

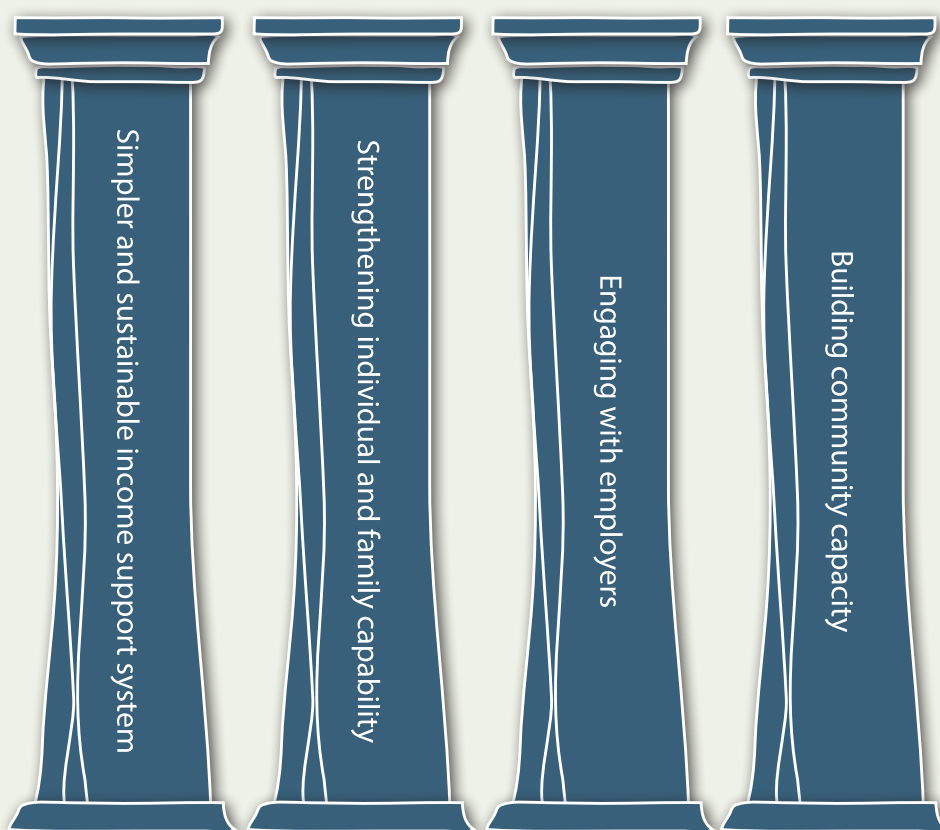
# A New System for Better Employment and Social Outcomes

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Report of the Reference Group on Welfare Reform to the Minister for Social Services

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## EXECUTIVE SUMMARY



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## EXECUTIVE SUMMARY





# Executive Summary

Australia's social support system needs major reform to deliver better outcomes for all Australians now and in the future.

Changes to the system over time have led to unintended complexities, inconsistencies and incoherencies. They have created disincentives for some people to work.

The system is out of step with today's labour market realities and community expectations.

It is failing to identify groups at risk of long-term income support dependence and needs to refocus on early intervention and supporting individuals through difficult transitions.

Without reform, the fiscal, economic and social sustainability of the system will be compromised.

A new social support system is needed to improve employment and social outcomes. The current system is complex and does not support everyone, who is able, to work and be self-reliant.

An integrated approach is needed which builds on four pillars of reform:

- Simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity

# Case for Reform – Towards a Simpler System that Supports Work

A much greater focus on employment is needed.

People who can work should work to their capacity and rates of payment should reflect different capacities to work and support a transition to work.

People with very limited capacity to work should receive a payment that reflects that they are likely to be receiving income support indefinitely with little capacity to supplement payments through work.

## Complexity

There are currently around 20 income support payment types and 55 supplementary payments.

The many payments and supplements have resulted in a system that is difficult to understand, navigate and administer. Existing means testing arrangements add to this complexity and result in a system that is confusing for income support recipients. This complexity leaves recipients unsure about the potential rewards from work.

These failings reduce the effectiveness of the system and can also undermine community confidence in the fairness of the system.

The current system does not work well for people with mental health conditions, which are often episodic. It also fails to differentiate effectively between permanent and temporary incapacity when assessing eligibility, rates of payment and associated services offered by the social support system.

Multiple payments and inconsistent rules around payments for dependent children and young people create further complexity.

Altogether, the income support system does not provide clear rewards for work and should be simplified.

## System Coherence

The effect of different indexation measures, changing priorities and ad hoc policy responses have led, over time, to a 'patchwork quilt' income support system that is inequitable and lacks coherence.

People with similar basic living costs and similar capacities to work may receive very different levels of financial support, and have different participation requirements.

These differences significantly reduce the effectiveness of the system and lead to incentives for people to try and qualify for higher income support payments, rather than building their capacity and aiming for greater self-reliance through employment.

