



Australian  
Council of  
Social Service

**Submission to the Minister for Employment Participation**

**Supporting participation:**

***From Work First to Work Capacity***

ACOSS, February 2008

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## Executive Summary

ACOSS welcomes the opportunity to present to the Minister our ideas and recommendations on how best to progress welfare reform. This submission outlines proposals for reform of employment assistance and income support to progress the Participation Agenda for jobless Australians from the current Work First model towards a Capacity Building approach. It outlines a number of specific proposals to resolve some of the most pressing issues in the pre-Budget and Budget context, and a set of options for higher level reform for consideration post-Budget.

Over the past 20 years, public policy has shifted from its previous emphasis on providing income support and a basic job matching service for people who are unable to find employment towards a 'Participation Agenda' centred on active engagement with the labour market through job search, training or other support. At the same time, financial incentives to move into employment were improved. Taken as a whole, these policies have contributed to the reduction in structural unemployment in Australia, as they have in other OECD countries.

Bringing more income support recipients into regular employment is important for the economic well being of the country as well as raising the living standards and life opportunities of those directly involved:

- In the short term, if a large number of jobless people continue to be excluded from effective participation in the labour market this raises the level of structural unemployment – the unemployment rate below which inflation is likely to increase. On the other hand, if more people have the capacity to participate in the labour market, then it is possible to reduce unemployment further while keeping inflation under control.
- Over the medium term, Australia faces the prospect of ongoing labour shortages as the population ages.
- Prolonged joblessness and low payments lead to poverty. For example, unemployment payments are well below typical Australian family incomes so that 45% of unemployed households live below the OECD poverty line.<sup>1</sup>
- Prolonged joblessness together with poverty-level incomes are key contributing factors to the most severe forms of social exclusion, which impact harshly on the well being of children and communities.

The fundamental problem now facing the Participation Agenda is that as unemployment has fallen and a wider range of income support recipients have been required to engage with the labour market, those remaining on payments are increasingly drawn from the most disadvantaged groups in the community.

- Although the skills required by employers have risen, most jobless people on working age income support payments have a Year 12 education or less.
- A growing proportion has not experienced stable employment for a year or more.

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<sup>1</sup> Australia Fair 2007, *Update on those missing out*. at [www.australiafair.org.au](http://www.australiafair.org.au). For example, Newstart Allowance for a single adult was \$202 per week in 2006, compared with the OECD poverty line (50% of median household disposable income) of \$281 per week.

For example, over 150,000 people have received Newstart Allowance for more than two years.

- A growing proportion of recipients have disabilities, health and social barriers to work. For example, the number of people on Disability Support Pension has grown as the number of Newstart Allowance recipients has fallen, and almost one third of jobless Parenting Payment recipients suffer from a depressive illness.

Overall, a majority of people on working age income support payments today confront major barriers to work along these lines. To achieve its goals under these circumstances, the Participation Agenda now needs to change direction.

### ***The work first agenda***

Over the past decade, a 'Work First' approach has emerged as the central strategy. Activity requirements were expanded and intensified and employment assistance was trimmed back and restructured. Both were re-focused on progressing people quickly into the first available job. In essence, the current 'work first' model is a system of 'self help' backed by a strict benefit compliance regime. Its underlying assumption is that the vast majority of income support recipients are 'work ready', and that employment service providers can get them into a job, if the incentives are right and compliance is enforced.

In a booming economy, the 'Work First' model is capable of reducing structural unemployment up to a point – as long as enough jobseekers with few barriers to work respond to the activity requirements and other incentives in the system. However, as jobseekers become more economically and socially disadvantaged, this approach will prove less effective in improving employment outcomes. At this stage in the evolution of the Participation Agenda, better compliance with a fixed sequence of activity requirements and program inputs – for example more job searches, more interviews, or longer Work for the Dole placements - will not deliver better job outcomes in a sustained way.

A more likely outcome, if activity requirements are intensified within a Work First model, is that the number of penalties imposed for non compliance with activity requirements will continue to rise. Despite improvements in the compliance regime such as the ability of Centrelink to fully reinstate payments following compliance with requirements on the first and second 'breaches', more people are facing the highest penalty – loss of income support for 8 weeks – which is far too harsh. There is a risk that intensification of the Work First approach will increase social exclusion instead of reducing it. For example, many vulnerable people who lack alternative forms of support, such as homeless people, would lose income security and be discouraged from claiming income support as has occurred in the United States over the past decade.<sup>2</sup>

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<sup>2</sup> Mathematica Policy Research 2003, *What's happening to TANF leavers who are not employed?* Zedlewski & Nelson 2003, *Families coping without earnings or Government cash assistance*. Urban Institute Occasional Paper 64.

## ***A work capacity agenda***

A different approach to participation support is needed, to which we refer as a 'Work Capacity' model. The hallmark of the Work Capacity model would be its flexibility. Engagement with jobseekers would be based on a set of individually designed participation supports to prepare them for work and help them find and keep a job – rather than compliance with a fixed set of requirements within a fixed service continuum. The 'self help' approach would continue to apply to those who do not require more help than this to find and keep a job, but those who do would receive assistance tailored to their needs.

Similarly, the focus of relationships between the purchaser and providers of employment assistance would shift from the prevailing emphasis on compliance with detailed contractual requirements towards strengthening their capacity to invest in jobseekers and achieve sustainable employment outcomes. Greater jobseeker choice and active engagement in planning their return to employment would be combined with more flexibility for providers to adjust activity agreements and resources to individual needs.

In keeping with the Government's Skills policies, skills development before and during employment would play a key role in the Work Capacity model along with paid employment experience, mentoring, and social supports and health services. However, the Work Capacity model is not the mirror image of Work First: it would not focus exclusively on developing 'human capital' to the exclusion of assisting people into jobs. This is a false dichotomy. Instead, the assistance provided would be based on continuous assessment of individual needs. For example many, but not all, jobseekers will benefit from vocational training. This is consistent with the finding from international research on employment assistance that 'mixed' programs that reflect individual needs are more effective than programs that exclusively pursue human capital development or the first available job.<sup>3</sup>

The proposed system would shift the focus of employment assistance for the most disadvantaged towards medium and longer term outcomes, including retention and advancement in employment. It would build on the progress already made in engaging people more actively with the labour market, while adjusting income support and employment assistance to better meet the needs of more disadvantaged income support recipients and those with disabilities and caring responsibilities.

It would recognise that for many people the Participation Agenda is more than a simple progression out of 'welfare' and into 'work'. For example, for many income support recipients with disabilities and caring responsibilities employment is not an appropriate goal at the present time. Instead, it would aim to reduce economic and social exclusion among people on income support to the greatest degree possible, based on individual needs and circumstances.

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<sup>3</sup> ACOSS 2007, *The role of education and training in welfare to work policies*; Berlin 2002, *What works in welfare reform*, Manpower Development Research Corporation.

### ***From work first to work capacity***

The key changes in policy direction required to shift from a Work First model towards a Work Capacity approach are outlined in the table below. The necessary reforms to the structure and culture of the workforce participation system have four dimensions: skills development, employment assistance for disadvantaged jobseekers, income support, and making work pay. In response to the Minister's Terms of Reference, this submission focuses mainly on the first two dimensions. However, it also comments on reform of income support and policies to make work pay since these are intrinsically bound up with employment assistance and skills development. For example, the sequence of employment assistance is tied to activity requirements for payments.

Policy domain:	Key directions for reform:
1. Skills development	From an over-emphasis on quick job outcomes to sustained employment through skills development, job retention and advancement
2. Employment assistance for disadvantaged jobseekers	From a standard sequence of assistance driven by short term outcomes and benefit 'compliance' systems towards personalised help with barriers to work
3. Income support	From a complex and inequitable benefits structure that discourages participation towards a more streamlined system that smooths transitions to work From a compliance system focussed on the use of penalties to enforce standard activity requirements towards engagement with jobseekers based on their personal circumstances within a fair legislated framework
4. Making work pay	More encouragement of part time work and action to reduce the costs of working

## **Recommendations**

### **Stage 1 – Proposals for implementation at or prior to Budget 2008**

At this stage, at or prior to Budget 2008, a set of mainly administrative changes would be implemented within the current program structures, and some program resources would be reallocated.

