

# Response to the Interim Report of the Reference Group on Welfare Reform

## CONTENTS

PRELIMINARY .....	4
1. INTRODUCTION .....	4
1.1 ABOUT JOBS AUSTRALIA.....	4
1.2 ABOUT THIS SUBMISSION.....	4
EXECUTIVE SUMMARY .....	5
LIST OF RECOMMENDATIONS.....	5
PART 1: GENERAL.....	8
1. CLARIFYING THE PROBLEMS AND GOALS OF REFORM .....	8
1.1 PURPOSE OF THE WELFARE SYSTEM .....	8
1.2 POLICY PROBLEMS IDENTIFIED IN THE INTERIM REPORT .....	8
1.3 POLICY PROBLEMS NOT IDENTIFIED IN THE REPORT .....	9
1.4 AN APPROPRIATE SET OF OBJECTIVES FOR REFORM .....	10
PART 2: RESPONSES TO SPECIFIC QUESTIONS.....	11
2. PILLAR ONE: SIMPLER AND SUSTAINABLE INCOME SUPPORT SYSTEM .....	11
2.1 SIMPLER ARCHITECTURE .....	11
2.2 FAIR RATE STRUCTURE .....	13
2.3 COMMON APPROACH TO ADJUSTING PAYMENTS.....	14
2.4 SUPPORT FOR FAMILIES WITH CHILDREN AND YOUNG PEOPLE.....	15
2.5 EFFECTIVE RENT ASSISTANCE .....	16
2.6 REWARDS FOR WORK AND TARGETING ASSISTANCE TO NEED .....	17
3. PILLAR TWO: STRENGTHENING INDIVIDUAL AND FAMILY CAPABILITY .....	18
3.1 MUTUAL OBLIGATION .....	18
3.2 EARLY INTERVENTION.....	20
3.3 EDUCATION AND TRAINING .....	22
3.4 IMPROVING INDIVIDUAL AND FAMILY FUNCTIONING.....	24
3.5 EVALUATING OUTCOMES .....	24
4. PILLAR THREE: ENGAGING WITH EMPLOYERS .....	25
4.1 EMPLOYMENT FOCUS – MAKING JOBS AVAILABLE.....	25
4.2 IMPROVING PATHWAYS TO EMPLOYMENT .....	26
4.3 SUPPORTING EMPLOYERS .....	28
5. PILLAR FOUR: BUILDING COMMUNITY CAPACITY.....	29
5.1 ROLE OF CIVIL SOCIETY .....	29
5.2 ROLE OF GOVERNMENT .....	29
5.3 ROLE OF LOCAL BUSINESS .....	30
5.4 ACCESS TO TECHNOLOGY .....	30
5.5 COMMUNITY RESILIENCE .....	30

## PRELIMINARY

## 2. INTRODUCTION

### 2.1 ABOUT JOBS AUSTRALIA

Jobs Australia is the national peak body for not-for-profit organisations that assist unemployed people to get and keep jobs. We provide an independent voice for members who range from large charitable organisations to small local community-based agencies. Jobs Australia helps members to make the most effective use of their resources and promotes the needs of unemployed people for the services and support that will help them to participate fully in society.

Jobs Australia is the largest network of employment and related service providers in Australia. We are proud to be fully funded by and accountable to our members.

### 2.2 ABOUT THIS SUBMISSION

Jobs Australia welcomes the opportunity to contribute to this important discussion. The Interim report of the Reference Group on Welfare Reform raises many important issues. Unemployment – and, particularly, long-term unemployment – is a complex economic and social problem, with many different factors affecting the success or otherwise of interventions that aim to assist more people into work. The breadth of issues covered by the report reflects that complexity.

In this submission, we will offer some general remarks (Part 1) and then provide more detailed responses to specific questions (Part 2).

## EXECUTIVE SUMMARY

Jobs Australia expresses support for many of the observations and proposals in the Interim Report. Jobs Australia also expresses concern on many aspects of the Interim Report. Many of the proposals appear to be responding to an unstated concern about the overall cost of the system. That is despite evidence, which is included in the Appendices to the Interim Report, showing that welfare dependency amongst the working age population has decreased substantially over the past two decades.

The starting point for Jobs Australia is that income support payments should be adequate to meet people's income support needs – providing them with a basic but acceptable (and not impoverished) standard of living.

The quid pro quo for income support is engagement with appropriate services, including, for those who are able to work, employment services. Again, services should be based on need, with those who require the greatest level of assistance receiving the greatest level of service.

Beyond these general principles, Jobs Australia has argued for a dramatic change to Rent Assistance, noting that it fails to meet the housing support needs for most people, particularly those in strong labour markets where rents are highest.

Jobs Australia has also welcomed new approaches to targeting interventions, such as the New Zealand actuarial or investment approach.

And finally, for employment services, Jobs Australia has argued for increased flexibility, warning that governments should steer away from the temptation to mandate specific interventions across broad sections of the population – for the simple reason that a more tailored approach will work better for more people than one that does the same thing for everyone, whether they need it or not.

## LIST OF RECOMMENDATIONS

**Recommendation 2.1:** Jobs Australia supports the broad structure of base payments proposed in the Interim Report; and recommends that tiers within the working-age payment be limited to two tiers: a lower tier for people with a full capacity to work and a higher tier for those with a partial or no work capacity.

**Recommendation 2.2:** Income support levels should be set by reference to income support needs. Government should develop an appropriate method for setting payment rates initially which takes account of the actual costs of living for people in the circumstances that the payment seeks to support.

**Recommendation 2.3:** Income support base payments should be adjusted in line with the net (take-home) income of a median-income worker, with adjustments taking place on at least an annual basis. A more comprehensive review should take place after 5 years to ensure that the indexation arrangements are maintaining living standards for people receiving income support.

**Recommendation 2.4:** Youth payments should be reviewed as part of the broader review of payments, with appropriate supplements to account for the range of circumstances that may apply. The default situation should be that youth payments are paid to parents if young person is dependent on their parents.

**Recommendation 2.5:** Rent Assistance should be set in line with income support recipients' housing needs; and the maximum amount of assistance available should vary (and be regularly adjusted) in accordance with median rents in broad labour market areas. The Federal Government should also conduct a broader review of State and Federal housing policies.

**Recommendation 2.6:** Taper rules should be adjusted to ensure that income support recipients are always significantly better off for each additional hour of work. That may mean limiting effective marginal tax rates to a maximum of around 55% or 60%. A review of assets tests should ensure equity between people who hold different types of assets.

**Recommendation 3.1:**

- People who receive income support should continue to have responsibilities and obligations, including, for those who can work, an obligation to seek employment.
- Obligations should be tailored and negotiated with individuals, with a range of options available to meet obligations.
- Mutual obligations should be extended to other payments but in a way that leaves individuals in control of their lives, and not exposed to paternalistic mandatory or otherwise inappropriate interventions.
- Income management should be targeted to those who need it and time limited.
- Sanctions for non-compliance should be short and sharp, and applied quickly – for small sanctions, by the employment services provider (where relevant) and by the Department of Human Services for others.

**Recommendation 3.2:** An approach similar to the New Zealand actuarial approach should be developed for the purposes of improving the targeting of services for people who receive income support; improving program evaluation; and identifying other groups for whom additional investment is warranted. The development of the model should be undertaken by a suitable independent research body, such as the Productivity Commission.