For example, pensions and allowances are indexed differently, which has created a widening gap between the two:

- allowances are indexed twice a year to the Consumer Price Index
- family payments are indexed once a year to the Consumer Price Index

- pensions are indexed twice a year to whichever is higher—the Pensioner and Beneficiary Living Cost Index or the Consumer Price Index
- pension rates are also benchmarked to Male Total Average Weekly Earnings.

Adjusting income support payments to ensure they increase in line with broader changes in community living standards is not a simple issue and there are no easy solutions.

## Benefits of Work

There are many benefits of work. Most people gain health benefits associated with employment, both physical and mental. Work can be a vital part of recovery for people with mental health conditions. Intergenerational benefits of work accrue as children who grow up in employed households have better social, emotional, physical development and learning outcomes. The community also benefits. Increased employment supports economic growth, minimises the cost of income support payments and increases the amount of tax paid.

Some people receiving income support have little or no requirements to participate in employment and tend not to access employment services. There is scope to improve employment and social outcomes for many people in these groups by reviewing their capacity, to encourage and require greater participation in education, training, work or other work preparation activities.

## Meeting Future Economic and Social Challenges

The social support system should be re-designed to ensure it is responsive to the future economic and social challenges Australia faces.

The Australian economy has undergone major structural changes in recent decades.

As this restructuring continues, the nature and availability of jobs across the country and the skills required for these jobs will change. At the same time, the demographic challenges of the ageing of the population will continue as the ratio of the working age population to the over 65 age group declines.

These changes include:

- major changes within and across industries
- increasing skill levels
- an ageing population
- much higher participation among women and older Australians
- increases in the part-time and casual workforces.

## Sustainability

For the social support system to be sustainable, it should be:

- Socially sustainable—building broad community acceptance and support, and reflecting community values and expectations. There is a need to ensure that the system is fair and seen to be fair across current and future generations.
- Fiscally and economically sustainable—despite Australia having one of the most targeted income support systems in the OECD, it is still important to ensure costs are constrained in the context of an ageing population and anticipated increases in government expenditure in health, age related pensions and aged care. There is also an opportunity to contribute to economic growth through greater levels of participation and improved labour force productivity.

## Transitions

The success with which people make transitions during their life is a major determinant of their long term wellbeing.

The current social support system does not have a coherent approach to supporting the significant transitions that can affect an individual during their life.

Whether or not a transition is a positive or negative experience depends on a range of risk factors, which, if mismanaged, can place individuals at risk of long-term joblessness and disadvantage. These risk factors include: low levels of education or skills; homelessness; disability or illness; living in rural or remote areas; social isolation; caring responsibilities; and unstable or casual work.

Gaining a better understanding of these risk factors will allow for investment in early intervention and to reduce the risk of long term income support dependence.



## Pillar One

### Simpler and Sustainable Income Support System

The new income support system should have a strong employment focus. It should encourage and support people to work to their capacity.

The new system should be simpler, easier to access and understand, be delivered efficiently and effectively and have clear rewards for work.

A Passport to Work should be developed that supports people to transition from income support to work. The Passport to Work should remove the fear people have of taking a job by making it easier to understand the financial rewards of work. It should also encourage people to establish themselves in long term employment by providing a safety net that enables them to return to their former income support payment (and concessions) if the job ends or hours reduce.

Payments in the new system should be adequate enough to provide a basic, acceptable standard of living and to cover the costs of participation.

In transitioning to the new system no person moving from a payment under the old system to a payment under the new system should have a reduction in their rate of payment.

In recognition of the critical role of housing to employment, education, job search and health, and the disincentives to work and inequities in the current system of housing assistance, income based rents should be phased out in public housing and replaced with Commonwealth Rent Assistance, over time.

### Simpler Architecture

In the new system a major redesign of the payment architecture should be the centrepiece of reform.

There should be five primary payments:

- Tiered Working Age Payment
- Supported Living Pension
- Child and Youth Payment
- Carer Payment
- Age Pension.

The key to a simpler architecture is to have fewer primary payment types with varying rates within the primary payments that better reflect different circumstances.

Many people currently on Newstart Allowance would be better off in the new system.

## Tiered Working Age Payment

The tiered working age payment is a means tested payment for adults who are expected to work now or in the future. It should be the primary payment for people of working age, with three tiers to reflect the varying capacities of individuals.

The Upper Tier should be for people with disability with a limited capacity to work, who, as a result of this limited capacity, are more likely to stay on payments for some time.

The Middle Tier is for people with moderate capacity to work and/or those with dependent children or dependent young people. This includes people with disability and an assessed capacity to work of 15 and 29 hours per week. It also includes parents caring for dependent children or dependent young people aged under 22 years.

The Foundation Tier is for people with full capacity to work or study full time.

For each tier, there should be single person rates and a partnered rate, with single rates more than the partnered rate (i.e. more than half the rate to a couple combined) to reflect that single people have higher costs than couples living together.