#### **Policy development**

In addition to the reviews of Job Network and related services and Job Capacity Assessments initiated by the Minister, it would be desirable for the Government to undertake a review of activity requirements and penalties prior to the Budget, in consultation with ACOSS and the community welfare sector.

#### **Skills development**

We propose that priority be given to in the allocation of the new skills training places to jobless income support recipients and that barriers to participation in training be removed from benefit activity requirements, student payments, the Job Network fee structure, and JET child care assistance.<sup>4</sup>

1. Give priority to jobless income support recipients in allocation of the new skills training places, as indicated by the Government.
2. Participation in approved part time education or training to be accepted as meeting the new activity requirements for people with disabilities and parents.
3. Remove anomalies from the Job Network fees structure that discourage providers from making appropriate referrals to training, especially for adults and jobseekers with part time employment requirements.<sup>5</sup>
4. Raise the level of Austudy Payment to equal that of Newstart Allowance, so that jobless people undertaking fulltime training or study receive the same level of income support as those currently seeking employment.<sup>6</sup>
5. Extend JET child care assistance to fulltime educational courses of up to 4 year's duration.

#### **Employment assistance for disadvantaged jobseekers**

We propose that access to specialised programs for people with disabilities and social barriers to work be improved and that full-time Work for the Dole be replaced by alternative programs to overcome individual barriers to employment.

6. Reduce the waiting lists for the Personal Support Program by expending the number of places available in the program.<sup>7</sup>

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<sup>4</sup> See also ACOSS 2007, *The role of education and training in welfare to work policies*.

<sup>5</sup> For example, fees for education and training outcomes are mainly confined to jobseekers aged 15 to 20 years.

<sup>6</sup> This measure is included in the 'first stage' since ACOSS estimates that the cost of this measure would be modest in the Budget context, at around \$60 million per annum.

<sup>7</sup> For example, halving the waiting list for PSP would require approximately 15,000 additional places at approximately \$1,200 per place, taking account of savings in other programs.

7. Expand places in the Disability Employment Network for DSP recipients.<sup>8</sup>
8. Abolish full time Work for the Dole for very long term unemployed people and invest the savings in alternative programs to overcome their individual barriers to employment.

### **Income support**

We propose that the incidence of participation failures and penalties be reduced by removing the 8 week suspension of payments, establishing mechanisms through Centrelink and employment services to forestall repeated 'participation failures', and ensuring that activity requirements for parents and people with disabilities are appropriate to their circumstances.

Further, the quality of Job Capacity Assessments would be improved by ensuring that assessors have specialised knowledge of each applicant's impairments and that the combined effect of disabilities and caring responsibilities is taken into account.

9. Remove the 8 week suspension of payments for serious or third participation failures (breaches) and introduce systems to re-engage these jobseekers.
10. Remove extensive 'real time' oversight by the Department of individual participation failures or 'breaches' (through employment service providers and Centrelink), to be replaced with a risk management approach (for example, the Department's auditing of decisions regarding participation failures could focus on major inconsistencies in practices from one region or provider to the next) – this would lead to cost savings.
11. Review trends in participation failures and identify the main causes of any increases in their number since Welfare to Work changes were introduced in July 2006.
12. Using the information in the above recommendation, and in consultation with relevant peak bodies and community agencies, establish mechanisms through Centrelink and employment services to forestall repeated 'participation failures'.
13. Ensure that income support recipients are informed about activity test exemptions and that these are applied fairly and objectively in each case (for example exemptions for sole parents experiencing domestic violence are hardly being used despite the high incidence of domestic violence among recipients, medical certificates are at times 'rejected' by Centrelink without sufficient justification). Centrelink to have a duty to ensure that exemptions are applied where appropriate.
14. Ease the requirements for parents and people with partial work capacity to attend Centrelink in person fortnightly (e.g. through greater reliance on monthly interviews) – this would lead to cost savings.
15. Address disincentives for DSP recipients to participate in employment programs (fear of loss of pension) by separating the processes of assessment for employment assistance and income support.
16. Take steps to ensure that Job Capacity Assessment (JCA) panels include experts

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<sup>8</sup> For example, 1,000 additional places could be filled at a unit cost of approximately \$5,300. This would complement the proposal below to encourage take-up of employment assistance among DSP recipients.

with knowledge of the impairments of each applicant, and are encouraged to obtain evidence from treating doctors and specialists, as appropriate.

17. Take account of the combined effect of caring responsibilities and disabilities on people's capacity to undertake employment.
18. Defer JCA assessments where the applicant is not ready for assessment, for example refugees who have recently arrived in Australia and patients recently discharged from hospital.

## **Stage 2 – Options for reform post-Budget**

Reforms introduced at this stage would focus on changing the structure and culture of income support and employment assistance. These changes would be introduced post-budget, in the context of the fourth employment services tender round. As noted above, the policy options for the second stage are a list of suggestions, not a blueprint for reform.

### **Policy development**

It would contribute to effective policy development in this complex area if the Government were to release an Issues Paper indicating the new Government's goals and the direction it proposes to take, and options for reform, followed by a structured consultation process with and peak bodies, service providers, advocacy organisations and experts.

A commitment to the timely public release of data on benefit recipients, employment assistance outcomes, breaches and penalties, and data being used to evaluate the previous Government's 'Welfare to Work' policy would be helpful to the community sector, researchers and other experts in responding to the Government's policy agenda and contributing our own ideas for change.

In addition to the regular release of these data, it would be helpful if a summary of the relevant evidence on the profile, assistance received and outcomes of disadvantaged jobseekers was prepared and published. An example from overseas is the UK Department for Work and Pensions' 'Flexible New Deal Evidence Paper', released recently in conjunction with discussion papers on further welfare reform in the UK.<sup>9</sup>

### **Skills development**

Two options for integrating skills development and training programs and employment assistance for jobseekers are suggested: incorporate rewards for skills development and long term job outcomes into the funding system for employment assistance providers, or fund employment and skills development programs separately and then link them together (for example Job Network providers could act as 'skills brokers' to refer jobseekers to training programs).

Combinations of paid employment experience and training (akin to apprenticeships for jobless people) would also be encouraged.

1. Extend rewards for education and vocational skills outcomes alongside employment outcomes in the Job Network fee structure.
2. Alternately, keep employment and skills development objectives separate by

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<sup>9</sup> Department for Work and Pensions 2007, *Flexible New Deal Evidence Paper*.

operating employment programs (such as Job Network) in parallel with separate skills development programs (such as the new skills training places).

It would be important to construct links between these programs so that they support and do not work against each other. For example, employment assistance providers could act as brokers to refer suitable candidates to the skills training places, and as career counsellors for disadvantaged jobseekers to help ensure that they choose the right course and complete it. This would require adjustments to the Job Network fee structure to encourage and support this role.

3. Establish an employment program that combines paid employment experience and training (along the lines of a short apprenticeship for disadvantaged jobseekers).
4. Alternately, encourage employment assistance providers to combine paid employment experience programs with the new skills training places.
5. Introduce separate 'retention and advancement' programs for former disadvantaged jobseekers.

### **Employment assistance for disadvantaged jobseekers**

Changes to the purchasing arrangements for employment service providers are suggested to encourage efficient investment in support (such as training, work experience, mentoring and relocation assistance) to overcome the employment barriers facing disadvantaged jobseekers, and to better integrate employment assistance, health and social support services.

Further changes are suggested to move from a fixed employment service 'continuum' to one that is more responsive to individual needs and to facilitate greater engagement and choice for jobseekers.

A shift the focus of governance of employment services is proposed, from detailed monitoring and control of inputs towards employment outcomes.

### **Targeting**

6. Take greater account of periods outside the labour force and previous 'spells' of income support in targeting people for higher levels of support (such as Customised Assistance, or a more extensive form of Employment Preparation).
7. Increase funds available under the Job Seeker Account for second spells of Customised Assistance to equal the amounts available in the first spell.

### **Funding to outcomes**

8. Extend the time frame of employment outcomes that attract 'Stars' and fees for providers from the current 3 and 6 month intervals.
9. Introduce (and extend) separate fees for outcomes that represent steps towards employment (such as skills development).

10. Make allowances for the time required to build people's employment capacity, when defining and rewarding employment outcomes.

This would mean that providers are not penalised for failure to achieve quick employment outcomes in cases where they invest in assistance such as vocational training that improves outcomes later on.