**Recommendation 3.3:** Regulators should continue to drive improvement in the quality of vocational education and training. Specialised youth services (separate from mainstream employment services) should provide tailored case management support to reconnect young people who disengage from education (or are at risk) with appropriate education and training, either on its own or in combination with work. Governments should take a less punitive approach to 'earn or learn'.

**Recommendation 3.4:** Systems should be designed so that they are flexible enough to foster a range of successful approaches, including those mentioned in the Interim Report.

**Recommendation 3.5:** That government develop consistent approaches to program evaluation and make evaluation tools available to non-government organisations.

**Recommendation 4.1:** Recognising the value of covenants and other employer-led initiatives, government should continue to promote and encourage the development of such programs. Noting their limitations, however, they should not be directly funded by government. Government funds should continue to be available to employers via wage subsidies, and available to support job individual job seekers via employment services providers. Government funds should continue to be targeted to those job seekers with the greatest need for support. Employment services should also be reformed to make it easier for employers to engage with the system.

**Recommendation 4.2:**

- The next Job Services Australia (or public employment service otherwise named) contract should provide greater flexibility for providers to experiment with a range of service models, and select those that are most effective at moving people from welfare and into work.
- Government should continue to pursue greater quality in the training sector.
- For younger Australians, and particularly those experiencing difficulties in their transition from school to work, a separate, specialised program should be developed that is more suited to the needs of young people than mainstream employment services.
- Relocation assistance should be revised with a view to eliminating more of the risk that people face when making the decision to move for work.

**Recommendation 5.3:** Government should investigate longer-term reforms for employment services that would increase flexibility and allow a greater focus on the needs of employers and job seekers.

**Recommendation 5.1:** Government should take care not to encroach too much on the independence of civil society.

## PART 1: GENERAL

### 1. CLARIFYING THE PROBLEMS AND GOALS OF REFORM

#### 1.1 PURPOSE OF THE WELFARE SYSTEM

Jobs Australia supports the findings of the Reference Group that “income support payments and associated services are intended to help people meet daily living costs, increase participation in work and social activities, and build individual and family functioning” (p. 24).

Jobs Australia also supports the guiding principles for the review (p. 29), noting particularly the principle that the system should support social and economic participation and provide incentives (or at least not act as a disincentive) for people to work, and that support should be adequate.

#### 1.2 POLICY PROBLEMS IDENTIFIED IN THE INTERIM REPORT

The interim report identifies a range of problems with the current system. Most of these are uncontroversial, but others require further discussion.

Jobs Australia agrees that the following problems in the current system need some level of reform:

- **Complexity:** which makes administration of the system less efficient and causes confusion for benefit recipients when it comes to their entitlements (p. 28);
- **Perverse incentives:** with the combined effect of benefit taper rates and income tax rates reducing the financial incentive to work (or to take on additional hours) for some groups (p. 28);
- **Inconsistent payment rates, indexation arrangements and participation requirements:** which, together, can create an incentive for people to test their eligibility for a pension; it also raises questions of adequacy and fairness for those on the lower allowance payments (p. 29);
- **Inadequacy of Rent Assistance:** which has not kept pace with rental costs and leaves too many people in housing stress (p. 30); and
- **Exclusion of particular groups:** with some groups over-represented amongst the long-term unemployed, indicating that supports provided those groups are not working as well as they should (pp. 32-33).

Jobs Australia is concerned, however, about some of the other problems stated in the report, and further concerned that certain problems that ought to have been considered are missing.

Firstly, ‘expenditure’ appears as the first item of concern raised under ‘Part One: The Case for Reform’ (p. 25). Expenditure on its own is not, however, a discrete problem – it is only a problem if the expenditure exceeds the value or return of the benefits the government is purchasing. Yet there is little discussion or analysis of the wider benefit to the economy and the return to government that is generated by the welfare system. Such benefits may be difficult to quantify, but they ought not be ignored. The failure to acknowledge the broader benefits to taxpayers frames the system as only a cost to the taxpayer, and frames the reform task as one of minimising these costs.

Rather than look at only the cost of the system, the costs should be discussed alongside the benefits of the system, and rather than emphasising the raw dollar amounts of the expenditure, there should be some basis for comparison – either with reference to historical levels of expenditure in Australia or by comparison with the expenditure levels in other developed countries. Material provided in the Appendices of the report (for example, Appendix G, p. 162) would be relevant to such a discussion, but is not included in the main report.

Another concern is around the references to community expectations. Community expectations are a poor reference point for reform, given that the views of individuals and groups within the broader Australian community will vary wildly, as will the level of understanding of the system. Trying to guess at what 'the community' expects from any public service system could lead to poor policy – whether we are talking about the welfare system, the cost of public infrastructure or politicians' remuneration. The community, or at least some sections of it, may well expect that nobody should rely on welfare, and they may well expect that politicians should work for free, but such expectations are not grounded in reality. Reform should be based on sound theory and evidence, not any particular set of perceptions.

The inclusion of references of this kind skews the objectives of the report: in many sections, the recommendations appear to start with a desire to reduce expenditure on welfare or extend mutual obligation. These factors ought to be secondary: each reform should be in response to an identified problem supported by evidence. The cost of interventions to address that problem can then be considered against the return they will deliver, and particular measures (such as mutual obligation, Income Management or Work for the Dole) can be considered as part of a range of tools that might be applied to the problem.

### 1.3 POLICY PROBLEMS NOT IDENTIFIED IN THE REPORT

In addition to the problems identified in the report, there are a number of other challenges that ought to be considered. These include:

- **Unfairness / inequity in income support:** people with similar financial needs should receive similar levels of financial support. Presently, people with similar financial needs may receive different levels of support because they qualify for different payments or because they live in areas with different living costs;
- **Inadequacy of payments:** some payments are simply too low to meet reasonable costs, pushing recipients deeper into poverty and further from the labour market;
- **Poor information about the social and economic returns from welfare systems:** with inconsistency in the way programs are evaluated (particularly pilot programs initiated by non-government organisations) and little analysis of the costs flowing from an inadequate safety-net ; and
- **A lack of jobs:** economic transitions (mentioned briefly at p. 27) affect certain industries and communities more than others, which can lead to pockets of high unemployment and an absence of opportunities for people to move into work, through no fault of their own.

These problems also warrant some discussion and Jobs Australia hopes that the Reference Group can include consideration of these issues in their final report.



#### 1.4 AN APPROPRIATE SET OF OBJECTIVES FOR REFORM

Jobs Australia provides the following to clarify our own contribution to the reform discussion:

TABLE 1: PROBLEMS AND REFORM OBJECTIVES

PROBLEM	REFORM OBJECTIVE
Complexity	Simplify payments
Perverse incentives	Ensure people are always better off in work
Inconsistent payment rates, indexation arrangements and participation requirements	Ensure a consistent approach to payment setting, indexation, and mutual obligations
Inadequacy of payments	Ensure payments are adequate to support a basic standard of living
Inadequacy of Rent Assistance	Ensure Rent Assistance (and other housing policies) adequately provide for accommodation needs
Exclusion of particular groups	Ensure services are targeted to those who need them most
Unfairness / inequity in income support	Ensure income support is similar for people with similar income support needs
Poor information about social and economic returns from welfare systems	Develop a consistent approach to evaluation and measurement of the benefits of welfare and associated programs
A lack of job opportunities	Ensure economic policy fosters growth and that the economy is creating the jobs we need

This statement of problems and the appropriate objectives for reform underpins the responses throughout this submission.

