplied by you?

	Per cent
Very fast	0.0
	1.3
	1.3
	2.5
About right	5.0
	6.3
	8.8
	37.5
	13.8
Very slow	23.8

If a participation report is provided by you to Centrelink but Centrelink does not apply a penalty to the jobseeker, how adequate is the information available to you explaining the reasons for Centrelink's decision?

	Per cent
Fairly adequate	13.8
Not very adequate	43.8
Not at all adequate	42.5

Overall, how satisfied are you with Centrelink's Job Network Liaison Officers' handling of your organisation's queries and concerns?

	Per cent
Very dissatisfied	3.8
Fairly dissatisfied	24.4
Neutral	25.6
Fairly satisfied	39.7
Very satisfied	6.4

And how satisfied are you with the opportunities given to you by Centrelink to attend pre-grant seminars?

	Per cent
Very dissatisfied	8.1
Fairly dissatisfied	14.9
Neutral	24.3
Fairly satisfied	40.5
Very satisfied	12.2

And overall, how satisfied or dissatisfied or you with your organisation's relationship with Centrelink?

	Per cent
Very dissatisfied	3.8
Fairly dissatisfied	21.5
Neutral	16.5
Fairly satisfied	50.6
Very satisfied	7.6

Relationships with DEWR

Now some questions about the relationship between your organisation DEWR in relation to the Job Network. Please say whether you agree or disagree with each of these statements

... DEWR is willing to hear about the difficulties Job Network Members encounter

	Per cent
Strongly agree	23.8
Agree	55.0
Neither	3.8
Disagree	12.5
Strongly disagree	5.0

... There is a free flow of information between DEWR and Job Network Members

	Per cent
Strongly agree	17.5
Agree	52.5
Neither	12.5
Disagree	16.3
Strongly disagree	1.3

... DEWR is often coercive with Job Network Members

	Per cent
Strongly agree	14.1
Agree	35.9
Neither	21.8
Disagree	26.9
Strongly disagree	1.3

... Most Job Network Members trust DEWR

	Per cent
Strongly agree	7.5
Agree	35.0
Neither	31.3
Disagree	20.0
Strongly disagree	6.3

... Job Network Members are reluctant to complain to DEWR

	Per cent
Strongly agree	6.3
Agree	32.5
Neither	10.0
Disagree	42.5
Strongly disagree	8.8

... It is easier to deal with DEWR's contract managers than DEWR's National Office.

	Per cent
Strongly agree	31.3
Agree	32.5
Neither	21.3
Disagree	7.8
Strongly disagree	6.5

In the information that DEWR provides to you, how satisfied are you with the following:

... the accuracy of information provided by DEWR?

	Per cent
Very dissatisfied	2.5
Fairly dissatisfied	1.3
Neutral	21.5
Fairly satisfied	65.8
Very satisfied	8.9

... how well information is explained to you?

	Per cent
Very dissatisfied	1.3
Fairly dissatisfied	13.8
Neutral	12.5
Fairly satisfied	66.3
Very satisfied	6.3

... speed in responding to my concerns about the information provided?

	Per cent
Very dissatisfied	2.5
Fairly dissatisfied	26.6
Neutral	12.7
Fairly satisfied	49.4
Very satisfied	8.9

... the consistency of the information?

	Per cent
Very dissatisfied	3.9
Fairly dissatisfied	24.1
Neutral	15.2
Fairly satisfied	54.4
Very satisfied	2.5

... the level of detail that is provided?

	Per cent
Very dissatisfied	1.3
Fairly dissatisfied	11.4
Neutral	25.0
Fairly satisfied	61.8
Very satisfied	2.6

... the timeliness of the information that is provided?

	Per cent
Very dissatisfied	3.8
Fairly dissatisfied	24.1
Neutral	15.2
Fairly satisfied	51.9
Very satisfied	5.1

In terms of the relationship between your organisation and DEWR, where 1 means DEWR is more powerful and 10 you are more powerful, who do you feel has most power in the relationship?

		Per cent
DEWR more powerful	1	40.0
	2	17.5
	3	18.8
	4	12.5
Neutral	5	10.0
	6	1.3
	7	0.0
My org. more powerful	8	0.0
	9	0.0
	10	0.0

One view is that DEWR's contract managers are familiar with the work of Job Network Members. Another view is that contract managers don't know much about the work of Job Network Members. Where would you place your view on this scale from 1 to 5?