### **Incentives and resources for investment in disadvantaged jobseekers**

11. Replace Job Seeker Accounts with a more flexible 'investment pool' for each provider to draw upon to assist jobseekers with individual barriers to employment, based on the profile of their disadvantaged jobseekers.

Instead of requiring providers to seek approval for expenditures for each individual jobseeker, the purchaser could require providers to account annually for expenditures within each of a set of broad 'categories' of employment assistance (such as vocational training, wage subsidies and work experience, and relocation assistance). Data on flows of jobseekers into each of these 'categories' of assistance and the outcomes achieved could also be sought, to assist providers generally to assess the relative effectiveness of different interventions.

12. Alternately, expand the suite of Government-funded programs from which providers can draw (such as the new vocational training places, wage subsidy schemes, and transitional jobs schemes).

To make these programs more responsive to the needs of jobseekers, it would be desirable to fund providers to purchase 'places' in these programs themselves, rather than draw from a pool of places in programs designed and funded directly by Government. To encourage efficient investment, providers could be asked to make a small contribution to the cost of each place in a program.

13. Raise the level of outcome fees for disadvantaged jobseekers (thereby increasing the rewards for risk taking).

### **A more flexible Job Network continuum**

14. Replace Mutual Obligation with a more open ended combination of assessment, intensive job search and employment preparation activity similar to the present Customised Assistance phase of Intensive Support, or the 'Gateway and Options' model in the British New Deals.

For example, a jobseeker on income support for six months might be assessed by the provider, engaged in a period of intensive job search if assessed as work ready, and engaged in an activity lasting for 3 to 6 months designed to help overcome barriers to work (such as training, a subsidised job or relocation) if not considered job ready or if still unemployed following the intensive job search. Where necessary, this activity would be financed from the above investment pool.

The outcome fees and funds available for investment at each stage would still vary according to the duration of unemployment as is the case now, to target the highest investments to those most disadvantaged in the labour market.

15. Combine Wage Assist and Work for the Dole into a single more flexible Work Experience Program, and leave it to providers to decide whether paid or unpaid work experience would best improve the future employment outcomes of each jobseeker.

When funding paid work experience programs, share with providers the immediate cost savings to Government, as participants leave social security payments to undertake subsidised employment.

16. Allow the duration of each phase of employment assistance to vary within a range, for example six to twelve months for Customised Assistance.

### **Access to specialised programs**

17. Remove the funding caps from Disability Employment Network and Personal Support Program and other specialised employment programs such as JPET so that jobseekers can take up places in these programs when assessed as needing them.

### **Jobseekers with health and social barriers to employment**

18. Require State and Territory Governments, as part of the reform of Commonwealth State financial relations, to incorporate work readiness targets (and a requirement to partner with Commonwealth employment assistance providers to achieve them) into their funding priorities and performance indicators for health and social support services.
19. Alternately, allocate a pool of funds to Personal Support Program providers to purchase these services for individual jobseekers.

### **Jobseeker participation and engagement**

20. Enable jobseekers to change providers at fixed intervals (such as immediately before the commencement of Customised Assistance) to facilitate informed choices by jobseekers.
21. Better inform jobseekers about the availability of the abovementioned funds or programs to improve their work capacity.

### **Governance arrangements**

22. More clearly separate the functions of policy development, monitoring and evaluation, and contract management within Government and encourage the community welfare sector to develop their own mechanisms to evaluate program effectiveness and learn from best practice.
23. Limit the information and 'accountability' required of providers for service inputs, so that the focus shifts back towards outcomes.

Accountability for service inputs would focus on minimum service standards, inputs that are specifically contracted (such as interviews), and information on investments made for each Intensive Support recipient (e.g. training, wage subsidies) and jobseeker outcomes.

### **Continuous improvement**

24. Replace the present system of six monthly re-allocations of business shares among providers with the previous system of three-yearly tenders in which contracts for better-performing providers were rolled over.
25. Remove the new 'quality' Key Performance Indicators (which relate to service inputs rather than outcomes) from consideration when allocating business shares.

### **Income support**

The option is raised of moving from the present complex and inequitable social security payment structure towards one with a single core rate of payment for adults with supplements to reflect specific needs and costs, while retaining separate payment categories for activity testing purposes.

26. Work towards a single core rate of income support for people of working age based on the income support needs of single adults generally, supplemented by payments for specific costs including the costs of children (including the costs associated with sole parenthood), housing costs, the costs of disability and the costs of participation in employment education or training.

Care should be taken to ensure that no group is worse off, and that those with the greatest gaps between their income support needs and levels of payment are better off.

27. Incorporate this core rate of payment into a single 'platform' of core eligibility requirements and entitlements for people of working age, including residency requirements, assets tests, and concessions, but not activity requirements.
28. Retain separate categories of payment for the purpose of setting activity requirements, and possibly for income testing (for example, if some groups are required to seek part time work while others are required to seek full time jobs).

### **Making work pay**

Options to liberalise the income test for Allowances to encourage part time work are raised, along with action to reduce the costs associated with employment including child care transport, high rents in social housing. A proposal to introduce a 'better off in work calculator' is advanced.

29. Apply the same income test for Allowance recipients as for pensioners.
30. Alternately, introduce a more liberal income test for those income support recipients who are required to seek part time work but not a full time job.
31. Take further steps to ensure that outside school hours and vacation care services are available across Australia to jobseekers on income support.

32. Reform the income tests used to set rental rebates for tenants in social housing to reduce their effective marginal tax rates when they obtain a job.
33. Reform the system of transport concessions for income support recipients to make it more equitable (especially by extending pensioner public transport concessions to those on Allowance payments) and expand public transport options in non-metropolitan and outer suburban areas.
34. Introduce a 'better off in work' calculator,<sup>10</sup> and index the minimum amount by which parents must be better off in work (under current guidelines) before they are required to accept a job.

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<sup>10</sup> Along the lines of that developed in the UK.

## ***The participation challenge***

At 4 to 5 per cent of the workforce, unemployment in Australia has reached 30 year lows. Despite heightened concerns over 'welfare dependency', the level of reliance on public income support is about average among OECD countries. However, there is no room for complacency about enforced joblessness and its corrosive effects on the lives of those still excluded from a booming economy. In 2006, 1.5 million people of working age relied on income support because they lacked a job, including around 650,000 people on Disability Support Pension (DSP), 400,000 on Parenting Payment and 450,000 on Newstart Allowance (NSA) and Youth Allowance.<sup>11</sup>

Over the past 20 years, public policy has shifted from its previous emphasis on providing income support and a basic job matching service for people who are unable to find employment towards a 'Participation Agenda' centred on active engagement with the labour market through job search, training or other support. At the same time, financial incentives to move into employment were improved. Taken as a whole, these policies have contributed to the reduction in structural unemployment in Australia, as they have in other OECD countries.

Bringing more income support recipients into regular employment is important for the economic well being of the country as well as raising the living standards and life opportunities of those directly involved:

- In the short term, if a large number of jobless people continue to be excluded from effective participation in the labour market this raises the level of structural unemployment – the unemployment rate below which inflation is likely to increase. On the other hand, if more people have the capacity to participate in the labour market, then it is possible to reduce unemployment further while keeping inflation under control.
- Over the medium term, Australia faces the prospect of ongoing labour shortages as the population ages.
- Prolonged joblessness and low payments lead to poverty. For example, unemployment payments are well below typical Australian family incomes so that 45% of unemployed households live below the OECD poverty line.<sup>12</sup>
- Prolonged joblessness together with poverty-level incomes are key contributing factors to the most severe forms of social exclusion, which impact harshly on the well being of children and communities.

The fundamental problem now facing the Participation Agenda is that as unemployment has fallen and a wider range of income support recipients have been required to engage with the labour market, those remaining on payments are increasingly drawn from the most disadvantaged groups in the community.

- Although the skills required by employers have risen, most jobless people on working age income support payments have a Year 12 education or less.

<sup>11</sup> The total number of recipients, including those with part time jobs was 700,000 on DSP, 600,000 on Parenting Payment, and 500,000 on Newstart and Youth Allowances.

<sup>12</sup> Australia Fair 2007, *Update on those missing out*. at [www.australiafair.org.au](http://www.australiafair.org.au). For example, Newstart Allowance for a single adult was \$202 per week in 2006, compared with the OECD poverty line (50% of median household disposable income) of \$281 per week.