## PART 2: RESPONSES TO SPECIFIC QUESTIONS

### 2. PILLAR ONE: SIMPLER AND SUSTAINABLE INCOME SUPPORT SYSTEM

#### 2.1 SIMPLER ARCHITECTURE

IN SHAPING THE FUTURE DIRECTIONS FOR A SIMPLER ARCHITECTURE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- What is the preferred architecture of the payment system?
- Should people with a permanent impairment and no capacity to work receive a separate payment from other working age recipients?
- How could supplements be simplified? What should they be?
- What are the incremental steps to a new architecture?

Jobs Australia believes a range of models could meet the objectives of simplification, while retaining a highly targeted and tailored system that adequately meets the income support needs of people who require that support. One approach would be a 'base payment with add-ons', as proposed in the 2001 Welfare Review, and Jobs Australia does not find the arguments advanced in rejection of that model convincing.

The model proposed in the Interim Report is, however, also acceptable – depending on the details. Subject to the details, **Jobs Australia supports the model proposed in the interim report**, consisting of the following base payments:

- A child or youth payment;
- A working-age payment (with 'tiers');
- A disability support pension; and
- An aged pension.

To account for the range of individual circumstances (or, put another way, to target support to those who need it most), a range of add-ons to these base payments will still be required – for example, a supplement like Rent Assistance will be required; additional amounts for the support of children, etc.

The key questions that are left unanswered in the Interim Report relate predominantly to the rates of the respective payments and how they would initially be set. It seems that the proposal is that for pensions, which are a long-term support payment, should be set at a higher rate than allowances, which are meant to be a short-term payment to support people through a period of unemployment or study. Given that long-term beneficiaries will have different needs – for example, the need to replace furniture or white goods – a higher rate for pensions is appropriate.

**It is also appropriate that disability support be limited to those with no expectation of or limited capacity for work** – provided that people with a disability who end up in the working-age payment instead also still receive a payment that is adequate to meet their needs.

Since 1 July 2014, people aged under 35 on the Disability Support Pension with an assessed work capacity of at least eight hours per week became subject to participation requirements, such as compulsory participation in DES or JSA. That threshold may be an appropriate measure in a future system as well. It is implicit in this that, in future, people who would qualify for the current DSP but have a work capacity of at least 8 hours would not be eligible for the Disability Support Pension envisaged in the future system. This would mean that the vast bulk of people of working age, including those with a disability, would end up on the working-age payment instead.

This would place great importance on the 'tiers' within the working-age-payment and the system of add-ons that would be applied.

To that end, the 'tiers' within the working-age payment should recognise that people with a partial work capacity (ie: those with a disability) will inherently require greater support than those with a full work capacity. To keep the model simple, **Jobs Australia recommends limiting the tiers to just two** – a lower tier for those with full work capacity and a higher tier for those with a partial work capacity – and dealing with further tailoring or targeting issues via the supplements. Although this may mean that there is a perverse incentive for income support recipients to present injuries, medical conditions or disabilities as more severe in order to qualify for the higher tier payment, keeping the tiers relatively close can limit that effect.

Keeping tiers limited in number is important because too many tiers could result in the same confused mess that we have at present, yet be less transparent. People who qualify for the same payment but receive different levels of support might have difficulty understanding why. If the different level of support is due to different supplements, then it is at least able to be explained by reference to the criteria for the supplements.

The Interim Report calls for fewer supplements and while Jobs Australia agrees with that principle, the supplements system must still account for a wide range of individual circumstances. This might mean, for example, that Rent Assistance will need to vary according to local rents; or that certain other supplements are set individually based on evidence of actual expenditure. In New Zealand, some disability supplements are individualised in this way – but that can also mean income support recipients endure a painstaking application process that involves collecting receipts as evidence of actual expenditure. A simpler alternative may be to offer a 'default' payment level for the supplement, with those who require support greater than the default level required to provide evidence to support their claim.

**Supplements should include (at least):**

- Housing assistance (recognising that housing costs are additional to basic living costs);
- Child supplements (recognising the additional costs of raising children);
- Carer supplements (recognising the additional costs to carers of people with a disability); and
- Medical / disability needs supplements (recognising that people with an impairment may have additional expenses that are not otherwise accounted for, such as the need for a special diet that increases food costs).

The key point is that if simplification results in a reduced ability to tailor payments to needs, then the overall result will be a less flexible and less targeted system – so the combination of base payments, tiers and supplements needs to account for a wide range of circumstances.

**Transitional arrangements might include 'grandfathering' current recipients;** or providing current income support recipients with a choice between the old payment or moving to the new payment structure. If old payments are fixed at current levels and new payments are indexed, then, over time, the old payment structure will be considerably less appealing.

**Recommendation 2.1:** Jobs Australia supports the broad structure of base payments proposed in the Interim Report; and recommends that tiers within the working-age payment be limited to two tiers: a lower tier for people with a full capacity to work and a higher tier for those with a partial work capacity.

## 2.2 FAIR RATE STRUCTURE

IN SHAPING THE FUTURE DIRECTIONS FOR A FAIRER RATE STRUCTURE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How should rates be set, taking into account circumstances such as age, capacity to work, single/couple status, living arrangements and/or parental responsibilities?

The key basis for the setting of income support rates should be an assessment of the income support needs of those who will receive the payment. Relative consistency between the payments (and tiers) can help minimise (but not eliminate) the incentive for people to seek higher payments. This might mean that supplements make up a larger portion of the total payment compared to present arrangements.

Rates need to be adequate to support a basic standard of living that is acceptable in Australia and sufficient to ensure that people are able to survive and meet their mutual obligations. It is broadly acknowledged that the current rate for Allowances is not adequate.

An appropriate method for setting rates may be to start with a single person with full work capacity living in an average labour market (probably the outskirts of a capital city). An assessment of the basic living costs could be made for such a person, based on the costs of food, clothing, travel and other regular expenses incurred (but not housing costs, which should be the subject of a separate assessment for determining the rate of the housing supplement / rent assistance). Other rates could then be set by reference to additional costs or savings based on the typical experiences of people in the circumstances that other payments are intended for – ie: look at how much is typically saved when individuals combine their resources as a couple; look at the typical amount of additional expense when someone has a partial work capacity, and so on.

An appropriate method for setting rates for supplements may be to again look at actual typical costs involved for people who will receive that supplement.

Whatever method is chosen, the key principle is that rates should be set by reference to actual living costs for people in the circumstances that the payment seeks to support. Once set, consistent

indexation rules should apply so that the standard of living for people on income support is maintained.

Jobs Australia notes the suggestion in the Interim Report that young people could be paid less to reflect the fact that they could share accommodation. Effectively, that suggests that young people are more capable of enduring a lower standard of living than people who are older. Jobs Australia does not support such a differentiation. Payment rates should be set according to circumstances and not according to age.

**Recommendation 2.2:** Income support levels should be set by reference to income support needs. Government should develop an appropriate method for setting payment rates initially which looks at the actual costs of living for people in the circumstances that the payment seeks to support.

### 2.3 COMMON APPROACH TO ADJUSTING PAYMENTS

IN SHAPING THE FUTURE DIRECTIONS FOR A COMMON APPROACH TO MAINTAINING ADEQUACY THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- What might be the basis for a common approach to adjusting payments for changes in costs of living and community living standards?