	Per cent
Familiar with JNM	28.7
	40.0
	15.0
Unfamiliar with JNMs	13.8
	2.5

And how about DEWR's National Office? How familiar are they with the work of Job Network Members

	Per cent
Familiar with JNM	2.5
	21.5
	32.9
Unfamiliar with JNM	21.5
	21.5

Has policy advice provided to you by a contract manager ever been subsequently reversed or substantially modified by the National Office?

	Per cent
No	51.2
Yes	36.3
Don't know	12.5

No. of times	Per cent
1	9.1
2	27.3
3	4.5
4	13.6
5	31.8
6	9.1
10	4.5

Overall, how satisfied are you with your organisation's relationship with DEWR?

	Per cent
Very dissatisfied	5.1
Fairly dissatisfied	10.1
Neutral	10.1
Fairly satisfied	50.6
Very satisfied	24.1

DEWR and Centrelink

Thinking generally about the working relationship between DEWR and Centrelink, how satisfied are you with this relationship?

	Per cent
Very dissatisfied	8.9
Fairly dissatisfied	36.7
Neutral	36.7
Fairly satisfied	17.7

What impact does the overall relationship between DEWR and Centrelink have on the work of your own organisation?

	Per cent
Considerable impact	51.9
Some impact	43.0
Hardly any impact	3.8
No impact	1.3

Would you say that the overall relationship between DEWR and Centrelink has a positive or a negative effect on the work of your own organisation?

		Per cent
Very positive	1	1.3
	2	3.8
	3	13.9
	4	11.4
	5	7.6
	6	17.7
	7	15.2
	8	21.5
	9	6.3
Very negative	10	1.3

* * *

Appendix 3: Using spreadsheets for financial modelling

The ANAO identified a range of literature providing guidance on the use of spreadsheets for financial modelling. A brief bibliography of this literature is set out below. From this literature, a minimal set of better practice principles would comprise:

- observing internal departmental guidance for end-user computing (which includes spreadsheet development);
- preparation and management approval of specifications for the model, including scope of the model, user requirements and functional specification;
- a statement of all the assumptions;
- evidence of review and testing of the model, and documentation for that;
- documentation of procedures for using and modifying the model;
- documentation of the actual use of the model, including sensitivity analysis to test the effects on outputs of different input assumptions; and
- controls to inhibit unintentional or malicious modification to the model, to maintain its integrity and provide an audit trail for its development, change and use.

There is also, in the literature, a range of consistent prescriptions for the more detailed, operational aspects of spreadsheet design. This includes separation of inputs, calculations and results³³⁸ and having all cell references refer to the left or above. The consistency with which rules such as the latter are mentioned show that they are more important than they might at first appear and are not merely matters of style or personal preference.

Select bibliography of publications providing guidance on spreadsheet development

Barker, R. M., Harris, P. M. and Parkin, F. I. 2004, *Development and Testing of Spreadsheet Applications*, National Physical Laboratory, Middlesex, United Kingdom, <http://www.npl.co.uk/ssfm/download/documents/ssfmbpg7.pdf>, last viewed May 2005.

New Zealand Treasury 1997, *Review of Spreadsheets*, <http://www.treasury.govt.nz/dice/reports/rev-spreadsheets.pdf>, last viewed May 2005.

³³⁸ There are authors who take a different view on this point, such as Raffensperger 2003, 'New Guidelines for Spreadsheets', *International Journal of Business and Economics*, vol. 2, no. 2, pp 141–54. Raffensperger argues that the design of a spreadsheet should, instead, follow business logic. However, his recommendations are otherwise consistent with those of other authors.

O'Beirne, P. 2004, *Spreadsheet Testing*, presentation to the Information Systems and Control Association (ISACA), Northern England Chapter, 23 June 2004, <http://www.isaca.org.uk/northern/SoftTest-SSTest.pdf>, last viewed May 2005.

Panko, R. R. 2005, *What We Know About Spreadsheet Errors*, University of Hawai'i, Honolulu, <http://panko.cba.hawaii.edu/ssr/Mypapers/whatknow.htm>, last viewed May 2005.