## Supported Living Pension

The Supported Living Pension is a means tested pension for people over 22 who are permanently and severely restricted in their capacity to work in the open labour market.

The definition of 'permanence' in the new system should relate to how long an individual is limited in their capacity to work, not the permanence of the impairment itself. An individual may have a severe and permanent impairment but this may not lead to permanent limitations on their capacity to work.

The Pension should be available for people with disability and an assessed work capacity of less than eight hours a week. The level of incapacity must be expected to last for at least another five years.

## Child and Youth Payment

The Child and Youth Payment should be a means tested payment paid to parents or guardians of dependent children and dependent young people under the age of 22.

It should be paid per child and increase with the age of the child to better reflect the increasing costs of children as they grow up. It should be conditional on the child or young person having up to date immunisations and being in school, education, or training, where they have the capacity.

## Childcare

In the draft report of its inquiry into Childcare and Early Childhood Learning, the Productivity Commission suggested simplifying the range of childcare payments and ensuring that they encourage and support employment.

The Reference Group supports this draft recommendation.

## Age of independence

In the new system there should be a consistent minimum age at which a young person should be able to access income support in their own right.

In providing financial support for people unable to support themselves, the payment system should provide assistance to parents for dependent children and dependent young people and to the individual when they are independent of their parents.

Children and young people are expected to be engaged in education and so are not expected to support themselves through work below a certain age.

The Reference Group considers that income support should not generally be available to young people under the age of 22 in their own right.

## Carer Payment

In the new system the Carer Payment would continue to be a means tested payment for people over the age of 22 who are restricted in their capacity to work because of their caring role. It would be available for people providing constant care for someone with a physical, intellectual or psychiatric disability or older people in need of care.

In the Interim Report, the Reference Group suggested carers should receive a Working Age Payment. During the consultation process, the Reference Group heard from a range of carer representatives and carers themselves, who described the major challenges to working that face them as a result of their caring responsibilities.

It is clear that a separate payment for carers (the Carer Payment) and limited requirements, such as periodic discussions to talk about goals and options, are more appropriate than the new Working Age Payment.

## Age Pension

People who are over Age Pension age would usually qualify for the Age Pension where they meet eligibility requirements, including residence. The Age Pension is outside the scope of the Review.

## Recommendations



Implement a new architecture for the income support system that is employment focused. The new system will be simpler, more coherent and clearly reward work.



Introduce a new payment architecture with five main payments, which aims to encourage education and work and which recognises that people's capacity to work can be limited by disability or caring.

- The five main payments be:
- a Working Age Payment—a means tested payment for adults who are expected to work now or in the future, with three tiers to reflect the varying needs and capacity of individuals to work:
  - The Upper Tier should be for people who have a limited capacity to work and due to this are more likely to stay on payment for a longer duration.
  - The Middle Tier should be for people with moderate limitations on their capacity to work and parents and primary carers of dependent children and dependent young people under the age of 22.
  - The Foundation Tier should be for people with full capacity to work or study.
- A Supported Living Pension—a means tested payment for individuals over 22 who are permanently and severely restricted in their capacity to work.
- A Child and Youth Payment—a means tested payment paid to parents for dependent children and dependent young people, until the age of 22.
- A Carer Payment—a means tested payment for individuals over 22 with caring responsibilities.
- An Age Pension—a means tested payment for people over the Age Pension age.



Consider the Productivity Commission's final report on Childcare and Early Childhood Learning alongside proposed reforms to the income and social support systems, to improve supports for parents to participate in education and employment.



Design transitions to ensure that no individual moving from the old system to the new system will experience a reduction in their rate of payment.

## Supplements and Concessions

In the new system there should be fewer supplements and they should have clearly defined purposes and be for specific additional costs.

The Government should review all supplements alongside the detailed development of the new payment architecture.

The range of supplements should sit under the following categories:

- Housing to assist with the costs of rental accommodation
- Child and Family to assist with specific extra costs related to children
- Education to assist with specific additional costs of children and young people, when they need to live away from home to work or study
- Carer and Disability to assist in caring for children and adults with disability or people who are frail and aged.

In the new system, concession cards should continue to be available as they provide access to health concessions and help reduce the cost of certain goods and services.

## Recommendations

- » Review all supplements alongside the detailed design of the new payment architecture.
- » Supplements in the new system should be for clearly defined purposes and specific extra costs.
- » Implement four categories of supplements as follows:
  - Housing
  - Child and Family
  - Education
  - Carer and Disability.
- » Retain concession cards as a component of the social support system. Income support recipients and low income earners should receive concessions to assist with health costs and certain goods and services.

## Adequacy

Payments in the new system should cover basic costs of living and costs of participation, and more adequately reflect people's circumstances and capacity to work. Current allowances do not reflect that people with limited capacity to work can stay on an allowance for a significant period of time.