- A growing proportion has not experienced stable employment for a year or more. For example, over 150,000 people have received Newstart Allowance for more than two years.
- A growing proportion of recipients have disabilities, health and social barriers to work. For example, the number of people on Disability Support Pension has grown as the number of Newstart Allowance recipients has fallen, and almost one third of jobless Parenting Payment recipients suffer from a depressive disorder.

Overall, a majority of people on working age income support payments today confront major barriers to work of this kind.

To achieve its goals under these circumstances, the Participation Agenda now needs to change direction.

The income support system for people from low income households plays a vital role in supporting people who are unable to work at the present time due to caring responsibilities or disabilities. This should continue and be strengthened. The Participation Agenda cannot be reduced to a simple progression out of 'welfare' and into 'work', since for many people this is not a realistic or appropriate objective. Instead, it should aim to reduce economic and social exclusion among people on income support to the greatest degree possible, based on individual needs and circumstances. At the same time, most people of working age on income support would prefer stable employment (now or in the near future) to life on income support, and many would become active job seekers if the system was better adapted to their needs, and barriers to work were removed. This key goal is the main focus of our submission.

ACOSS welcomes the new Government's skills agenda and considers that a broader shift from the present 'Work First' approach to workforce participation for jobless people towards a 'Work Capacity' model is needed to ensure that those most disadvantaged in the labour force achieve sustained employment.

### ***The work first model***

In view of the changed circumstances outlined above, it is time for a re-think of the strategy underpinning the participation agenda. Over the past decade, a 'work first' approach has emerged as the central strategy. Activity requirements were expanded and intensified and employment assistance was trimmed back and restructured. Both were re-focussed on progressing people quickly into the first available job. In essence, the current 'work first' model is a system of 'self help' backed by a strict benefit compliance regime. Its underlying assumption is that the vast majority of income support recipients are capable of performing the work available, and that employment service providers can get them into a job, if the incentives are right and compliance is enforced.

As the main policy instruments for implementing the present 'work first' agenda, the Newstart Allowance and Job Network have not adapted well to the more disadvantaged profile of jobseekers:

- Although the Social Security Act provides scope for Newstart Allowance recipients to engage in a range of work preparation and training activities, in its administration a strong emphasis has been placed in recent years on immediate job search and progression to employment. Training has been discouraged and the incidence of temporary activity test exemptions (for example on medical or domestic violence grounds) is low despite the social disadvantages and health problems faced by a growing proportion of recipients.
- The Job Network was established on the principle that funding to employment outcomes would encourage innovation in the provision of employment assistance to address each individual's work barriers. However, the focus on short term job outcomes and progressive tightening of administrative oversight of service inputs have seriously curtailed the ability of providers to invest in work preparation and support in employment for the most disadvantaged jobseekers.

A further weakness of the present 'Work First' system is that employment assistance is structured around a fixed continuum of activity requirements. Instead of adjusting individual activity requirements over time to reflect the changing circumstances of jobseekers and the best strategy to assist them into employment, the present system structures employment assistance around a fixed regime of activity requirements – for example the annual Mutual Obligation requirements. Increasingly, Job Network and other service providers have become administrators of benefit requirements rather than doing 'whatever it takes' to assist each individual jobseeker into employment.

As the focus of Newstart Allowance and Job Network has narrowed towards short term job outcomes and an overriding emphasis on compliance with activity requirements, they have become less relevant to the needs of their more disadvantaged 'target groups'. At the same time, access to other programs and payments designed for people with more severe barriers to employment has become relatively restricted, despite modest increases in funding for some of these programs. The overall effect is to disrupt transitions to employment for the most disadvantaged, especially those who need to move from one payment or program to another. For example:

- Many jobseekers are inappropriately placed with Job Network services (a demand driven program) because places in more appropriate 'capped' programs such as Personal Support Program are not available.

- Job Network providers have little incentive to refer jobseekers to education and training programs due to the emphasis in the fee structure on short term job outcomes. Newstart Allowance activity requirements also discourage training.
- The previous Government's 'Welfare to Work' policy redirected new income support recipients who have a 'partial work capacity' together with sole parents of school age children onto the Newstart Allowance, which is \$58 per week less than DSP and \$41 per week less than Parenting Payment Single. One outcome is that many recipients receive less income support (compared with the income support they would have received under the previous system) whether they remain jobless or obtain part time employment as the policy intends. People are being placed on lower payments at the same time that their costs (for example the costs of seeking work) are rising.
- This has the perverse effect of discouraging those still on the higher pension payments (the 'grandfathered' groups) from testing the labour market.<sup>13</sup>
- The income test and activity requirements attached to Newstart Allowance (NSA) are poorly suited to the needs of people with a partial work capacity or caring responsibilities. For example although the income test for NSA was eased as part of the Welfare to Work policy, it is much more stringent than the pension income test in a way that discourages part time work.

In a booming economy, the 'Work First' model is capable of reducing structural unemployment up to a point – as long as enough jobseekers with few barriers to work respond to the activity requirements and other incentives in the system. However, as jobseekers become more economically and socially disadvantaged, this approach will prove less effective in improving employment outcomes. At this stage in the evolution of the Participation Agenda, better compliance with a fixed sequence of activity requirements and program inputs – for example more job searches, more interviews, or longer Work for the Dole placements - will not deliver better job outcomes in a sustained way.

A more likely outcome, if activity requirements are intensified within a Work First model, is that the number of penalties imposed for non compliance with activity requirements will continue to rise. Despite improvements in the compliance regime such as the ability of Centrelink to fully reinstate payments following compliance with requirements on the first and second 'breaches', more people are facing the highest penalty – loss of income support for 8 weeks – which is far too harsh. There is a risk that intensification of the Work First approach will increase social exclusion instead of reducing it. For example, many vulnerable people who lack alternative sources of income, such as homeless people, would lose income security and be discouraged from claiming income support as has occurred in the United States over the past decade.<sup>14</sup>

From the standpoint of employment outcomes, continuation of the current Work First model is also likely to be counter-productive. One likely outcome is an increase in the 'churning' of jobseekers between insecure employment and benefits because they lack the skills and capabilities to sustain a job.<sup>15</sup> Another is a loss of capacity within employment services, as

<sup>13</sup> For a more detailed discussion of the Welfare to Work policy, see ACOSS 2005, *Submission to Senate Employment Committee on the Employment and Workplace Relations (Welfare to Work) Bill*.

<sup>14</sup> Mathematica Policy Research 2003, *What's happening to TANF leavers who are not employed?* Zedlewski & Nelson 2003, *Families coping without earnings or Government cash assistance*. Urban Institute Occasional Paper 64.

<sup>15</sup> Education and skills levels have a significant impact on their ability to progress from casual jobs to more secure employment. See Productivity Commission 2006, *The role of non traditional work in the Australian labour market*. See also UK Department for Work and Pensions 2006, *Repeat Jobseeker Allowance claimants*.

skilled and experienced staff find it difficult to work in an environment where administrative requirements 'crowd out' flexible support for jobseekers. Further, the six-monthly reallocation of business share among providers undermines their own security of employment.

### ***Towards a work capacity model***

In place of the 'Work First' model, a 'Work Capacity' model is needed to assist disadvantaged people into jobs and to prevent them falling back into unemployment.

The hallmark of the Work Capacity model would be its flexibility. Engagement with jobseekers would be based on a set of individually designed participation supports to prepare them for work and help them find and keep a job – rather than compliance with a fixed set of requirements within a fixed service continuum. The 'self help' approach would continue to apply to those who do not require more help than this to find and keep a job, but those who do would receive assistance tailored to their needs.

Similarly, the focus of relationships between the purchaser and providers of employment assistance would shift from the prevailing emphasis on compliance with detailed contractual requirements towards strengthening their capacity to invest in jobseekers and achieve sustainable employment outcomes. Greater jobseeker choice and active engagement in planning their return to employment would be combined with more flexibility for providers to adjust activity agreements and resources to individual needs. The culture of the system of income support and employment assistance would shift from one that emphasises detailed regulation and control towards one that builds the capacity of both jobseekers and providers to achieve participation outcomes.<sup>16</sup>

In keeping with the Government's Skills policies, skills development before and during employment would play a key role in the Work Capacity model along with paid employment experience, mentoring, and social support and health services. However, the Work Capacity model is not the mirror image of Work First: it would not focus exclusively on developing 'human capital' to the exclusion of assisting people into jobs. This is a false dichotomy. Instead, the assistance provided would be based on continuous assessment of individual needs. For example many, but not all, jobseekers will benefit from vocational training. This is consistent with the finding from international research on employment assistance that 'mixed' programs that reflect individual needs are more effective than programs that exclusively pursue human capital development or the first available job.<sup>17</sup>

The proposed system would shift the focus of employment assistance towards medium and longer term outcomes, including retention and advancement in employment.