Jobs Australia agrees that a common indexation or adjustment approach should consistently apply across all payments. Payments could be adjusted either in line with a measure of prices or in line with a measure of wages. Within those two approaches, there are a range of different measures that could be used.

Adjustment according to prices could be achieved by indexing payments to the Consumer Price Index, but this could be skewed because prices in the 'basket of goods' that go into the CPI measurement may not reflect the prices of goods that income support recipients spend their money on. A greater portion of income support recipients' budgets goes to essentials, with less discretionary spending on entertainment or the latest gadgets. If indexation to prices is the preferred approach, then a better index is the Pensioner and Beneficiary Living Cost Index, which is based on the goods that pensioners and beneficiaries typically buy.

In a technical sense, any price index is an inexact measure of living standards. It measures changes in prices but not changes in consumption or changes in household welfare. In other words, it tells us about the price of goods but does not tell us whether or not the standard of living experienced by those on income support is keeping up with standards for the rest of the community.

For that reason, a better approach may be to index payments to a measure of wages growth. There are a range of measures that could be used but Male Average Total Ordinary Weekly Earnings has been used in the past for some payments. That measure can be skewed by a range of factors, including composition of the workforce, overtime hours being worked, and structural changes in the labour market. For example, increases in female participation (due to changing social norms and also structural changes in the economy) can skew this particular measure.

An alternative may be to index income support payments to movements in the Minimum Wage. The minimum wage is set by the Fair Work Commission taking into account a range of factors, many of

which are also relevant considerations for the setting of a minimum benefit payment. However, the effect of indexing benefit payments to the Minimum Wage would be to make a tribunal responsible not only for the setting of the Minimum Wage, but also for the setting of benefit rates. That could affect the matters that tribunal members take into account in determining minimum wages and could confuse the role of the Commission. Overall, it may make Commissioners either more or less inclined to increase minimum wages depending on their view about the need for increases to benefit payments. Conflating issues around the Minimum Wage with issues around income support payment rates would, on the whole, be undesirable.

Another measure, endorsed by the Harmer Review in 2009, could be the net (take-home) income of a median-income worker. This would effectively link income support payments to a measure of disposable income, which is likely to increase in line with community living standards.

The best approach may be a combination of automatic indexation to median wages on a regular basis (either annually, biannually or quarterly) with a more comprehensive review after every, say, 5 years, to ensure that the indexation arrangements are maintaining an acceptable standard of living for people on income support payments.

**Recommendation 2.3:** Income support base payments should be adjusted in line the net (take-home) income of a median-income worker, with adjustments taking place on at least an annual basis. A more comprehensive review should take place after every 5 years to ensure that the indexation arrangements are maintaining living standards for people receiving income support.

## 2.4 SUPPORT FOR FAMILIES WITH CHILDREN AND YOUNG PEOPLE

### IN SHAPING THE FUTURE DIRECTIONS FOR SUPPORT FOR FAMILIES WITH CHILDREN AND YOUNG PEOPLE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can we better support families with the costs of children and young people to ensure they complete their education and transition to work?
- In what circumstances should young people be able to access income support in their own right?

Jobs Australia supports the inclusion of a youth payment as one of the four categories of base payment in the model articulated at 3.1, and also supports the inclusion of a range of supplements to base payments that could account for a broad range of specific situations (such as studying away from home). The approach should be consistent with the principle that income support payments and supplements should be adequate to meet each person's needs.

The approach to youth payments depends, in part, on the approach taken with other payments. If a supplement is to be paid to parents for each dependent child, then at some stage the child supplement will be replaced by a youth payment, which could continue to be paid to the parents if the child lives at home.

The 'age of independence' is a complex issue. For most young people, the default situation should be that income support is paid to parents while they live at home or are otherwise dependent on their parents. There needs to be a range of exceptions, such as where young people are forced to live

independently due to domestic violence or other issues at home. That inevitably leads back to an independence test, such as the one that applies presently.

**Recommendation 2.4:** Youth payments should be reviewed as part of the broader review of payments, with appropriate supplements to account for the range of circumstances that may apply. The default situation should be that youth payments are paid to parents if young person is dependent on their parents.

## 2.5 EFFECTIVE RENT ASSISTANCE

IN SHAPING THE FUTURE DIRECTIONS FOR RENT ASSISTANCE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How could Rent Assistance be better targeted to meet the needs of people in public or private rental housing?

The Commonwealth contributes to housing support via a range of mechanisms, including Rent Assistance but also via tax concessions (such as negative gearing), grants to community housing providers and grants to State Governments, which in part support State Government housing policies (including public housing, social housing programs and First Home Owner Grants). These contributions are, by and large, not co-ordinated and reducing expenditure in one can result in greater expenditure via another. Jobs Australia believes that Federal Government contributions to housing support should be considered separately either in a stand-alone review or as part of the planned Review of the Federation, so that all of these issues can be fully explored.

With regard to Rent Assistance specifically, the amount of support available needs to vary according to median rents in the local area, as well as the individual's household requirements. At present, the caps are the same regardless of area, and that means that the assistance generally does not cover anywhere near the total cost of rent for people who live in areas with strong labour markets (where rents are higher). That provides a financial pressure that can encourage people to move away from jobs.

In other countries, including New Zealand and the United Kingdom, housing support varies by geographical area. A similar approach could be taken in Australia. For example, if the maximum amount of Rent Assistance varied according to the median rents in broad geographical labour market areas, then the incentive to move away from jobs (and the disincentive not to move to job rich areas) would be reduced.

Jobs Australia also believes that the Rent Assistance supplement could make up a greater portion of the total payment to income support recipients. At present, Rent Assistance does not cover the total rental costs and most income support recipients are using their base payment to cover some of their housing costs. If the principle to be applied is that payments should be based on need, then the base payments should cover people's basic needs other than housing, and Rent Assistance should be paid at a rate that is sufficient to meet most people's housing needs.

**Recommendation 2.5:** Rent Assistance should be set in line with income support recipients' housing needs; and the maximum amount of assistance available should vary (and be regularly adjusted) in accordance with median rents in broad labour market areas. The Federal Government should also conduct a broader review of State and Federal housing policies.

## 2.6 REWARDS FOR WORK AND TARGETING ASSISTANCE TO NEED

IN SHAPING THE FUTURE DIRECTIONS FOR REWARDS FOR WORK AND TARGETING ASSISTANCE TO NEED THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How should means testing be designed to allow an appropriate reward for work?
- At what income should income support cease?
- What would be a simpler, more consistent approach to means testing income and assets?

The issue here is that income tests can affect the way that payments taper when people who are on income support start receiving additional income from work. As work income increases, welfare payments decrease and the net effect can be that people may only be slightly better off.

Jobs Australia has not suggested particular dollar amounts for specific payments, so it is not possible to suggest specific income amounts at which payments should taper or cut out. It may, however, be appropriate to consider some principles.

One way of improving the incentive to work may be to consider eligibility to obtain a payment separately from tapering arrangements. For example, to be eligible to receive a payment for the first time, a recipient may be required to have income from employment below a certain threshold, but what happens when earned income rises above that threshold again can be a separate question. A maximum effective marginal tax rate could then be applied to tapering arrangements, to ensure that income support recipients always have a strong incentive to work or to take on additional hours. An appropriate maximum effective marginal tax rate may be in the vicinity of 55%-60% - but research could be undertaken to find the optimal taper rate.