People with a partial capacity to work, such as single parents and people with disability, are more likely to stay on payments for a longer duration given the limitations on their capacity to work.

In setting rates in the new system the Government should consider:

- the balance between adequacy, incentives to work and affordability
- the coherence of the system. One payment should not be changed without considering the impact on other payments
- individuals' capacity to work. Higher rates should be set for people with limited capacity to work who are less able or unable to supplement their payments through earned income.

Setting of payment rates and obligations needs to be complemented by appropriately resourced support services. Adequacy needs to be measured against the individual or household package of income support. This may include the primary income support payment, supplements including Commonwealth Rent Assistance, concessions, payments that assist with the cost of raising children and the different rates accorded to single person households relative to couple households.

People need a payment that enables them to have a basic, acceptable standard of living, and that allows them to meet their obligations to look for work, or to study, and/or to support children.

Many people currently on Newstart Allowance would be better off in the new system.

## Adjusting Payments

Income support payments in the new system should be adjusted to both:

- ensure living standards of people relying on income support payments reflect broader changes in community living standards
- maintain purchasing power, in line with cost of living increases.

To create and maintain a more coherent income support system, it is important that relativities between payments are maintained over time. Payments should be adjusted in a consistent way to ensure coherence of the income support system.

In the new income support system, payments should be adjusted through a twin tracked approach:

- a community living standards review – every four years, a panel of experts would review and recommend a community living standards adjustment, where appropriate, to government
- an automatic cost of living adjustment, such as the Consumer Price Index or a purpose built index, every six months.

This should be applied to all payments to protect the coherence of the system.

## Recommendations: Adequacy and Indexation



Adopt a twin tracked approach to payment adjustments across all income support payments:

- a community living standards adjustment following a periodic review (at least every four years) undertaken by a panel of experts.
- An automatic cost of living adjustment every six months, following a process to determine the most appropriate cost of living index for the new payment architecture.



The expert panel established to review community living standards should consider a wide range of relevant factors in providing its advice to Government on changes in community living standards.



The review should be undertaken at least every four years to determine whether payment levels are appropriate relative to community living standards. The review should be open, transparent and published.



The Government should review current measures to index payments to cost of living (CPI and PBLCI) and determine the most appropriate index to use across all payments in the future.

## Making Work Pay

### The Passport to Work

The Passport to Work should be a key feature in the new system. The Passport to Work would make it clear to recipients how their income support package would be affected when moving into work or increasing hours and what would happen if work reduces or ends.

It will provide a safety net that encourages individuals to establish themselves in sustainable employment and allows them to return to their previous income support entitlement, if hours of work reduce or work ends.

### Coherent withdrawal rates

In the new system, it should be easier for recipients to understand how their income support payments will be withdrawn as hours of work increase.

Income banking arrangements, income free areas and taper rates should be consistent within each payment group and, to the greatest extent possible, across payments. This would ensure that income support recipients are able to easily calculate how much they would gain from entering employment or increasing their hours.

Income banking (which allows people to save credits from when they have little or no earnings to offset earnings later) should be available in the new system in recognition of the availability of casual and seasonal work and students' work patterns.

The design of these arrangements, income free areas and taper rates should ensure that income support recipients can clearly see the benefits of a return to work and that there are no sudden drops in income support.

## Targeting assistance to need

Means testing is a central feature of Australia's social support system. People who have earnings from work, unearned income from investments, or significant assets receive reduced payments or no payments at all.

In designing means tests for the new system, there is a need to strike a balance between targeting that is based on need and maintaining incentives to work.

## Recommendations: Making Work Pay



Introduce a 'Passport to Work' for income support recipients—a set of personalised guidelines which describe how much better off people will be in work and reduce the fear of taking a job. The main elements of the Passport to Work should include:

- an assurance that, if hours reduce or work ends within a defined period, that people can transition back to their previous income support entitlement
- the retention of eligibility for concession cards for a significant period of time, for people who return to work or increase their hours
- a comprehensive and clear impact statement of how income support will be affected as hours of work or income change. This statement will be personalised and cover payments, supplements and concessions and will be available online.



Review and refine current income banking arrangements, income free areas and taper rates to ensure they deliver greater consistency and clearer rewards for work under the new system of income support.



Ensure that income tests are consistent within each payment category and to the greatest extent possible across payments.



Ensure that income banking arrangements are available for people to smooth income earned, particularly from casual work and for students. Income banking arrangements should be simple and easy for people to calculate the impact of irregular income.





In the longer term, as part of the redevelopment of ICT systems for payments, consider introducing real time reporting and assessment of income and better integrate the tax, employment and income support systems.



Review means testing in relation to the new payment architecture to ensure:

- income support payments are targeted to those most in need
- rewards for work are clear
- negative effects of means testing such as income test 'stacking' and 'sudden death' assets thresholds are minimised
- people with similar means and circumstances receive similar levels of income support.

