



New Employment Services Model Financial Viability Analyses—Summary of Findings

The Australian Government is transforming employment services to deliver better services to job seekers and employers and a better system for providers. The design of the New Employment Services Model (the new model) provides a predominantly digital service for the most job-ready job seekers, freeing up resources to allow providers to deliver more intensive, structured and tailored services for disadvantaged job seekers to help prepare and support them into work.

The new model is substantially different to current policy settings under jobactive and represents a significant change to the business and financial models that underpin the current employment services. Core elements changing from jobactive include a licensing approach for employment service contractual arrangements and a new provider payments model with payment types that do not exist in jobactive. As a result, undertaking detailed financial analysis is critical to ensuring the long-term stability and viability of the employment services market.

The Department of Education, Skills and Employment (the Department) is committed to ensuring the new model is sound, viable and supports job seekers to secure and sustain employment. The new provider payment model is designed based on stakeholder consultations, recommendations from the *'I Want to Work'* Report, learnings from the New Employment Services Trial (NEST) and independent financial viability analysis. As there are new provider payment types introduced in the new payment model that have yet to be tested in operation, the Department will commission financial viability analysis within the first 18 months of the NESM commencing to confirm it is operating as intended.

Analysis Overview

The Department engaged KPMG Australia to undertake a series of financial viability analyses to test a range of payment structures and scenarios to understand the impact policy options could have on provider viability. The purpose of the analyses was to determine a payment structure for the new model that would be feasible, appropriate, and acceptable in terms of its financial viability for providers to deliver services to the standard expected by the Government, Department, and the public.

All jobactive and NEST providers were invited to participate in the analyses and some providers shared their financial records and other information to help inform the analyses. These providers were assured all information provided would be treated on a strictly confidential basis and only for the purposes of the independent analysis. As information was collected from participating providers

on a confidential basis, the Department is not able to share all the findings of the analyses. Key findings from the analysis is outlined below. This information should be considered alongside the modelling information provided in the Exposure Draft to support organisations to undertake their own financial modelling that is unique to their business and operating structures.

KPMG's analyses modelled a range of scenarios using administrative data such as caseload figures, referral flows, outcomes, and payment data from both jobactive and NEST. It is important to note there are limitations as the analyses were conducted during a period of unprecedented change in the labour market and economy due to the effects of the bushfires, floods and COVID-19. It was therefore necessary to rely more heavily on historic jobactive administrative data than originally anticipated.

Key Findings

General findings:

The analysis found that the provider payment model being implemented for the new model would be viable for each year and in aggregate over a 10 year contract period at the baseline model of caseload to staff ratios of 80:1¹ and provider fixed costs of \$2.4 million (refer Table 1 for the baseline assumptions). Throughout the analyses and payment consultation opportunities, stakeholders have expressed concern the new model would not be viable, particularly given that the most job-ready job seekers, who are more likely to achieve Employment Outcomes, will be serviced digitally under the new model. Modelling indicates the new model can achieve viability if providers replicate the outcomes achieved historically under jobactive for the more disadvantaged job seekers that will comprise their caseload under the new model. However, the analyses confirm providers should review and adjust their operating and business models if they want to succeed under the new model. This is to be expected given the shift to more intensive and personalised servicing for job seekers suffering disadvantage in the labour market.

KPMG's scenario analyses focused on changing one factor or a group of factors at a time to isolate and understand their discrete impact on provider viability. In the real world, the new model's operation would be much more complicated with multiple factors varying at once and not always in the same direction. Understanding the relative importance of all factors is just as important as considering the impact of any single factor. KPMG undertook Monte Carlo analysis to determine which factors consistently emerge as the most significant factors of provider viability. At the end of a three-year contract the single most important factor is caseload to staff ratios followed by new commencements, the rate of Progress Payments achieved, and the rate of Employment Outcomes achieved; these three latter variables were found to be of broadly equal importance.

Revenue composition:

The analyses identified the payment types that have the largest impact on provider viability include Upfront Payments and the partial 26 Week Employment Outcome Payment.

¹ Caseload ratios of 80:1 have been used as an indicative measure of the average caseload size that is likely to support the intensive case management support required for the new model. Caseload ratios of 80:1 will not be mandated in recognition that caseload sizes differ across sites based on the characteristics of the caseload. However, it is expected providers will operate under smaller caseload sizes in the new model.

The baseline model illustrated a cumulative net profit at all points of the contract as follows; \$1.2 million at three years, \$1.8 million at five years, \$2.2 million at seven years and 10 years (after indexation). While monthly expenses exceed revenue for the first nine months, Engagement Payments paid for transition job seekers and the increasing number of Employment Outcomes achieved from month 12 onward increase revenue and result in positive monthly results from month 13 until the end of the ten year period.