The proposed Work Capacity model would build on the progress already made in engaging people more actively with the labour market, while adjusting income support and employment assistance to better meet the needs of more disadvantaged income support recipients and those with disabilities and caring responsibilities.

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<sup>16</sup> This theme of individual or 'citizen based' welfare is explored for the UK in Bennett & Cooke 2007, *Citizen centred welfare*, Institute for Public Policy Research. New Zealand has taken a lead in moving towards a jobseeker-centred system of income support and employment assistance. Activity requirements are tailored to individual circumstances and penalties are rarely applied. The key to this is the relationship between local Work and Income officials and disadvantaged jobseekers.

<sup>17</sup> ACOSS 2007, *The role of education and training in welfare to work policies*; Berlin 2002, *What works in welfare reform*. Manpower Development Research Corporation.

The new model would:

- Rebalance the obligations of jobseekers, providers and Government so that in return for their active participation, people who are disadvantaged in the workforce can expect to receive not just income support, but the help they need to achieve sustained employment.
- Integrate employment assistance and skills development for disadvantaged jobseekers, both in preparation for work and once employed.
- Refocus outcomes based funding of employment services from short to medium or long-term outcomes, and reward milestones towards employment where appropriate.
- Give providers the incentives and resources they need to help overcome the barriers to employment of disadvantaged jobseekers.
- Strengthen networks between employment assistance services and health and social support services to assist those with health and social barriers, within a broad employment outcomes framework.
- Progressively remove anomalies in rates of payment, income tests and other impediments in the payment structure to smooth transitions between income support and employment.
- Give jobseekers and employment service providers more scope and encouragement to actively negotiate individual pathways towards employment.
- Redesign activity requirements and compliance systems within a fairer legislative framework to better reflect people's 'distance from the labour market' their 'care loads', and individual employment pathways and remove harsh penalties.

### ***A two-stage approach to reform***

As indicated in the Summary, we suggest that reform proceed in two stages:

- A set of mainly administrative changes to be implemented at or prior to Budget 2008, within the current program structures. These are listed in the Summary and are not repeated here.
- A set of higher level changes to be implemented post-budget, preferably following a structured consultation process. These are presented here as broad options for reform.

The remainder of the submission focuses on major problems with the present Work First model, and explains how these broad options for reform seek to resolve them.

The policy options for the second stage are a list of suggestions rather than a blueprint for reform. In some cases, we raise a series of alternative responses to the problems we have identified. Since each of these options has implications for the functioning of the overall system of employment assistance and income support, careful consideration would need to be given to these interactions before an overall reform plan is decided. ACROSS is consulting with its members about how a 'Work Capacity' model might be structured and

implemented. It would be desirable for ACOSS and the sector to have the opportunity to have a structured dialogue with the Minister on reform of employment assistance and income support to work through these issues before major reforms are settled.

### **Options for reform post-Budget**

Reforms introduced at this stage would focus on changing the structure and culture of income support and employment assistance to complete the shift from a 'Work First' approach towards a 'Work Capacity' approach. These changes would be introduced post-budget, in the context of the fourth employment services tender round.

### **Skills development and advancement for jobseekers and low skilled employees**

One of the main causes of structural unemployment in Australia is a mismatch between the skills of jobless and low skilled workers and those increasingly required by employers, especially at a time of major skill shortages. A relatively high proportion (around 36%) of the Australian population of working age lacks 12 years of education. Although there has been solid growth in low skilled jobs in Australia over the past 15 years, many of these jobs are casual and part time, which has contributed to the problem of 'churning' where jobless people move from unemployment to low paid jobs and back again. Breaking out of this cycle often requires jobseekers to upgrade their skills.<sup>18</sup>

We therefore welcome the Government's commitment to introduce 450,000 additional vocational training places (of which two thirds are set at the Australian Qualifications Framework Level 3 or above) over the next four years, with 175,000 reserved for people not in jobs at the present time.<sup>19</sup> The challenge for policy is how to integrate this skills advancement initiative with employment assistance for jobless people. We proposed above, and in our more detailed paper on the Role of the Education and Training in Welfare to Work policies<sup>20</sup>, that a proportion of training places be set aside for jobless income support recipients, and that immediate barriers towards their take up by jobseekers be removed (including inflexible activity requirements and anomalies in the Job Network fee structure).

These are the first steps. To progress further from a 'Work First' towards a 'Capacity Building' model of participation support in which skills development plays a central role, employment assistance and skills development for jobless people will have to be much better integrated than is the case now. This raises four key challenges for policy and its implementation:

The first challenge is that while investment in education or training generally improves long term employment outcomes, like other capacity building programs it may detract from employment outcomes in the short term if jobseekers postpone their job search while they participate in the training. Like school education, skills development for school leavers and adults is an investment in better job outcomes and incomes in the future, rather than a short cut towards a job tomorrow.

Short training courses for jobseekers are generally not effective in improving employment outcomes because they do not substantially improve skills. For example, the Short Term

<sup>18</sup> OECD 2006, *Education at a glance*; Productivity Commission 2006; *The role of non traditional work in the Australian labour market*; Johnson & Corcoran 2003, *The road to economic self sufficiency – job quality and job transition patterns after welfare reform*, University of Michigan; Ashworth & Liu 2001, *Job seekers allowance transitions to and early returns to allowances*. DWP research report.

<sup>19</sup> Australian Labor Party 2007, *Skilling Australia for the future*.

<sup>20</sup> ACOSS 2007, *The role of education and training in welfare to work policies*.

Job Focussed Training (STJF) component of the Britain's Work Based Learning for Adults program was less effective in improving job outcomes than the Long Term Occupational Training component (LOT) which offered around six months of work based training and improved employment outcomes by around 7%.<sup>21</sup> Longer programs improve employment outcomes, but their effect is delayed. This implies that in employment programs such as the Job Network which reward short term employment outcomes, providers will have little incentive to invest in training, and this is so both in Australia and in similar systems overseas.<sup>22</sup>

The second challenge is that some jobseekers are more 'ready' to benefit from training than others. For example, many low-skilled sole parents who have spent years outside the paid workforce caring for children have latent skills which they did not have the opportunity to test or develop. These jobseekers are often highly motivated to study to train, and benefit from training. On the other hand, young people who have just left school early are unlikely to benefit from another round of classroom based training if this form of training did not work for them at school.<sup>23</sup>

This helps explain why some groups of jobseekers appear to benefit more from training programs than others. However, targeting training towards groups or categories of jobseekers is inefficient because there are also wide variations in people's capacities to benefit from training within population groups. It is better to focus on the needs of each individual.

The third challenge is that employers of relatively low skilled workers increasingly seek 'on the job' experience and skills or 'soft skills' rather than formal qualifications. One implication is that training in an employment setting (akin to an apprenticeship) is likely to be more effective than classroom based training.

These three factors help explain why 'mixed' programs of employment assistance and training which target individuals with the greatest capacity to benefit from training or which combine training with work experience in a regular job are more effective in boosting employment outcomes than those which target 'categories' of jobseekers or provide classroom based training only.<sup>24</sup>

The fourth challenge is that, to be effective over the longer term, training and career advancement cannot stop as soon as former jobseekers obtain a job. If they are not assisted to develop their skills and advance into more secure jobs, they are at risk of falling back into unemployment.

Options to address these challenges include the following:

- Extending the outcomes framework for employment assistance towards medium to long term employment outcomes, as suggested in the next section of this submission.

This could give training programs enough time to have a definite impact on job outcomes. It would also be one way to reward providers who assist jobseekers to keep jobs, not just to

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<sup>21</sup> Department of Work & Pensions 2004, *Building on the New Deal*.

<sup>22</sup> Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions; de Koning et al 2004, *Policies for full employment*, Report to the British Prime Minister, Dept for Work and Pensions.

<sup>23</sup> Martin & Grubb 2001, *What works and for whom?* OECD.