## Housing Assistance

In the new system, housing assistance should be recognised as a key component of securing social and employment outcomes.

The consultations on the Interim Report reinforced the need to address poor work incentives for public housing tenants (caused by income-based rents) and the discrepancies in government support between public and private tenants. A new approach is needed that gives similar housing support to people in similar circumstances.

The Government's White Paper on the Reform of the Federation is being developed and will seek to clarify Commonwealth and States' roles and responsibilities. This could change the Commonwealth's role in housing significantly.

## Recommendations



Reduce disincentives to workforce participation by moving from income based rents in public housing and extending Commonwealth Rent Assistance to public housing tenants.



Transition arrangements to move from income based rents in public housing would need to be carefully constructed and implemented over time to ensure people were given adequate time to prepare for the new arrangements. This could include grandfathering provisions for certain groups.



Review the levels and indexation of Commonwealth Rent Assistance to ensure that it appropriately reflects the costs of rental housing to tenants.

## Transition and Implementation

People currently receiving income support should not receive a reduction in the rate of payment when the new system comes into effect.

When people transitioning to the new system have obligations under their new payment these should be applied in a tailored way, taking account of their capacity, recent experience and previous obligations.

The new system will be the most fundamental structural reform of the income support system since its inception. Redeveloping the income support IT system in conjunction with income support payment reform is necessary for Centrelink to provide simpler, easier to manage claims and support services.

In addition to the redevelopment of the IT system, the ability to capture and integrate real time data, particularly income data from the Australian Taxation Office, would significantly reduce reporting requirements for people receiving income support and reduce the likelihood of debts being incurred.

To ensure a smooth transition, the Reference Group considers that a phased transition of payments is the best approach.

The first stage:

- the concurrent implementation of the
  - Supported Living Pension
  - Working Age Payment
- implementation of the Carer Payment
- reform of supplements.

The second stage:

- the implementation of the Child and Youth Payment (once the Supported Living Pension and Working Age Payment are fully implemented).

Changes to public housing income based rents and Commonwealth Rent Assistance should be considered in the context of the Review of Federation White Paper.

## Recommendations



In transitioning to the new system, no one has a reduction in their rate of payment.



Undertake a staged implementation of the new income support system:

- Stage One is the concurrent implementation of the Supported Living Pension, Working Age Payment, Carer Payment as well as changes to supplements and concessions for these groups.
- Stage Two is the implementation of the Child and Youth Payment as well as changes to supplements and concessions for this group.



Develop a new IT system that supports the income support reforms, enables greater use of technology and integrates real time data, particularly from the Australian Tax Office. This should make the system easier to administer and mean it is more transparent to individuals how working, or increasing hours, will affect payments. It should also reduce individuals' reporting requirements and lower the likelihood of debts being incurred.



Reduce red tape by minimising legislative, administrative and reporting complexity.

## Pillar Two

### Strengthening Individual and Family Capability

Supporting people to live a life they value should be a core value of the social support system.

Pillar Two focuses on how the social support system can do that by strengthening individual and family capability.

The new social support system should identify and invest in the groups at greatest risk of remaining on income support long term, with a capacity for self reliance.

An actuarial approach should be used to identify groups at risk of long term income support reliance.

Mainstream services would comprise a broad range of services designed to support people on their path to self reliance through work.

An investment approach would provide necessary support to those who are at significant risk of long term income support reliance and have capacity for self reliance through work with the right support and intervention.

New Zealand has introduced an investment approach for the long term management of its income support system. The Reference Group considers Australia should adopt something similar.

### Mainstream Services

Mainstream services should comprise a range of core supports to assist people to work to their capacity and lead a life they value.

These services include: building capability for work; financial capability development; family support; services to improve outcomes for children; support to manage mental health conditions; and assistance to stabilise housing.

In the new social support system these services should be delivered with a greater focus on achieving long term outcomes for individuals, families and communities.

### Building capability to work

There are three distinct skill sets that an individual needs to succeed in the workplace. These are:

- technical or discipline specific skills
- language, literacy and numeracy skills
- employability skills (ability to navigate the world of work; social interaction skills; ability to get work done).

These skill sets can work together to create a strong base to support people into work, and to make job transitions across their careers.

## Developing financial capability

Good financial literacy allows individuals to pursue and achieve financial and lifestyle goals.

Income management should be used judiciously and delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.

## Family Support

Well functioning families provide a strong foundation from which individuals can begin a pathway to self reliance. Families that function well generate benefits for individual family members as well as for communities and government.

One important aspect of well functioning families is access to affordable childcare, which can provide parents with the opportunity to find a job or participate in education or training.

Evidence shows that young people growing up for prolonged periods in dysfunctional or jobless families can have poor developmental outcomes.

There needs to be a greater emphasis on prevention in the provision of services targeted at young children at risk of disadvantage. In particular, there is a need to ensure that children are not disadvantaged in terms of their early physical, social and educational development.