Queensland Audit Office 2002, *Spreadsheet Design and Control Guidelines*, <http://www.qao.qld.gov.au/publications/document/spreadsheet%20design%20and%20control.pdf> last viewed May 2005.

Read, N. and Batson, J. 1999, *Spreadsheet Modelling Best Practice*, Institute of Chartered Accountants for England and Wales/IBM, <http://www.eusprig.org/smbp.pdf>, last viewed May 2005.

Appendix 4: DEWR's full response to the draft report



Australian Government
Department of Employment and
Workplace Relations

National Office

GPO Box 9879 CANBERRA ACT 2601

Mr John Meert
Group Executive Director
Performance Audit Services Group
ANAO
GPO Box 707
CANBERRA ACT 2601

PERFORMANCE AUDIT: Implementation of Job Network Employment Services Contract 3 - SECTION 19 REPORT

Dear Mr Meert

I refer to the ANAO letter of 3 June 2005 and material provided on 30 June and 12 July 2005 following a number of meetings between our agencies to discuss the proposed audit report pursuant to Section 19 of the *Auditor-General Act 1997*.

The department appreciates the useful discussions held with ANAO and recognises that, as a result of this, the final Section 19 report gives a more balanced treatment of issues surrounding the implementation of the Active Participation Model (APM). DEWR appreciates the ANAO's acknowledgement of the substantial policy and operational reforms and challenges this presented.

The department has reviewed the final draft of the Section 19 report provided on 12 July 2005 and under the provisions of sub-section 19(4) of the *Auditor-General Act 1997* provides to ANAO:

<input type="radio"/> DEWR's response to each of the recommendations	Attachment A
<input type="radio"/> DEWR's comments on the Final Report for publication in full	Attachment B
<input type="radio"/> Comments for the Report Brochure.	Attachment C

This is the department's position following consultation with the chair of the DEWR Audit Subcommittee and the department's Executive.

Yours sincerely

A handwritten signature in black ink that reads "Jo Caldwell".

Jo Caldwell
Group Manager
Intensive Support

15 July 2005

CC. Mr Steven Lack, Dr David Rowlands

DEWR's responses, referred to in its letter reproduced on the previous page, are set out as follows:

- *'DEWR's response to each of the recommendations'—these appear in full after each recommendation in the body of the report.*
 - *'DEWR's comments on the Final Report for publication in full'—these are set out below.*
 - *'Comments for the Report Brochure'—These appear at the end of the Summary and Key Findings, followed by an ANAO comment. The Summary and Key Findings, with agency responses and ANAO comment, comprises the text of the separate brochure for this Report.*
-

DEWR welcomes the ANAO's audit of the planning and implementation of the Job Network Active Participation Model (APM) in July 2003. Over a lengthy audit starting shortly after APM transition, DEWR worked closely with the ANAO on the matters covered in the Report. This involved significant areas of agreement together with some aspects where agreement was not possible, as indicated in DEWR comments on the recommendations.

DEWR welcomes the ANAO's acknowledgement of the substantial policy and operational reforms heralded by the APM and its delivery in time for the new Job Network contracts in 2003. DEWR notes the ANAO's views on detailed aspects of APM planning and implementation which the ANAO considers could have been improved. As the Report reflects, DEWR took prompt action on many of these matters.

The Report makes six recommendations. DEWR has agreed in part with a majority of these, noting that recommended measures are in many cases already in place. These include support for job seeker choice of Job Network provider, documentation of core business modelling tools, transition reporting and links between contract performance criteria and the measurement and rating system used to assess these. Where DEWR has been unable to fully agree Recommendations, DEWR will continue to closely consider the matters canvassed as part of its ongoing management of the Job Network.

The APM not only progressed quickly beyond transition but, by the end of its first year, very significantly increased vacancies, job placements and sustainable outcomes over past levels, with strong performance for the long term unemployed and other disadvantaged job seekers. These results are not fully reflected in discussion in the Report of the success of APM's transition objectives and the speed with which the new IT platform settled. The Job Network rapidly surpassed previous job outcome rates by a significant margin and Active Participation Model results continue to grow strongly. In Financial Year 2004–05 the number of Job Network job placements was 29 per cent higher than the new record that was set in 2003–04, the first year of service delivery under APM.