<sup>24</sup> Berlin 2002, *What works in welfare reform*, Manpower Development Research Corporation.

obtain them, and to encourage them to work more intensively with employers.

- Rewarding education and vocational skills outcomes alongside employment outcomes.

This is already being implemented to a limited degree in the present Job Network fee structure, and would need to be extended. Care would need to be taken to ensure that these two incentives do not conflict.

- An alternative approach would be to keep employment and skills development objectives separate by operating employment programs (such as Job Network) in parallel with separate skills development programs (such as the new skills training places).

This avoids tensions between employment and skills development program objectives, but it would still be important to construct links between these programs so that the programs reinforce rather than working against each other. For example, employment assistance providers could act as brokers to refer suitable candidates to the skills training places, and as career counsellors for disadvantaged jobseekers to help ensure that they choose the right course and complete it. This would require adjustments to the Job Network fee structure to encourage and support this role.

Broadly speaking, this is the approach now being pursued in the UK. Instead of funding separate vocational training programs for jobseekers (such as the former Work Based Training for Adults program referred to above) the Department for Work and Pensions (which is responsible for employment assistance programs such as the 'New Deals') is collaborating with the Department for Education and Skills to ensure that jobseekers on income support have access to 'mainstream' training and career development programs for low skilled employees.<sup>25</sup>

- Establishing an employment program that combines paid employment experience and training (along the lines of an apprenticeship for disadvantaged jobseekers). The successful former Jobskills program in Australia and some overseas 'transitional jobs' programs have these features.<sup>26</sup>
- Alternately, employment assistance providers could be encouraged to combine paid employment experience programs (as described below) with the new skills training places. For this to occur, both the work experience and training places would need to be designed in a flexible way (for example, to facilitate training on the job or part time training).
- Introducing separate 'retention and advancement' programs for former disadvantaged jobseekers.

In these programs, providers are paid when former jobseekers retain a job over the longer term (for example one or two years) or advance into more secure or more highly paid jobs. One issue to be resolved is whether such programs should be targeted only to former

<sup>25</sup> Leitch 2006, *Prosperity for all in the global economy – world class skills*, UK Government; Finn & Schulte 2007, *Activation policies in Great Britain*, University of Portsmouth.

<sup>26</sup> DEETYA 1997, *The net impact of labour market programs*; Stromback & Dockery 2002, *Labour market programs and labour market outcomes*, Melbourne Institute Working Papers; Bivand et al 2004, *Evaluation of StepUp*, Finn & Simmonds 2003, *Intermediate labour markets in Britain*. Report for Department of Work and Pensions.

disadvantaged jobseekers, or to employees in low skilled or precarious jobs generally. Another is the priority to be given to retention and advancement for those who have a job relative to investment in capacity building for those who are currently jobless.

Early retention and advancement programs in the US and UK were not successful, but more recent British programs appear to have improved long term employment outcomes.<sup>27</sup>

### **Employment assistance for disadvantaged jobseekers**

Most unemployed people obtain a job within the first three months of searching. However, a growing proportion of income support recipients are either out of work long term or at risk of long term joblessness. Current policies sensibly target more intensive supports towards these groups by raising the level of investment in employment assistance as the duration of unemployment lengthens, and by using an assessment tool to advance those most at risk of long term joblessness to higher levels of support.

Well designed employment assistance programs for disadvantaged jobseekers are a worthwhile investment. Evaluations of these programs here and overseas indicate that they typically increase people's employment prospects within a 6 to 12 month period by up to 20%.<sup>28</sup> While this is a modest result for the individuals concerned, outcomes of this order would substantially reduce the need for people to rely on income support if they can be sustained over a number of years. One reason for this is that the programs are targeted towards jobseekers who would otherwise remain out of work for long periods of time. For example, The 'Freud Report' commissioned by the UK Department of Work and Pensions estimated last year that a sustained 5% increase in exits to jobs every 3 months would halve the number of Jobseekers Allowance (unemployment benefit) recipients in the UK within 3 years.<sup>29</sup> Recent international studies of the effects of employment assistance programs on national employment and unemployment levels reinforce this view. An IMF study found that a 1% increase in expenditure on these programs is typically associated with a 1.9% increase in a country's overall employment level. That is, by increasing the overall level of 'effective' labour supply, these programs raise overall employment levels rather than merely displacing other workers from jobs.<sup>30</sup>

However, the quality and effectiveness of employment programs varies a great deal. It is not a straightforward matter to provide the right support for each jobseeker at the right time. Prior to the introduction of the Job Network long term unemployed people were referred to a fixed set of employment programs (for example a subsidised job or training program), often with little regard to individual needs. When the Job Network model was introduced it improved on these arrangements by funding providers according to the employment outcomes they achieved, without specifying in detail how they should go about this. In theory, this encourages providers to invest in the support required by each jobseeker. However, the potential of the Job Network model to encourage efficient investment in disadvantaged jobseekers has not been realised. Along with similar programs overseas such as the Employment Zones in the UK and the Reintegration Market in the Netherlands,

<sup>27</sup> Dorsett 2007, *Implementation of the UK Employment and Retention Advancement demonstration*, Department for Work and Pensions; Scutella & Ellis 2007, *Employment retention and advancement of disadvantaged jobseekers*, Paper for Australian Social Policy Conference, Sydney July 2007.

<sup>28</sup> Heckman et al 1999 *The economics and econometrics of active labour market programs*, in Ashenfelter & Card 1999, *Handbook of labor economics*, Elsevier; Meagher & Evans 1998, *Evaluation of active labour market programs*, Centre for Analysis of Social Exclusion, London School of Economics.

<sup>29</sup> Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions; A similar analysis was attempted for Australia by Chapman and Piggott in the mid 1990s. See Chapman & Piggott (1995), *Costing the job compact*. Economic Record Vol 71, No 215.

<sup>30</sup> Estevao 2003, *Do active labour market policies increase employment?* IMF.

the Job Network model offers providers limited incentive to risk investment in substantial help to overcome barriers to work that might improve people's job prospects over the medium to long term – such as vocational training, wage subsidies, or mentoring in employment.<sup>31</sup>

Instead, the main focus of support provided by Job Network providers to disadvantaged jobseekers is on relatively low cost job search assistance and motivational strategies. The reasons for this include the short term focus of the outcomes rewarded through Star Ratings and outcome fees and the low level of funds and high transaction costs associated with Job Seeker Accounts. For example, the average expenditure on training using Job Seeker Accounts funds is just \$300. The last official evaluation of Customised Assistance indicated that on average it improved the short term job prospects of long term unemployed people by 10%. However 8% of this improvement occurred during the first month of Customised Assistance. This suggests that the improvement in job prospects may be concentrated on those jobseekers who are most likely to obtain a job quickly.<sup>32</sup> Not all jobseekers in the Customised Assistance stream need substantial help to overcome barriers to work, but many do and providers are discouraged from offering this to them.

A further limitation of the current Job Network arrangements is that control over service 'inputs' by the purchaser has become progressively more detailed and comprehensive. This undermines the key strength of the Job Network in its earlier form – the flexibility for providers to match assistance to individual needs. The increase in detailed control over the activities of providers echoes the growing emphasis on jobseeker compliance with a fixed regime of activity requirements in the current 'Work First' model.

The following discussion explores these problems in a more depth and raises options for reform to give providers and jobseekers the resources and incentives they need to overcome barriers to work for those most disadvantaged in the workforce.

## Targeting

Many disadvantaged jobseekers wait 12 months before they progress to the highest level of employment assistance. On the other hand, the level of funds available in Job Seeker Accounts reduces after the first round of Customised Assistance.

Options to address these problems include:

- taking greater account of periods outside the labour force and previous 'spells' of income support in targeting people for higher levels of support (such as Customised Assistance, or a more extensive form of Employment Preparation)
- increasing funds available under the Job Seeker Account for second spells of Customised Assistance to equal the amounts available in the first spell.

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<sup>31</sup> Freud 2007, op cit; Finn & Schulte 2007, *Activation policies in Great Britain*, University of Portsmouth; Sol & Westerveld 2005, *Contractualism in employment services*, Kluwer Law International, The Hague; de Koning et al 2004, *Policies for full employment*, Report to the British Prime Minister, Dept for Work and Pensions.

<sup>32</sup> DEWR 2006, *Job Network best practice*. DEWR 2006, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation, a net impact study*.

## Funding to outcomes

There is an excessive emphasis on short term job outcomes.