## Mental health services

Mental health conditions are becoming more prevalent in Australia. About 30 per cent of people currently receiving the Disability Support Pension have psychiatric or psychological conditions and it is the largest category within the Disability Support Pension.

There are different degrees of work capacity within different groups:

- Some people with mental health conditions are unlikely to have work capacity now or in the future and no expectations should be placed on them.
- Some people with episodic mental health conditions will have periods of relative wellness where they are able to participate in activities that are part of a recovery plan including work.

Requirements and obligations within the social support system should be flexible enough to cater for these differences.

## Housing

Housing is essential to support employment and wellbeing and assist people on their path to self reliance.

Affordable housing with access to jobs and services is essential to allow people to participate socially and economically. Importantly it provides a stable base for raising children and supports community engagement.

Research shows that homelessness disproportionately affects certain groups in the population. For example a significant proportion of people who are homeless also have mental health conditions and struggle with substance abuse.

The new social support system should have the capacity to identify when a person's housing situation is unstable. Information such as frequent address changes in the income support system should trigger an inquiry and if appropriate rapid referral to homelessness support service providers.

## Recommendations



Ensure that young people remain engaged in education or training until they are able to transition into sustainable employment.



Through funding and agreements, the Australian Government should develop the capability of disadvantaged groups to work through:

- technical and discipline specific skills
- language, literacy and numeracy skills
- employability skills.



Continue to provide financial literacy training and support services targeted at vulnerable groups in order to increase their financial capability, build savings, and access to finance.



Income management should be used judiciously and should be delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.



Fund and evaluate services to support family functioning, including initiatives targeted at jobless families, to ensure their effectiveness.



Ensure quality and affordable childcare is available for parents to participate in education, training and work.



Continue to fund early intervention programmes to improve children's early physical, social and educational development.



Ensure that integrated employment and mental health services are available to people with mental health conditions. This can be with employment and mental health services co located, or an effective partnership between employment and mental health services to ensure a wraparound service.



Governments should ensure that housing and homeless support services build strong links with mental health and employment services to address the multiple and complex barriers facing people who are homeless or at risk of homelessness.

## An Investment Approach

An investment approach reduces future liability associated with long term income support dependence by targeting investment to build peoples self reliance.

The investment approach should be a central feature for Australia's new social support system. It should work in tandem with the new payment architecture outlined in Pillar One.

## The New Zealand Investment Approach

New Zealand has introduced an investment approach for the long term management of its income support system. This new strategy is focused on getting people into jobs through investment in evidence based services where return on investment is likely to be highest.

A key aspect of this approach is the use of an actuarial valuation to establish lifetime costs (liability) of both the overall income support system and of specific groups within the system.

The 2013 actuarial revaluation of the New Zealand social support system found that the forward liability had reduced from NZ\$86.8 billion to NZ\$76.5 billion, a total reduction in lifetime liability of NZ\$10.3 billion. This was NZ\$7.4 billion lower than the result forecasted in 2012. After taking into account forecast changes in CPI and unemployment rates, NZ\$1.8 billion of the lifetime liability reduction can be directly linked to the interventions made as part of the investment approach.

## An Australian Investment Approach

An Australian investment approach would reduce long term income support reliance through targeted investments.

Targeted investments should be designed to achieve a return on investment, increase people's self reliance and reduce the lifetime liability of Australia's social support system. In addition to improving the lives of people at risk of long term income support reliance this would improve the fiscal and social sustainability of the social support system over the long term.

Key features of an Australian investment approach should be:

- **Valuation and Revaluation**—an initial actuarial valuation will be supported by annual revaluations that will calculate the new lifetime liability for the income support system. It will determine the return on investment through the reduction in the liability. It will also identify new groups for investment.
- **Evidence based Interventions and Locally Designed Services**—a broad range of support services will be available to provide tailored services for at risk groups.
- **Flexible Funding Pool**—the investment approach relies on flexible funding. This includes the ability to cash out programmes with poor outcomes and invest in new programmes.
- **Monitoring**—ongoing monitoring of service outcomes will contribute to the data and evidence for evaluations and revaluations.
- **Evaluation**—rigorous evaluation of services will ensure that support services are delivering outcomes for individuals in the income support system.

## Recommendations

- » Develop and implement an Australian investment approach.
- » As a first step in the investment approach, undertake a comprehensive actuarial valuation of the lifetime liability of the income support system.
- » Based on the actuarial valuation, invest in those groups with the largest lifetime liability and the capacity to move to self reliance.
- » A revaluation should be conducted every year to determine whether there is a return on investment and to identify new priority groups with higher lifetime liabilities.
- » A test and learn funding pool should be available to fund and evaluate trials of new interventions.
- » Implement a flexible funding programme that is responsive to emerging and local needs, responds to evaluations by redirecting funding, identifies programmes that are not delivering outcomes and ceases funding with resources redirected back into the investment pool.
- » Implement an evaluation capability to ensure that services are evaluated and an evidence base developed to support future investments.
- » Enhance existing and build new programme management information (MI) systems, along with advanced data analytics expertise, to support an effective evaluation capability.