DEWR's experience in the APM continues to inform recent policy, service and IT system changes for the Community Development Employment Projects Programme, Disability Open Employment Services and a range of pre-employment and other

services and outlays transferred to the department in 2004. In May 2005, the government also announced Welfare to Work measures worth \$3.6 billion over three years from July 2006. Job Network and other services and payments under the department's Outcome 1 will be a vital platform for this.

Communication with job seekers

The Report discusses the information available to job seekers regarding choice of Job Network member. The Report canvasses whether Centrelink should advise job seekers that the right to choose a Job Network member is part of the DEWR–Centrelink Business Partnership Agreement, that their selected provider will work with the job seeker until they find a job, and about detailed conditions governing requests for change of provider. DEWR considers the current arrangements sensible and sound.

Job seekers have the opportunity to choose a provider, where this is practical (for example, choice may be restricted by the availability of places within providers' contracted business shares). Information on Job Network members is available to job seekers through the internet and through the JobSearch kiosks situated in Centrelink Service Centres and Job Network sites. Information about provider transfer is provided if and at the time it is needed, such as when a job seeker moves to a new location or makes enquiries with the department's Customer Service Line. Information includes details of all Job Network members, the job vacancies each provider currently has advertised and the Star Ratings which give job seekers a clear indication of the performance of each Job Network site compared to others. DEWR will continue to refine job seeker information materials in light of ongoing experience and feedback.

Job Network financial modelling

DEWR recognises the importance of documenting the financial models through which expenditure estimates are derived. In 2004, in partnership with the Department of Finance and Administration, DEWR developed a Forward Estimates Model that allows for the robust projection of future expenditure.

DEWR does not understand the purpose or relevance of the recommendation made in relation to the reporting of service and outcome fees in budget material. Job Network is a single programme and, as is the case for all other government programmes, expenditure is formally reported on that basis. The level of aggregation of Budget appropriations is not determined by the portfolio. A government decision would be required to change this arrangement. However, DEWR will give consideration to additional explanatory information, where appropriate, as part of its normal process of reviewing the presentation of its Annual Report and other information publications.

The Job Network business cycle and DEWR's expectations about the source of Job Network members' incomes are based on financial modelling over a three year cycle. DEWR's expenditure estimates (for example, those published in Table 3.2) have been based on the knowledge that service fees would necessarily be greater than outcome fees in the first year of ESC3. This is because Job Network members would be paid for completing Vocational Profiles and Intensive Support commencements for the entire job seeker caseload while, on the other hand, no current contract 13 week outcome payments could be made in the first 3 months of 2003–04 and no 26 week outcomes for

the first six months of 2003–04. The department's modelling of expenditure has also projected that, subsequent to the transition period, under the mature operation of the Active Participation Model, fees for job outcomes would grow to comprise around 50 per cent of providers' incomes and this has proven to be the case.

The growth in job outcome rates was also greater than could have been predicted on the basis of the historical data which informed the initial expenditure modelling. It was this unprecedented growth in job outcomes that led to the increase in expenditure on Job Network. As the ANAO acknowledges, job outcome fees currently constitute around 50 per cent of Job Network members' incomes and have done so since May 2004.

IT Support for ESC3

Implementing ESC3 involved significant systems development for DEWR and Centrelink including the move to web services technology. To a significant extent, the ESC3 initiatives relied upon a major DEWR IT release of an application developed for use by external service providers and departmental staff to manage the operation of Job Network services and to enable the department to monitor and regulate job seeker flows. Centrelink as 'gateway' to Job Network developed its own web services to allow for the exchange and updating of job seeker information between DEWR's EA3000 system and Centrelink systems.

DEWR appreciates the efforts of the ANAO during the audit to understand and acknowledge the complexity and significance of the systems development needed to implement ESC3, as well as the process improvement activities identified and undertaken by the department as a result of the lessons learnt in the implementation of EA3000. Process improvement activity was well underway prior to the commencement of the audit. While providing useful feedback, the audit was not a catalyst for these activities and many of the issues discussed in the Audit Report had already been identified by the department and had either been fully addressed or were in the process of being addressed when they were identified in the audit fieldwork.