KPMG also modelled a scenario which considered the impact on viability if provider performance improved as the new model intends. It was found that if providers achieve high Employment Outcome rates (peak of 5.5%) and fully utilise the Progress Payments (60% of caseload) and the VLTU Bonus Payments (30% of Employment Outcomes), providers have the potential to earn significantly more revenue, enabling them to invest more in their staff.

Market share allocations:

The modelling demonstrates the new model would best operate with a mixture of organisation sizes, with small organisations (fixed costs of \$0.4 million) being viable across most regions (49 of the 51 existing regions), maintaining an 80:1 staff ratio.

On a cohort by cohort basis, the analysis identified Employment Regions where cohort specialists are likely to be viable, subject to individual business models. Only certain cohort specialist provider types would be viable in each region, and while multiple cohort specialist provider types may be viable independently, many regions would not be able to host multiple specialist providers. Further, the analysis found that in many regions, cohort specialist providers may need to operate in part of a region rather than covering a full region. The analysis has been considered in the development of information included in the Exposure Draft related to identifying the indicative number of licences that could be offered in each Employment Region including cohort specialist provider licences.

Furthermore, data analysed did not identify regional cost differences. The analysis shows that some of the perceived difference in viability between regional and metropolitan providers can be explained by the lower relative jobseeker volumes in regional areas.

Indexation:

The analyses examined the importance of indexation over the 10-year period and identified that relative differences between revenue and cost indexation will amplify the longer the contract period, however adjustments could be required overtime depending on cost inflation changes. KPMG modelled indexation at 6.8% every three years (starting in 2025) with cost inflation rates of 1%, 2.5%, 1.85% and 4%. Providers would maintain viability at all inflation rates expect 4% were a loss would be recorded over a 10-year contract period.

Table 1: Modelling Assumptions for the Baseline Scenario (representative organisation)

Assumption	Value	Basis
Caseload		
Monthly Commencements	320 as a baseline but higher in Year 1, 2 and 3 to reflect 10-year Department forecast	3-year average jobactive data (2015-19) with an escalation in Year 1, 2, and 3 to maintain consistency with Treasury forecasts of new commencements. This results in an increase in new commencements of 19%, 7% and 1% in the first three years before returning to long-run average commencements in Year 4.
Transitioned jobseekers	2,600	Based on NEST data and relativities with commencements to reflect 10-year Departmental caseload forecasts.
Caseload	2,780 – average over 10 years	Based on Treasury forecasts for system-wide caseload over time.
Survival rate	Maintain consistency with Treasury caseload	Rate required to hold caseload consistent against the Treasury forecast of system-wide caseload over time.
Transfer fee rate	10% of caseload annually	Departmental advice assumed that 10% of caseload transfers between providers annually.
Outcome rates (expressed as a % of caseload over XX years)	4.3% ²	4.5-year average jobactive data (July 2015 to December 2019)
4 week	1.8%	4.5-year average jobactive data (July 2015 to December 2019)
12 week	1.5%	4.5-year average jobactive data (July 2015 to December 2019)
26 week	1.0%	4.5-year average jobactive data (July 2015 to December 2019)
Outcome timing		

4 week	1 to 53 months; Average – 11 months	30 months of jobactive data (July 2017 to December 2019)
12 week	3 to 53 months; Average – 12 months	30 months of jobactive data (July 2017 to December 2019)
26 week	6 to 53 months; Average – 15 months	30 months of jobactive data (July 2017 to December 2019)
Full/Partial Outcome	Full – 72% Partial – 28%	Used the split in the 3-year average data.
High/Moderate JSCI by Full and Partial	Various for 4wk, 12wk and 26 wk	Used the NEST payment unit data to split each distribution type between Full Outcome, High JSCI, Partial Outcome, High JSCI and Partial Outcome, Medium JSCI.
Very long term unemployed bonus		
% of 12 week full	19%	Based on the NEST payment unit data. Represented as a percentage of the VLTU Bonus payments per 12-week full outcomes.
% of 12 week partial	17.2%	Based on the NEST payment unit data. Represented as a percentage of the VLTU Bonus payments per 12-week partial outcomes.
% of 26 week full	14.5%	Based on Department assumption applied in budget estimate for the NEST.
Progress Fee - Rate		
New and Transitioned	18% to 60% with 30% likely	Based on Department assumption
New	2-23 months	Likely timing of 6 months assuming that jobseekers could achieve a progress fee over a 24-month period.
Transitioned	1-23 months	Assumed payments could start immediately
Expenses		

Employment consultant staff- Caseload to staff ratio	80 to 1	Based on target caseload to staff ratio
Fixed costs \$2.4 million		

¹ The overall rate at the 4.5-year mark is 4.9%. The lower rates in the early years reduce the overall average for the 4.5-year period.