## Mutual Obligation

In consultations, numerous stakeholders supported the concept of mutual obligation, but highlighted that conditions must be tailored to an individual's circumstances, needs and capacity. This includes consideration of non work activities for some groups where employment is not a realistic outcome in the short term or where there are significant barriers to employment.

Mutual obligation requirements need to follow this tailored approach and include both employment and social activities where appropriate. Conditions placed on the receipt of income support should be targeted to strengthen individual capability and assist a person with capacity on a pathway to paid employment.

Tailored mutual obligation must be matched by a responsive and individualised service system that supports the individual and ensures they are capable of meeting the conditions placed on them.

## Pillar Three

### Engaging with Employers

The labour market has changed over the past few decades, with more highly skilled jobs, increasing part time work, flexible working arrangements and growing and emerging industries. As the labour market changes, the needs of employers change. Training and education needs to keep pace with the needs of employers to ensure people have the best chance to obtain a job.

### Where are the Jobs?

There is currently a shortage of jobs in many fields and a mismatch of jobs in others with skills shortages in a number of occupations. Employment is projected to increase, from 2013–18, in 16 of the 19 broad industry groups, providing a range of opportunities for people disadvantaged in the labour market.

Understanding what type of jobs are available now and what they may be in the future, can assist in supporting prospective employees to gain the relevant skills to find sustainable long term work.

Employers will also have the benefit of drawing on a pool of prospective employees who have the appropriate skills, regardless of whether the individual is from a disadvantaged group.



Investment in training and education should be better targeted to both current and future jobs to ensure people have the best possible opportunity to secure sustainable employment.

### Role of Employers

Many employers have ongoing commitments to diversifying their workforces and have embedded diversity into their recruitment practices, recognising the business potential of engaging people outside the mainstream recruitment pool.

Such employers know that employing a diverse workforce leads to a competitive edge, as their employee profile may better reflect the diversity of their customer or client base. It also has a positive effect on a company's reputation and brand.

People with disability consistently perform better than other workers, across a range of indicators of job performance, attendance, safety and insurance costs.

Changing negative employer attitudes to disadvantaged groups has long term benefits for business and positive outcomes for prospective employees from disadvantaged groups.

Large organisations such as Westpac Group, Telstra, Toll, IBM, Woolworths, ANZ and News Corp Australia are among a growing number of companies championing the business case for employing a diverse and inclusive workforce.

There are a number of good examples of demand led employment models driven by industry and employers to support them to meet their workplace demands. These include the Australian Employment Covenant.

In the new social support system, such successful models and initiatives should continue, to ensure disadvantaged groups are supported in achieving employment outcomes.

Many of these initiatives involve close partnerships with industry, government, community sector and prospective employees to achieve lasting employment outcomes.

## Better Support for Employers






Better supports are needed for employers to ensure there are sustained employment outcomes that benefit both employer and employee. This includes during the recruitment phase and placement and post placement support.

Support for employers is needed to attract suitable candidates, assist them with training, provide mentoring and support and retain employees.

Employers can also be assisted through initiatives that support young people on the pathway from study to work. These initiatives establish relationships between employers, community and business, providing support to individuals, ensuring there is a clear line of sight from education, training or work experience, to employment.

Wage subsidy schemes need to be linked with supports for both prospective employees and employers to achieve long term employment outcomes. This will assist in ensuring that employees in the schemes are provided sufficient support to be retained by employers after subsidies are no longer available.

## Recommendations

-  Promote initiatives that support pathways from school to work through establishing relationships between employers, community and business, based on the principles of successful models.
-  Promote wage subsidy schemes to provide incentives for small to medium sized enterprises to encourage recruitment of people with disability and mental health conditions for up to twelve months.
-  Employment Providers and Disability Employment Services Providers achieve better jobs and skills matching.
-  Improve the assessment and referral arrangements for jobseekers to ensure that there are stronger linkages between Centrelink and employment services to ensure better employment outcomes.
-  Ensure there are placement and post placement support services for people with disability and mental health conditions, including disability awareness training, mentoring and employer support based on the principles of successful existing models.

## Jobs Plan for People with Disability and Mental Health Conditions

A Jobs Plan with initiatives that increase workforce participation for disadvantaged people is needed to ensure all Australians gain the benefits of employment growth.

In the first instance, a Jobs Plan for people with disability and mental health issues should be developed.

The key components of the Jobs Plan for people with disability and mental health conditions, that could be adapted for various disadvantaged groups, include:

- tailored support services
- awareness raising campaign
- a leaders group
- awards to recognise best practice
- government employment targets
- procurement practices
- an employment covenant
- wage subsidies.