- One option to address this problem is to extend the time frame of employment outcomes that attract 'Stars' and fees for providers from the current 3 and 6 month intervals. If this is considered, care should be taken to ensure that this does not dilute employer incentives. That is, providers must still be able to draw a clear connection between investment today and future employment outcomes. Any change to the 'timing' of paid outcomes should be informed by the public release of data on transitions to employment for disadvantaged jobseekers.
- A second option is to introduce separate fees for outcomes that represent steps towards employment (such as skills development). Once again, this would need to be done in a way that ensures that incentives to achieve future employment outcomes are not diluted.

Both of these options are being implemented in new employment assistance contracts in the UK.<sup>33</sup>

- A third option is to make allowances for the time required to build people's employment capacity, when defining and rewarding employment outcomes. This would mean that providers are not penalised for failure to achieve quick employment outcomes where they invest in assistance such as vocational training that improves outcomes later on.

## Incentives and resources for investment in disadvantaged jobseekers

Providers are discouraged from risking investment in jobseekers to overcome their barriers to work, since returns are uncertain and rewards are limited – despite the fact that (as noted above) even modest improvements in overall job outcomes for disadvantaged jobseekers can sharply reduce overall reliance on income support over time. This suggests that too much of the risk of investment has been shifted to providers in the current Job Network system.

- One option to address this problem is to replace Job Seeker Accounts with a more flexible 'investment pool' for each provider to draw upon to assist jobseekers with individual barriers to employment, based on the profile of their disadvantaged jobseekers. Instead of requiring providers to seek approval for expenditures for each individual jobseeker, the purchaser could require providers to account annually for expenditures within each of a set of broad 'categories' of employment assistance (such as vocational training, wage subsidies and work experience, and relocation assistance). Data on flows of jobseekers into each of these 'categories' of assistance and the outcomes achieved could also be sought, to assist providers generally to assess the relative effectiveness of different interventions.
- Alternately, the suite of Government-funded programs from which providers can draw could be expanded (such as the new vocational training places, wage subsidy

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<sup>33</sup> Department for Work and Pensions 2007, *Flexible New Deal*; Finn & Schulte 2007, *Activation policies in Great Britain*, University of Portsmouth.

schemes, and transitional jobs schemes). To make these programs more responsive to the needs of jobseekers, it would be desirable to fund providers to purchase 'places' in these programs themselves, rather than draw from a pool of places in programs designed and funded directly by Government. To encourage efficient investment, providers could be asked to make a modest contribution to the cost of each place in a program.

- A third option is to raise the level of outcome fees for disadvantaged jobseekers (thereby increasing the rewards for risk taking), which were reduced in the third Employment Services Contracting round.

### **A more flexible Job Network continuum**

The 'continuum' of Job Network assistance from short to longer term unemployment is too rigid, and oriented too heavily towards compliance with a fixed set of activity requirements rather than the achievement of employment outcomes. The major problem here is the annual cycle of 'Mutual Obligation', with its fixed set of options and reliance on Work for the Dole as the default option. Work for the Dole is the weakest-performing program in terms of employment outcomes, achieving average employment outcomes of just over 30% compared with 40% to 50% for Customised Assistance.<sup>34</sup>

This is consistent with the relatively low employment outcomes achieved by unpaid work experience programs overseas. For example, an evaluation report found that New Zealand's former 'Community Work' program reduced participant's employment prospects due to 'lock in effects'. That is, participation in the program reduced the intensity and effectiveness of job search without significantly improving people's future work capacity.<sup>35</sup>

One reason for the relatively low employment outcomes from Work for the Dole is that the program is not integrated into the employment outcomes framework, and lacks a clear employment objective. Along with many unpaid work experience programs overseas, it was originally designed with 'compliance effects' in mind rather than improving people's work capacity. A further limitation is that the work experience provided is not waged employment in a regular job.

- One option to address these problems is to replace Mutual Obligation with a more open ended combination of assessment, intensive job search and employment preparation activity similar to the present Customised Assistance phase of Intensive Support, or the 'Gateway and Options' model in the British New Deals. This more individually oriented approach has the potential to improve work capacity without foregoing 'compliance effects'. The outcome fees and funds available for investment at each stage would still vary according to the duration of unemployment, as is the case now.

For example, a jobseeker on income support for six months might be assessed by the provider, engaged in a period of intensive job search if assessed as work ready, and

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<sup>34</sup> DEWR 2007, *Labour market Assistance Outcomes*. Note that these outcomes are higher than those cited above because they are 'gross' rather than 'net' employment outcomes. That is, they represent the overall proportion of participants who obtain a job rather than the 'net impact' of the program on peoples' employment prospects.

<sup>35</sup> Johri et al 2004, *Evaluation of Community Work*, New Zealand Ministry for Social Development; Dorset 2004 *The New Deal for Young People, relative effectiveness of the options in reducing male unemployment*, Policy Studies Institute Research Discussion Paper No7; Brock et al 1993, *Unpaid work experience and welfare recipients*, Manpower Development Research Corporation.

engaged in an activity lasting for 3 to 6 months designed to help overcome barriers to work (such as training, a subsidised job or relocation) if not considered job ready or if still unemployed following the intensive job search. Where necessary, this activity would be financed from the above investment pool.

- A second option is to combine Wage Assist and Work for the Dole into a single more flexible Work Experience Program, and leave it to providers to decide whether paid or unpaid work experience would best improve the future employment outcomes of each jobseeker. In designing such a program, the immediate cost savings to Government of paid work experience (as participants leave social security payments to undertake subsidised employment) would be taken into account. Since well targeted wage subsidies improve future (unsubsidised) employment outcomes, there is a case for Government to share this immediate cost saving with providers.<sup>36</sup>

A further problem with the present Job Network service continuum is the time limits imposed upon each stage of support. For example Customised Assistance lasts six months even though a longer (or shorter) period of investment may be required to overcome each jobseeker's barriers to work.

- One option to address this problem is to allow the duration of each phase of employment assistance to vary within a range, for example six to twelve months for Customised Assistance.

### **Access to specialised programs**

Many jobseekers are inappropriately placed in Job Network services (which are demand driven) while they await referral to 'capped' specialist programs such as the Personal Support program, Disability Employment Network and JPET.

- One option to address this problem is to remove the funding caps from these specialised programs so that jobseekers can take up places in these programs when assessed as needing them.

### **Jobseekers with health and social barriers to employment**

Health and social support services for jobseekers with chronic illnesses or social barriers to work (such as mental health disorders, addictions, or homelessness) are poorly integrated with employment assistance. In particular, Personal Support Program providers often find that the support services needed by their clients are either not available, or are not oriented towards helping them securing employment.

- One option to address this problem is to require State and Territory Governments, as part of the reform of Commonwealth State financial relations, to include work readiness targets (and a requirement to partner with Commonwealth employment assistance providers to achieve them) into their funding priorities and performance indicators for health and social support services.

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<sup>36</sup> DEETYA 1997, *The net impact of labour market programs*; Stromback & Dockery 2002, *Labour market programs and labour market outcomes*, Melbourne Institute Working Papers; Johri et al 2004, *Evidence on the working and effectiveness of active labour market programs*, New Zealand Department of Labour; Dorset 2004, *The New Deal for Young People, relative effectiveness of the options in reducing male unemployment*, Policy Studies Institute Research Discussion Paper No7; Zijl et al 2002, *Dutch experiences with the European Employment Strategy*.

- A second option is to allocate a pool of funds to Personal Support Program providers to purchase these services for individual jobseekers.

## **Jobseeker participation and engagement**

Jobseekers are largely passive recipients of Job Network services.

- One option to address this problem is to enable jobseekers to change providers at fixed intervals (such as immediately before the commencement of Customised Assistance). If the above option to extend the outcomes focus of the Job Network from short term to longer term outcomes is implemented, it would be important to implement this option in a way that does not discourage longer term investment in each jobseeker by providers.
- Another option is to better inform jobseekers about the availability of the abovementioned funds or programs to improve their work capacity, though under the above options for reform providers would still decide on the allocation of these funds within broad national programs or guidelines.<sup>37</sup>

## **Governance arrangements**

The governance of the Job Network has moved away from a system in which the purchaser specifies outcomes and leaves the 'inputs' to the providers towards a high level of micro-management of inputs by the purchaser based on detailed information on contacts with jobseekers. This is costly for both providers and Government, and undermines initiative and innovation without necessarily ensuring that jobseekers get the help they need.