The department also notes that there remains some confusion in the Report between the process of developing an application and implementing enhancements. This is evident in discussion about the delivery of core functionality. All core system requirements which providers needed to operate under the contract were in place on 1 July 2003. DEWR always envisaged a programme of quarterly releases during the life of the contract. These were planned and undertaken to improve the efficiency of workflows within the system and to bring other employment programmes such as Community Work Coordinators into the system.

Management of Transition to ESC3

DEWR notes the ANAO's views that the links between the transition principles and implementation reporting could have been clearer. However, as the Report acknowledges, the department undertook very extensive planning, documentation and measurement of implementation operational data. The department published this information widely to stakeholders including Job Network providers. For example, the Report identifies (paragraph 5.28) a range of information used by DEWR to track

achievements against the first, third and fourth principles. The four principles were overarching objectives, in plain language, which were underpinned by comprehensive reports sent to the Minister and Job Network. Detailed operational monitoring against objectives, timeframes and achievement of activities occurred. Issues were identified from this reporting and actions taken to address them. DEWR acknowledges that the various reports did not organise data under the headings of the respective principles, however, the aspects of performance to which these data were linked were obvious to Job Network providers and to members of the range of working groups and committees that closely managed the transition process.

DEWR is unable to agree the Report's overall comments on transition. The APM heralded a fundamental redesign for Job Network services and the call in of large numbers of job seekers additional to those already in service. DEWR acknowledges that contemporaneous documents did not always state this context, which was well evident to stakeholders at the time. DEWR acknowledges the difficulty of assessing transition without pre-determined quantitative targets for so fundamental a change. This said, benchmarking the APM transition against the more 'business as usual' changeover between ESC1 and ESC2 is not a simple like to like comparison. DEWR appreciates the efforts made by ANAO on this issue over the course of the audit, however, DEWR considers the Report could have provided a more balanced presentation of the magnitude of the transition task and the successes that were achieved.

The Report makes minimal reference to the very different nature and scale of the ESC3 transition when compared to that for ESC2. The move to APM involved the wind-down of the separate Job Matching, Job Search Training and fixed capacity Intensive Assistance services and their replacement with a single continuum of service integrated with mutual obligation and complementary programmes. In contrast, the ESC2 transition involved the continuation of the same services as previously delivered. As a broad indication of the difference in scale, there were around 230 000 'transition' job seekers in ESC2 (needing renewed commencement with a Job Network member), while in ESC3 more than three times that number required the completion of Vocational Profiles or the completion of Job Search Plans to commence in Intensive Support. Comparisons of data from the two transition periods that fail to account for these differences in scale misrepresent the extent to which the transition to ESC3 was successfully managed.

Commentary on the changed payment arrangements for Job Network members during transition does not make clear that DEWR did not expend additional funds but rather brought forward payments which would have been paid progressively for service fees and job seeker contacts. It is clear that these payments were not additional as DEWR did not seek funding at Additional Estimates for these items.

Performance Information

DEWR considers that its existing reporting framework robustly measures the achievement of outputs. DEWR will continue to consider changes to the output reporting framework in the light of experience and feedback and will take account of the ANAO's observations in that process.

DEWA regularly publishes the most up to date available information and analysis on Job Network. The department is concerned that the Report appears to confuse, and misunderstand the relationships between, the formal effectiveness indicators published in DEWR's Annual Report, the in depth analyses published in periodic evaluation studies and the relatively straightforward measures of overall Job Network activity published in the monthly Job Network Performance Profile (JNPP).

Valid analysis of the impact of changes in service delivery arrangements and the influence of external factors depends upon the availability of sufficient amounts of time series data and is completed as soon as it is practicable to do so. Analyses of the effectiveness of Job Network assistance that control for external influences (for example, 'net impact' studies) are routinely detailed in the department's evaluation reports. DEWR is currently undertaking detailed evaluation of the impact of the Job Network and the introduction of the Active Participation Model. Such evaluation has not been possible before now due to the need for long run data, including on sustained job outcomes.

While the department plans to refine and extend the monthly JNPP, it would not be practical to incorporate the necessarily complex analyses of external factors that have been recommended. The JNPP is designed to provide a readily understood snapshot of Job Network activity and incorporates straightforward counts and comparisons with historical new vacancy, total job placement and long term job numbers. These three data items provide reliable indices of Job Network members' success in servicing employers and assisting job seekers. Any increase or decline in service and assistance is made immediately obvious by the comparisons of current and past achievement levels. DEWR plans to conduct and publish the results of the more sophisticated analyses which have been recommended. However, in view of the need to ensure that findings are reliable and robust, as in previous years these analyses will be conducted as part of the department's regular evaluation studies.