Assets tests are another complicated area and Jobs Australia may not be best placed to make recommendations. The problem, as stated in the Interim Report, is that different types of assets have different tests applied (creating equity issues) and that the higher threshold for people who do not own a home may need adjusting. We note, however, that there have also been proposals to include the family home in assets tests – for example, the Grattan Institute has suggested including the family home in the pensioner assets tests, with a government loan scheme (secured against the home) to ensure people are not forced to sell their homes. Jobs Australia also notes that the liquid assets test is quite low.

**Recommendation 2.6:** Taper rules should be adjusted to ensure that income support recipients are always significantly better off for each additional hour of work. That may mean limiting effective marginal tax rates to a maximum of around 55% or 60%. A review of assets tests should ensure equity between people who hold different types of assets.



## 3. PILLAR TWO: STRENGTHENING INDIVIDUAL AND FAMILY CAPABILITY

### 3.1 MUTUAL OBLIGATION

IN SHAPING THE FUTURE DIRECTIONS FOR MUTUAL OBLIGATION THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How should participation requirements be better matched to individual circumstances?
- How can carers be better supported to maintain labour market attachment and access employment?
- What is the best way of ensuring that people on income support meet their obligations?
- In what circumstances should income management be applied?

Jobs Australia **supports the principle of mutual obligation**. It is reasonable to expect that those who rely on the support of the state (and, by extension, the broader taxpaying community) also fulfil their responsibility to contribute to society. For those who are able to work, that contribution should involve preparing for, seeking and ultimately obtaining paid employment.

Work is also in the interests of individuals. It provides the financial means to enjoy a higher standard of living and people benefit from the intrinsic rewards of work, too. Research supports mutual obligation as an effective tool for improving outcomes.

Care must be taken, however, as a heavy-handed approach can have a detrimental effect on job seeker motivation. An over-reliance on compliance tools such as benefit sanctions can elicit the wrong type of compliance with obligations: a grudging, technical compliance with the rules - rather than genuine, intrinsic motivation to find work.

If penalties or sanctions for non-compliance are harsh, they can also have the effect of pushing people further into poverty, and further away from the labour market.

For that reason, **Jobs Australia supports approaches where obligations are individually tailored**. At present, in the Job Services Australia and Disability Employment Services systems, job seekers must negotiate an Employment Pathway Plan with their employment consultant or case manager. Whatever is listed in the Employment Pathway Plan becomes part of the job seeker's obligations.

However, the compliance elements of the Employment Pathway Plan have become too great a focus. Rather than being a truly individualised plan, most take in standardised interventions and include two pages of standard conditions, all of which are expressed as obligations that the job seeker must meet. Much of the content is effectively mandated by the contracts that govern employment services.

Evidence suggests that more flexible approaches engage job seekers more effectively and lead to better outcomes. For example, a trial by the Behavioural Insights Team in the UK which involved job seekers drafting their own list of obligations increased employment outcomes by 15-20%.

It may be possible to apply that in Australia by, for example, requiring job seekers to design a plan that will involve at least 25 hours of activity per week, without mandating specific activities. Job

seekers could then choose from a range of options to make up their 25 hours, including volunteer charity work, training that is linked to either a specific vacancy or a vocation or occupation in which there is a skill shortage, Work for the Dole, part-time work, job-search, or attendance at other services that they require (for example, psychologist appointments if the person requires a psychologist). This would improve the flexibility and tailoring of mutual obligations, engage job seekers more effectively and yet result in no reduction in overall obligations.

Jobs Australia also supports the expansion of **mutual obligation principles to other payment types and with other types of obligation**. For example, carers and parents who will at some point be expected to return to the workforce could be encouraged to prepare themselves for work well ahead of the time at which a work obligation will apply. The appropriate mutual obligation requirements for people in such circumstances may be simply to attend a work-focused meeting with an employment services consultant and develop a plan for their return to the workforce. A mandatory requirement to participate in employment programs would not be appropriate but should a person wish to undertake training in preparation for their return to work, the consultant would be able to provide assistance. Other programs, such as parenting and budgeting classes, may also be encouraged.

The key objective of mutual obligations for such groups should be to keep people focused on their futures, focused on how to better their lives for themselves and their loved ones, and to build their capacity to make the choices that will lead to that result. Removing choices through mandatory programs takes away individual responsibility; paternalistic approaches should be avoided.

For similar reasons, **Jobs Australia is very cautious about extending Income Management**. People who move from welfare into work may, at first, have to work in low paid, insecure or casual jobs. Taking away an individual's responsibility for balancing their weekly budget leaves them ill prepared to look after themselves when government supports taper out. In short, the downside to Income Management is that it can make people more reliant on the state, rather than less.

Rather than apply Income Management universally, on a mandatory basis, across broad sections of the population, a better approach would be to target the intervention to those who demonstrate difficulty in managing their own budget. That may be determined by repeated requests for emergency relief, for example. Budgeting classes should be the first intervention; followed by Income Management if difficulties continue or if the income support recipient requests it. Income Management should be time limited, so that responsibility returns to the individual once their budgeting situation is under control.

To encourage job seekers to comply with their obligations, **sanctions for non-compliance should be short and sharp**. An escalating sanction regime is appropriate, but long periods of benefit suspension should be avoided because of the risk of harm to individuals and families that can result. Sanctions should be applied quickly following non-compliance, and re-compliance should result in the immediate reinstatement of any suspended payments.

Recent changes announced by the Federal Government mean that employment service providers will apply sanctions for non-attendance at appointments. This is appropriate in most instances, as it will mean the penalty is applied more quickly, ensuring it has the greatest impact. But it also means that employment consultants have to apply a range of guidelines about a decision-making process that has previously occurred within Centrelink. The decisions are reviewable, so employment services may have to provide (at their own expense) evidence to external tribunals if a job seeker appeals against a sanction. There is also a risk that employment services could become overly focused on the compliance role, routinely penalising job seekers, when their role is more appropriately one of case

management and support. Penalising job seekers is generally not conducive to building a relationship of trust between job seekers and their employment consultants.

Balancing the pros and cons, it is appropriate that small sanctions be applied by employment service providers so that the penalties can apply quickly. Larger sanctions (such as those that result in a more than 50% benefit reduction) should continue to be applied by an independent decision-maker in the Department of Human Services.

#### **Recommendation 3.1:**

- People who receive income support should continue to have responsibilities and obligations, including, for those who can work, an obligation to seek employment.
- Obligations should be tailored and negotiated with individuals, with a range of options available to meet obligations.
- Mutual obligations should be extended to other payments but in a way that leaves individuals in control of their lives, and not exposed to paternalistic mandatory interventions.
- Income management should be targeted to those who need it and time limited.
- Sanctions for non-compliance should be short and sharp, and applied quickly – for small sanctions, by the employment services provider (where relevant) and by the Department of Human Services for others.

### 3.2 EARLY INTERVENTION

IN SHAPING THE FUTURE DIRECTIONS FOR EARLY INTERVENTION THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can programmes similar to the New Zealand investment model be adapted and implemented in Australia?
- How can the social support system better deliver early intervention for children at risk?

Jobs Australia agrees that the New Zealand actuarial or investment approach is one from which we can learn a great deal. Before making comments about how it could be applied in Australia, it is worth making a few observations about welfare reform in New Zealand.