- One option to address this problem is to more clearly separate the functions of policy development, monitoring and evaluation, and contract management within Government, and encourage the community welfare sector to develop their own mechanisms to evaluate program effectiveness and learn from best practice.
- Another option is to limit the information and 'accountability' required of providers for service inputs, so that the focus of provider accountability shifts back towards outcomes. Exceptions could include minimum service standards, inputs that are specifically contracted (such as interviews), and information on investments made for each Intensive Support recipient (e.g. training, wage subsidies) and jobseeker outcomes.

In the Netherlands, the national Government is not the direct purchaser of services in the 'Reintegration Market'. This role falls to the Social Insurance Agency and the Municipalities. In recent years, the national Government has deliberately 'stepped back' from direct intervention in service inputs (for example through national training and other programs) and redefined its role in the system as one of setting broad targets (for example for employment outcomes for different groups) and a national framework for financing and

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<sup>37</sup> For example, the Netherlands now has a system of 'Individual Reintegration Agreements (IROs) which emphasise active participation by jobseekers in deciding what form of assistance would best assist them into employment. The provider must agree, and the agreement must comply with guidelines set by the purchaser (the national Social Insurance Agency). Early indications are that IROs have improved employment outcomes for social insurance recipients by motivating them to participate more intensively in employment programs. See Ministry for Employment and Social Affairs (Netherlands) 2006, *MISEP Basic Information report*.

regulating the market. This has led to some problems, including a lack of timely national data on inputs and outcomes and national evaluation of 'what works', but one advantage of this model is that the roles of national Government, purchasers and providers are more clearly defined and purchasers and providers have more room to innovate.<sup>38</sup>

## Continuous improvement

The present system of 'continuous improvement' of Job Network services through six monthly reallocations of business shares has destabilised the sector has encouraged a short term orientation to service delivery. It has also made it difficult for providers to retain high quality staff, at a time when there is growing shortage of community sector employees with the skills set required to engage with and support the most disadvantaged jobseekers.

- One option to address this problem is to replace the present system of six monthly re-allocations of business shares among providers with the previous system of three-yearly tenders in which contracts for better-performing providers are rolled over.
- A further option is to remove the new 'quality' Key Performance Indicators (which relate to service inputs rather than outcomes) from consideration when allocating business shares.

Greater and more informed jobseeker choice of provider as described above should also contribute to continuous improvement.

## Income support

The present income support system for people of working age is based on a simple distinction between one group of recipients ('pensioners') who are 'unable to work' and another ('allowees') who are 'able to work'. Levels of payment reflect this distinction. Thus, the Newstart Allowance for a single adult is \$215 per week, \$58 less than the pension.<sup>39</sup> The gap in payments for a sole parent is \$41 per week. In addition, those on Allowance payments usually miss out on the concessions received by pensioners. The system is inequitable because levels of payment are based on historical views about which groups are more or less 'deserving' of support rather than people's actual income support needs. Thus, for example, a person with a disability on Newstart Allowance who faces high transport costs due to their disability receives less than a Disability Support Pensioner who may not face such costs. One justification in the past for separate rates of payment for pensions and allowances was that people on Allowances typically only needed short term income support, but as the profile of Newstart Allowees has become more disadvantaged, that assumption no longer holds.

This two tier system of income support discourages transitions to employment among people with disabilities and sole parents. This occurs because those who test the labour market face the risk of transfer to a lower payment. Further, Austudy Payment for fulltime adult students is \$37 per week less than Newstart Allowance, which discourages jobless people from undertaking educational courses that would improve their future job prospects, contrary to the spirit of the Government's Skills Agenda. These barriers to employment and training embedded in the structure of our income support system are likely to have greater

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<sup>38</sup> Ministry for Employment and Social Affairs (Netherlands) 2006, *MISEP Basic Information report*.

<sup>39</sup> This includes the Pharmaceutical and Telephone Allowances paid to pensioners.

impact than the income tests and 'effective marginal tax rates' that have attracted greater policy attention to date.

To complicate matters further, a range of conditions of payment including residency requirements and assets tests are different for working-age pensioners and Allowees. There is no logical basis for these historical differences. This complicates the income support system and sharply increases the costs of its administration. It makes transitions between the pension and allowance systems, for example when a sole parent's youngest child reaches the age of 8 years, particularly difficult.

It makes more sense for activity requirements to vary between different categories of payment. This gives the recipients a degree of certainty about the range of requirements that will (or will not) apply to them. It also brings an element of equity into the system by ensuring that people in similar circumstances in different parts of the country face broadly the same requirements. However, as indicated previously, the activity requirements for Newstart Allowance are not well tailored to the circumstances of people with disabilities or caring responsibilities. There is also a case for 'broad banding' activity requirements to enhance flexibility. For example, it would be simpler for income support recipients to combine job search with education and training if Newstart Allowance and Austudy Payment were merged, rather than being administered as two separate payments.

Options to address these problems include:

- A single core rate of income support for people of working age based on the income support needs of single adults generally, supplemented by payments for specific costs including the costs of children (including the additional costs associated with sole parenthood), housing costs, the costs of disability and the costs of participation in employment education or training.

Care should be taken to ensure that no group is worse off, and that those with the greatest gaps between their income support needs and levels of payment are better off.

- The core rate of payment could be incorporated into a single 'platform' of core eligibility requirements and entitlements for people of working age, including residency requirements, assets tests, and concessions but not activity requirements.
- Separate categories of payment would still be needed for the purpose of setting activity requirements, and possibly for income testing (for example, if some groups are required to seek part time work while others are required to seek full time jobs).

Two countries with broadly similar social security systems to Australia's are developing income support reforms along these lines: the UK and New Zealand. It would be worthwhile for the Australian Government to examine their Governments' proposals for reform and the responses to them from the community sector and other policy experts.<sup>40</sup>

Such reforms would require careful consultation with organisations representing the interests of income support recipients the community sector more broadly, and policy experts, and should not be rushed. ACOSS plans to consult with its members to further consider and develop these ideas.

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<sup>40</sup> Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions; Minister for Social Development and Employment 2005, *Extending Opportunities to Work*, New Zealand Cabinet submission.

## **Making work pay**

Much has been done over the last 20 years to reduce financial disincentives to full and part time employment for jobless Australians on income support. Given the disadvantaged profile of current recipients, it is unlikely that the absence of 'work incentives' is the main factor holding them back from full participation in the paid workforce. Nevertheless, there are still circumstances in which jobless people are discouraged from seeking employment, especially part time employment. The follows factors contribute to this problem:

The income test for 'Allowance' payments such as Newstart and Youth Allowances is much more stringent than that for pension payments such as Parenting Payment Single. The Allowance income test withdraws 60 cents of every additional dollar of earnings above a low 'free area' that does not vary according to the size of the recipient's family. This results in effective marginal tax rates of more than 75 cents in the dollar over a wide range of private earnings, and particularly discourages part time work. This is one of the main reasons that these Allowances are inappropriate payments for people with parenting responsibilities or disabilities who are required to seek part time employment.

- One option to address this problem is to apply the same income test for Allowance recipients as for pensioners.
- Another option is to introduce a more liberal income test for those income support recipients who are required to seek part time work but not a full time job.

Access to child care is also a critical issue for parents required to seek part or fulltime employment.

- To address this problem, a national planning system for child care services is needed that incorporates capital funding and other support to establish new services in regions of greatest need.

The income tests used to set rental rebates for tenants in social housing typically add another 25 cents in the dollar to their effective marginal tax rates.

- Rental rebates could be further reformed to reduce work disincentives.

The costs of transport to and from work are often prohibitive for low income people, especially Allowance recipients who are not entitled to pensioner transport concessions, and those living in non metropolitan areas.

- The system of transport concessions for income support recipients could be reformed to make it more equitable, especially by extending pensioner transport concessions to income support recipients on Allowance payments. Public transport options in non-metropolitan and outer suburban areas could be expanded.

Many income support recipients simply do not understand how income tests work, and as a result overestimate the adverse effects on their disposable incomes.

- A 'better off in work' calculation, along the lines of that developed in the UK, could be introduced and administered by Centrelink.
- A further option is to index the minimum amount by which parents must be better off in work (under current guidelines) before they are required to accept a job.