The Report canvasses whether published information makes sufficiently clear the basis of measurement, or should exclude certain job results which do not qualify for payment. DEWR notes that the method of counting job results is unchanged since the commencement of Job Network and is similar to OECD approaches to reporting on Active Labour Market programmes. More detailed analysis of Job Network impacts and exogenous factors such as labour market conditions is expected to be published when available. DEWR considers that the existing approach to public reporting of employment services performance is sound. DEWR will continue to review and refresh its public information as part of its normal ongoing processes.

Provider Performance Management

DEWR welcomes the acknowledgement of the robustness of the current Job Network performance management framework and the benefits of many of its features. DEWR notes the audit did not find inaccuracies in Star Ratings calculations.

DEWR does not agree that two separate performance systems apply to Job Network. The Employment Services Contract establishes the key performance criteria for Job Network and provides the contractual basis for actions such as increasing the business

share of high performing services or sanctioning poorer performers or those who do not comply with the contract or its quality requirements.

Consistent with the contract, DEWR uses a range of available information, including information provided by affected Job Network members, in exercising its rights to reward or sanction performance or compliance under the contract. The Star Ratings system is the principal measurement tool by which DEWR makes a quantitative assessment of provider performance against the criteria. It is not the only information taken into account. Star Ratings enable Job Network performance to be measured on a like to like basis across different providers by a robust methodology that takes into account differences in job seeker characteristics and local labour market conditions.

In addition, there are clear links between the Job Network Star Ratings and KPIs. The Star Ratings are calculated with exclusive reference to KPI 1 and KPI 2. This has been explicitly detailed in the discussion papers publicly released prior to the start of ESC3 and in the information sessions delivered to Job Network providers in 2004 and 2005. Performance against the KPIs and the aggregate measure of that performance as reflected in Star Ratings is assessed on a comparative basis. This continually drives superior performance and avoids the risk of targeting, and contracting for, performance at a minimal level of adequacy. The Star Ratings also assess Job Network members on a like-to-like basis by taking into account differences in local labour market conditions and the level of disadvantage of the job seekers they assist. The department's analyses, confirmed by Access Economics' Independent Review in 2002, have concluded that there is no obvious alternative to the Star Ratings as a sound approach for comparing Job Network members' job outcome rates.

Put simply, the contract sets out the criteria against which performance will be assessed and the Star Ratings are the principal measurement tool to operationalise this. DEWR notes the suggestion that the Job Network contract could contain explicit reference to the Star Ratings system and will consider the practicality of more specific reference to the Star Ratings in the Employment Services Contract in future. It is, however, important to note that Star Ratings are by no means the only information which DEWR takes into account in exercising business adjustments or other actions under the contract.

DEWR notes that NESA and the industry Performance Management Group were consulted on Star Ratings prior to APM, including on the treatment and weighting of various components such as initial placements or outcomes for disadvantaged job seekers. Input from Job Network more broadly was sought through discussion papers. Job Network then, as now, raised a diversity of views on preferred approaches to performance measurement. This reflects understandable differences in different organisations' views on which elements of operation and performance should most be rewarded.

DEWR notes the recommendation for further advice to stakeholders on the confidence that can be placed on components of Star Ratings. As acknowledged in the Report, DEWR has undertaken extensive information and education activities with Job Network members about Star Ratings. DEWR will consider whether, as part of these ongoing activities, it is practical and technically possible to publish confidence intervals for components of the Star Ratings.

Job Network members have access to detailed reports on their performance in achieving job outcomes as relevant to the KPIs. These reports include comparative information on Job Network performance in each of the 137 Employment Services Areas and 19 Labour Market Regions. The report data allow every provider to compare themselves with others, and to conduct detailed assessments of changes in their absolute and relative performance over time. These detailed Star Ratings Performance Profile data have been available to providers since December 2003. Star Ratings are available to job seekers on the Internet and through the JobSearch kiosks located in Centrelink Service Centres and in Job Network sites. They are easily understood and readily available to any job seeker who wishes to account for them when considering their choice of provider.

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