Firstly, many of New Zealand's reforms have actually drawn inspiration from Australia. New Zealand has consolidated payments into three tiers – base payments, which are based on the main reason the individual is out of work (first tier); supplements, such as accommodation, disability and childcare supplements (second tier); and hardship / emergency assistance, such as special needs grants and loans (third tier). This model is similar to models that have been recommended in various reviews in Australia (McClure 2001; Henry 2009).

Employment services for people receiving unemployment benefits in New Zealand are delivered by a public employment service. Employment consultants are government employees and only certain programs (such as training, but not the main case management) are outsourced. Employment consultants can use a small amount funding to pay for services to help job seekers prepare for and

find employment, and the budget is the same for all job seekers, regardless of their level of disadvantage. Wage subsidies are available as well and consultants who work with employers will negotiate an appropriate subsidy for each job seeker.

This means that, as far as employment services are concerned, the people who provide the basic service have no financial incentive to help those who need the most help. It is delivered as a conventional public service, where the system relies on the judgment of individual employment consultants to make decisions about how they ration resources across their job seeker caseload. So far, New Zealand has not decided to go down the Australian path of outsourcing its employment services.

Benefit reforms have also included an extension of mutual obligation principles to new groups, including sole parents, in a way that mirrors reforms in Australia that occurred in the mid 2000s. Income management has been introduced for all young people who receive income support, coupled with budgeting classes that aim to ensure that people are capable of managing their own finances once they cease to be income managed.

It is against this background that the New Zealand Government is introducing an actuarial approach to targeting support to those who need it most. The initial valuation results in identification of characteristics or risk factors that indicate that a person is more likely to become a long-term income support recipient. That information, at present, is used to inform the decision-making of employment consultants. In exercising their judgment about which clients to focus on, they now have a tool that can point them to the clients that need more help. In future, the tool may be used to allocate greater or lesser resources to individual job seekers.

The Australian system already does this, using similar logic, via the Job Seeker Classification Instrument (JSCI). Like the actuarial approach, the JSCI looks for characteristics or factors that indicate a likelihood of long-term benefit receipt. Like the actuarial approach, it uses a regression model to control for factors such as the state of the economy and the unemployment rate. Unlike the actuarial approach, it only looks at job seekers (not at other categories of beneficiary) and only looks at the likelihood of long-term unemployment – that is, more than one year unemployed – rather than the risk of long term benefit receipt over a longer period (such as 40 years, in the case of the NZ actuarial assessment). Another difference is that the JSCI looks at a greater number of factors that indicate disadvantage.

In light of the similarities and difference between the Australian and New Zealand systems, a direct transfer of the New Zealand approach is not really feasible. Rather, an adaptation of Australia's systems, inspired by New Zealand, is probably more realistic.

What is most likeable about the New Zealand actuarial approach is not so much the model itself, but how it is being used. New Zealand is effectively using the actuarial assessment to evaluate the effectiveness of programs, in a consistent way that allows effectiveness to be compared directly even when the programs are different. This is achieved by conducting a trial program, then comparing participants in the trial sample to similar people who do not participate in the trial program. If the future liability projection for the participants in the trial comes down, then the program is effective. Using this approach, the New Zealand Government has discovered that some interventions are less effective than was previously thought.

The approach also allows the savings generated by programs that work to be quantified, so that the benefit of early intervention can be readily seen. **Notably, however, too great a focus on the value of the return could result in inequitable policies** – such as investing less in those people who are

least likely to enter or re-enter the workforce, because they would deliver little return on the investment. Taking the investment model to the extreme could see older unemployed people and people with a disability 'shelved'.

Jobs Australia would **support the development of an actuarial model in Australia** for the purposes of:

- Improving the Job Seeker Classification Instrument, by taking a longer-term view of 'long-term unemployment';
- Providing a consistent tool for program evaluation, that can compare the effectiveness of different policies and interventions by quantifying the savings they deliver on the future benefit liability projections – in other words, for working out which programs deliver the best outcomes for each dollar of investment; and
- Determining groups for whom additional support is warranted (but not for withdrawing support from other groups).

Given that Australia already has some sophisticated models underpinning its support services, any new model needs to be an improvement. It may be necessary to undertake more detailed research on implementing an actuarial approach in Australia; and it may be necessary to run the model alongside the existing model for a time to ensure that it does deliver an improvement. A body like the Productivity Commission would be well placed to undertake the necessary research.

**Recommendation 3.2:** An approach similar to the New Zealand actuarial approach should be developed for the purposes of improving the targeting of services for people who receive income support; improving program evaluation; and identifying other groups for whom additional investment is warranted. The development of the model should be undertaken by a suitable independent research body, such as the Productivity Commission.

### 3.3 EDUCATION AND TRAINING

#### IN SHAPING THE FUTURE DIRECTIONS FOR EDUCATION AND TRAINING THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- What can be done to improve access to literacy, numeracy and job relevant training for young people at risk of unemployment?
- How can early intervention and prevention programmes more effectively improve skills for young people?
- How can a focus on 'earn or learn' for young Australians be enhanced?

Changes in the structure of the Australian economy mean that there are good opportunities for the highly educated and highly skilled, but the job market is now much more difficult for those who have little education and lower skills. Basic literacy and numeracy is a bare minimum requirement for most jobs.

Improving education broadly is worth doing in itself. Broadly speaking, a more educated population is going to be better equipped for the jobs of the future – and, on a long-term view, investments in education are likely to pay off, even if the investment is not directly linked to a specific employment opportunity.

Training people who are unemployed can also help deal with frictional unemployment. When there is a downturn, unemployment rises and more people end up on benefits; when the economy recovers and employer demand for labour increases, people who have been undertaking training in the intervening period will be better placed to move into jobs quickly. That helps to keep the labour market functioning efficiently, reducing labour shortages (and the spike in wages growth that they can bring).

Many employers complain, however, that training is not providing people with the skills that they need. Foundation skills – which includes basic literacy and numeracy but also other ‘soft skills’ such as how to behave appropriately in the workplace – are often lacking and vocational training is often not delivering the specific skills required for the relevant vocation. On that basis, Jobs Australia believes more can be done to improve the quality of training and there is scope for greater collaboration between employers and training providers. Online courses, in particular, are unlikely to provide the complete range of skills that employers demand.

Given the life-long consequences that can flow from a failure to obtain the basic skills required for participation in the labour market, it is particularly important to have early and effective interventions for young people who drop out from school or who are at risk of dropping out.

Previous experience with programs such as Youth Connections shows that a specialised, intensive case management service with tailored responses to reconnect young people with education and training (or a combination of training and work) can be highly effective. Jobs Australia supports a specialised service to target the particular needs of young people, separate from the mainstream employment services system.

Jobs Australia believes a heavily compliance-focused system that seeks to punish young people into compliance is likely to result in young people disengaging from the system altogether, rather than engaging in appropriate case management, education and training services. If young people disengage, they will not get the training they need and will become long-term income support recipients in adulthood. A punitive approach to ‘earn or learn’ will cost all of us more in the long run.

**Recommendation 3.3:** Regulators should continue to drive improvement in the quality of vocational education and training. Specialised youth services (separate from mainstream employment services) should provide tailored case management support to reconnect young people who disengage from education (or are at risk) with appropriate education and training, either on its own or in combination with work. Governments should take a less punitive approach to ‘earn or learn’.

### 3.4 IMPROVING INDIVIDUAL AND FAMILY FUNCTIONING

IN SHAPING THE FUTURE DIRECTIONS FOR IMPROVING INDIVIDUAL AND FAMILY FUNCTIONING, THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can services enhance family functioning to improve employment outcomes?
- How can services be improved to achieve employment and social participation for people with complex needs?

Jobs Australia believes support services, including employment services, should be sufficiently flexible to foster approaches such as those mentioned in the Interim Report. These include so-called 'wrap around' servicing models. In outcome-focused programs, there should be sufficient incentive to ensure that service providers adopt models that are effective. Maintaining flexibility is important not only so that models that we know are effective can be deployed appropriately, but so that new models can be developed and tried, and services can continue to innovate and improve.

**Recommendation 3.4:** Systems should be designed so that they are flexible enough to foster a range of successful approaches, including those mentioned in the Interim Report.

### 3.5 EVALUATING OUTCOMES

IN SHAPING THE FUTURE DIRECTIONS FOR EVALUATING OUTCOMES THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can government funding of programmes developing individual and family capabilities be more effectively evaluated to determine outcomes?

Jobs Australia believes that program evaluations need to be more consistent. Ideally, experimental approaches such as randomised control trials should be used, wherever possible. Government could assist by developing a tool that could be used by non-government organisations to measure the success of pilot programs. Such a tool could be adapted from the New Zealand actuarial approach, discussed above.

**Recommendation 3.5:** That government develop consistent approaches to program evaluation and make evaluation tools available to non-government organisations.

## 4. PILLAR THREE: ENGAGING WITH EMPLOYERS

### 4.1 EMPLOYMENT FOCUS – MAKING JOBS AVAILABLE

IN SHAPING THE FUTURE DIRECTIONS FOR MAKING JOBS AVAILABLE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can business-led covenants be developed to generate employment for people with disability and mental health conditions?
- How can successful demand-led employment initiatives be replicated, such as those of social enterprises?

Jobs Australia supports employer-led covenant models, social enterprise models and the other responses noted in the Interim Report which work to increase the employment opportunities for some people who are disadvantaged in the labour market. The question is not so much whether these programs are effective – they undoubtedly are in many cases – but where they fit in a government funded system.

In our view, these developments are not a replacement for public employment services. A key element to a covenant (or any other corporate-led program) is a sense of altruism or ‘giving something back’ on the part of the employer. That desire to help is something to be encouraged, fostered and harnessed for public good, but it needs to be remembered that it will tend to mean that programs focus on some groups over others, and that the resources and opportunities that go into the program will not necessarily be targeted to those who have the greatest needs. For example, within the broad categories of indigenous, disability and mental health (which are cited in the Interim Report) there is a whole spectrum of more and less disadvantage and it is more likely that those with less severe barriers within those categories will be offered the new opportunities.

The result can be that the most disadvantaged remain excluded. For example, some programs rely on job seekers putting themselves forward for selection to enter the program – which means that the only job seekers that gain entry are those who are already motivated to work. Other programs select only job seekers who are presentable (particularly where the jobs available are customer-facing roles), or who have independent transport (such as those that place people in late night work).

Jobs Australia’s conclusion is that there must be room for such programs in the system, but they cannot replace a public employment service that distributes resources and opportunities to the individuals that need them most, regardless of what group or category they fit into.

On that basis, government funds could contribute to the promotion and encouragement of covenants and social enterprise programs, but should not directly fund them. Rather, funds should be available through the range of programs that government funds – such as wage subsidies, training subsidies, and other support currently available through Job Services Australia and Disability Employment Services. These resources can help employers take on disadvantaged job seekers, whether it is part of a covenant or not.

This raises a related issue: the fact that employers find the available supports difficult to navigate and complicated to administer. Making use of government supports should be easier. Jobs Australia will provide further feedback on this issue in the next section.



**Recommendation 4.1:** Recognising the value of covenants and other employer-led initiatives, government should continue to promote and encourage the development of such programs. Noting their limitations, however, they should not be directly funded by government. Government funds should continue to be available to employers via wage subsidies, and available to support job individual job seekers via employment services providers. Government funds should continue to be targeted to those job seekers with the greatest need for support. Employment services should also be reformed to make it easier for employers to engage with the system.

## 4.2 IMPROVING PATHWAYS TO EMPLOYMENT

### IN SHAPING THE FUTURE DIRECTIONS FOR IMPROVING PATHWAYS TO EMPLOYMENT THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can transition pathways for disadvantaged job seekers, including young people, be enhanced?
- How can vocational education and training into real jobs be better targeted?
- How can approaches like Individual Placement and Support that combine vocational rehabilitation and personal support for people with mental health conditions be adapted and expanded?

Jobs Australia agrees with the observations in the Interim Report concerning Job Services Australia (JSA) and Disability Employment Services (DES). These systems are highly regarded internationally and achieve more outcomes at lower cost than any other programs to date. This is in part due to the highly targeted funding model, which directs resources towards those who enter the system with greater disadvantage, and the flexibility that allows providers to develop (within certain boundaries) different service models and approaches for obtaining employment outcomes.

The system was designed to create a competitive market, with providers developing their own models in competition with one another and the contract design rewarding the best performance. If the incentives, outcome payments and performance framework are designed correctly, then the provider that designs the best service should win the spoils.

However, inflexibility has crept into the model, along with some distorted incentives. With much of the payment model dependent on employment outcomes, periods of softness in the labour market can make it harder for providers to generate sufficient revenue to provide a service above the bare minimum required in the contract. Providers then look for other ways to generate income from the contract, such as from educational outcomes. These are defined by reference to the amount of time the job seeker spends in the training – the training does not need to lead to employment and the job seeker does not even need to successfully complete the course. The result can be ‘training for training’s sake’ – when a better approach is to train people for a specific vacancy, so that the job seeker has direct line of sight to the job.

With respect to employment services, the best answer is to reintroduce flexibility to the model and provide adequate resources for providers to be able to design and deliver a range of service models. At the moment, some providers use Individual Placement and Support, some implement employer demand-led training programs, and some make good use of apprenticeships and traineeships. But more providers could make use of these types of solutions and some of those who are already using

them could do so more effectively. Flexibility and adequate resourcing should ensure providers have room to experiment with various models and settle on those that work best in their local area.

Providing flexibility means specifying less in terms of process, and focusing more on accountability for outcomes; providing resources to allow providers room to experiment and innovate means a funding model where some of the funding is provided up-front, so that money is available to invest in interventions, with a portion of funding linked to employment outcomes to drive performance. Historically, the JSA model has provided around two thirds of funding up-front and a third of funding in outcomes (including educational outcomes); Jobs Australia believes this balance could be recalibrated to something closer to 60% up-front and 40% in outcomes, with incentives for training significantly reduced.

Jobs Australia has also developed its own *Blueprint* for employment services, representing a long-term plan to make the system more like a competitive marketplace for employment outcomes. The *Blueprint* is available on the Jobs Australia website, at [www.ja.com.au/2015/blueprint](http://www.ja.com.au/2015/blueprint).

Re-designing employment services could deal with inflexibility and could remove misaligned incentives, but there would still be issues with training that is poorly suited to employer needs. The process of deregulation in the vocational education and training sector in recent years has led to a drop in quality of training provision. Efforts to drive quality back up may be achieving their goal but there is still room for more improvement. Greater effort could be made in the training sector to ensure courses are meeting the needs of employers.

For younger people, particularly those who have left school early or are at risk, a more specialised service is required to ensure that they attain an appropriate level of education before they enter the workforce. The mainstream employment services system may not be the best place for such a service, as the focus in employment services is very much a work-first focus. Jobs Australia believes that a specialised program to reconnect disengaged youth with education and training is justified, with a different program and payment structure from other employment services.

With respect to labour mobility and relocation, Jobs Australia notes the finding by the Productivity Commission, which is noted in the Interim Report, that a reluctance to move is often associated with personal factors such as family considerations and the cost of housing. Jobs Australia has already suggested that Rent Assistance and other housing related funding should be reviewed. Other measures need to be taken to reduce the risk of relocation; to make people feel safe to give it a go in another area without being penalised.

To that end, relocation assistance is welcome but the penalties that can apply if things do not work out with the employer can seem and be unduly harsh. Noting that people who relocate will need to sign up to a long-term lease, short-term assistance is unlikely to overcome the disincentive associated with the risks. If relocating seems risky, then job seekers are more likely to persist with the status quo – particularly if relocating also involves disruption to family, such as moving kids to a different school.

Relocation assistance should be redesigned to take away more of the risk that people face in relocating. It is not just the short-term, up front cost of moving: it is the ongoing cost and the worsening of the job seeker's financial position that could arise if things don't work out. Given the low take-up of relocation assistance programs, a re-designed program that invested more funds in eliminating the risks of relocation may not require any increase to the funding envelope.

**Recommendation 4.2:**

- The next Job Services Australia (or public employment service otherwise named) contract should provide greater flexibility for providers to experiment with a range of service models, and select those that are most effective at moving people from welfare and into work.
- Governments should continue to pursue greater quality in the training sector.
- For younger Australians, and particularly those experiencing difficulties in their transition from school to work, a separate, specialised program should be developed that is more suited to the needs of young people than mainstream employment services.
- Relocation assistance should be revised with a view to eliminating more of the risk that people face when making the decision to move for work.

## 4.3 SUPPORTING EMPLOYERS

## IN SHAPING THE FUTURE DIRECTIONS FOR SUPPORTING EMPLOYERS THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can an employment focus be embedded across all employment and support services?
- How can the job services system be improved to enhance job matching and effective assessment of income support recipients?
- How can the administrative burden on employers and job service providers be reduced?

Jobs Australia agrees with the observations in the Interim Report concerning red tape and complexity in employment services. Red tape not only makes it harder and more expensive for providers to deliver the service, but makes it more difficult for both employers and job seekers to engage with the program. In the case of job seekers, that leads to reliance on punitive sanctioning regimes to force job seekers to engage, but employers just turn away from the system.

The Federal Government should, however, be congratulated for recent reforms that reduce the red tape for employers. Providers will no longer need to obtain evidence of employment from employers; instead, evidence provided via Centrelink will be sufficient. Legal threats will also be removed from government forms that employers fill in – making them less off-putting.

There is still a great deal of complexity in the system, however.

Jobs Australia's *Blueprint* for employment services reform proposed to reset the relationships in the system, making it more market-like and increasing the accountability of providers to employers and job seekers. This would be achieved by giving job seekers more say over the services and interventions they receive; allowing greater specialisation in the provider market (including providing room for industry specialists); and ensuring incentives aligned with longer-term employment outcomes.

The model also proposed automatically completing as much of the Job Seeker Classification Instrument as possible from data that is already held by government, rather than relying on brief phone interviews that too frequently result in some important job seeker characteristics being missed or not disclosed.

Other approaches could also work, however (including, for example, a system designed around the New Zealand actuarial approach). The key objectives should be to allocate support funding to job seekers based on their level of need, give service providers the flexibility to use a variety of tools and interventions to obtain the desired outcomes, and provide the incentive to do whatever is most effective by linking a portion of the funding model to outcomes.

If those objectives are satisfied, then providers will work better with employers because will be firmly in their interests to do so.

**Recommendation 4.3:** Government should investigate longer-term reforms for employment services that would increase flexibility and allow a greater focus on the needs of employers and job seekers.

## 5. PILLAR FOUR: BUILDING COMMUNITY CAPACITY

### 5.1 ROLE OF CIVIL SOCIETY

IN SHAPING THE FUTURE DIRECTIONS FOR THE ROLE OF CIVIL SOCIETY THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can the expertise and resources of corporates and philanthropic investors drive innovative solutions for disadvantaged communities?
- How can the Community Business Partnership be leveraged to increase the rate of philanthropic giving of individuals and corporates?
- How can disadvantaged job seekers be encouraged to participate in their community to improve their employment outcomes?

### 5.2 ROLE OF GOVERNMENT

IN SHAPING THE FUTURE DIRECTIONS FOR THE ROLE OF GOVERNMENT THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can community capacity building initiatives be evaluated to ensure they achieve desired outcomes?
- How can the income management model be developed to build community capacity?

### 5.3 ROLE OF LOCAL BUSINESS

IN SHAPING THE FUTURE DIRECTIONS FOR THE ROLE OF LOCAL BUSINESS THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can communities generate opportunities for micro business to drive employment outcomes?
- How can mutuals and co-operatives assist in improving the outcomes for disadvantaged communities?

### 5.4 ACCESS TO TECHNOLOGY

IN SHAPING THE FUTURE DIRECTIONS FOR ACCESS TO TECHNOLOGY THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- How can disadvantaged job seekers' access to information and communication technology be improved?

### 5.5 COMMUNITY RESILIENCE

IN SHAPING THE FUTURE DIRECTIONS FOR COMMUNITY RESILIENCE THE REFERENCE GROUP WOULD LIKE FEEDBACK ON:

- What strategies help build community resilience, particularly in disadvantaged communities?
- How can innovative community models create incentives for self-sufficiency and employment?

Jobs Australia believes the question here is really: what are the respective roles for government, markets (including businesses), and civil society (including family, local community groups and non-government organisations) in local communities?

It is clear that each has a role; and it is clear that each role is different.

For governments of all levels, there are a range of roles: ensuring a strong economy that creates job opportunities for people of all abilities; providing both physical and social infrastructure; planning communities; and providing services such as health, education and welfare services which markets would allocate inequitably and inefficiently.

Markets are generally the most efficient mechanism for allocating resources but are not suited for allocating public goods, and can be prone to failure in situations where people do not act rationally or where there are information asymmetries. Government intervention to address market failures is generally considered appropriate – debate is around when to intervene, how much to intervene, and what types of intervention.

The role of civil society is different again. Civil society can do things that neither governments nor markets can do, and they can do them from the ground up, rather than the top down. Civil society can provide flexibility, innovation and creativity to solve complex problems.

All of the initiatives referred to under Pillar 4 of the Interim Report are worthy initiatives. The question for Government, however, is to decide what its role should be and then leave markets and civil society to respond accordingly. Too much intervention, too much specificity in funding arrangements for civil society, picking 'winners' by mandating programs that have the greatest political appeal (but not necessarily the greatest effect) and conscripting civil society organisations and turning them into agents of the state simply impedes their ability to respond appropriately to challenges in the community. Just as government intervention in markets can create economic inefficiency, so government intervention in civil society can create inefficiency in the responses to social problems.

**Recommendation 5.1:** Government should take care not to encroach too much on the independence of civil society.