## Recommendations



Develop Jobs Plans for groups at risk of poor employment outcomes as identified by the Australian investment approach.



In the first instance, develop a Jobs Plan for people with disability and mental health conditions which includes:

- tailored support services including integrating employment services with mental health services
- an awareness raising and education campaign to promote the benefits of employing people with disability and mental health conditions and the services and supports that are available
- a leaders group to bring together key leaders in the disability sector, business and government to develop practical strategies to increase employment of people with disability and mental health conditions
- industry led awards should be established to recognise good employment practice across different sectors
- setting targets across government for employment of people with disability and mental health conditions across all employment levels
- governments and businesses consider procurement from organisations with established records of employing people with disability and mental health conditions

- a covenant for people with disability and mental health conditions should be developed in collaboration with industry, government and civil society
- promotion of improved and streamlined wage subsidies for organisations, including small to medium enterprises to employ people with disability and mental health conditions for up to twelve months.

## Pillar Four

### Building Community Capacity

A well functioning social support system should work in tandem with strong communities to improve employment and social outcomes for jobseekers and disadvantaged Australians. To facilitate this, a new system should support communities to build their capacity.

In this new system, there are roles to be played by civil society, business and government, both individually and in partnership. There is also an important role for technology to support civil society, business and government in building community capacity.

### Role of Civil Society

Partnerships between civil society organisations have a proven track record of building communities' capacities and those of individuals and families within them.

Civil society includes organisations with a primary focus on a social purpose, whether local, regional or national, voluntary, not for profit or social enterprise.

Civil society can collaborate with business and government. Such partnerships are often the source of innovation, drawing on the expertise, experience and resources of the broader community.

Philanthropy is a key driver of civil society and some \$11 billion is received by civil society per annum in Australia.

However, there is little benefit in increasing philanthropy if funds are not directed effectively.

There should be the development of an efficient capital market for social purpose to facilitate strategic investments and ensure clear outcomes.

A social purpose capital market should facilitate investments with a social impact through Social Impact Bonds, an investment model whereby government pays for agreed social outcomes that result in better outcomes for individuals and families and a longer term saving to Government.

Social enterprises are another means to build community capacity. These organisations are led by an economic, social, cultural or environmental mission consistent with a public or community benefit. Australia would benefit from a long term strategy to support social enterprise development.

Civil society also offers opportunities for unemployed volunteers to work alongside their employed counterparts to allow for mutual learning and the forging of networks that can lead to future employment.

Social participation involved in volunteering is beneficial for the individuals involved and the community as a whole.

## Recommendations

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Develop annual awards to acknowledge, showcase and promote outstanding partnerships between civil society organisations, business and government.
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Review the regulatory environment to reduce red tape and remove barriers to philanthropic giving.
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Governments should work with civil society organisations and business to deliver an effective, efficient and sustainable capital market that better directs financial investment towards social purposes and solving social problems.
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Expand outcomes based social purpose investment models, including Social Impact Bonds, to target financial investments towards addressing social problems.
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Develop a longer term strategy for social enterprise development. This strategy will consider how to increase demand for investment by enterprises, increase supply of investment to enterprises and improve the enabling environment for social enterprises.
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Support initiatives to grow the rate of volunteering as an avenue for social and economic participation, in particular for jobseekers, carers and people with a partial capacity to work.

## Role of Business

Businesses play a leading role in providing employment, economic growth and government revenues. Businesses also increasingly support better social outcomes for the communities in which they operate. Micro businesses, small to medium enterprises (SMEs), large businesses as well as mutuals and co-operatives and social businesses, all play a role in building the capacity of communities to improve employment and social outcomes.

Corporate Social Responsibility (CSR) is a concept that involves businesses ensuring their conduct is legal, ethical and sustainable. When properly adopted, CSR is beneficial for local communities and for a range of groups, including disadvantaged and vulnerable individuals and families. CSR will be an important feature of the new social support system. Social procurement, where a social outcome or objective influences the purchasing of a good or service, is another way business can demonstrate CSR.

Micro businesses (less than five full time employees) are responsible for employing around 20 per cent of individuals, tend to be more embedded in their local communities, and are active contributors to community capacity building.

However, approximately 60 per cent of small businesses fail within their first three years of operation. There is a need for programmes which support entrepreneurs to establish micro businesses.

Microfinance is another example of the role of business and investment in community capacity building. Financial independence and access to loans are important elements of building individual capacity and community participation.

Throughout consultations, it was recommended that Government, financial institutions and civil society organisations work together to develop specific microfinance programmes for microbusiness start ups and for job seekers who need support to transition into work.

Mutuals and co operatives are grassroots businesses owned and operated at a local level to contribute to local economic development and demonstrate strong potential to empower communities through partnerships and cooperation.

There are a number of impressive examples of mutuals and co operatives currently operating in Australia including the Traditional Credit Union, Bankmecu, Westfund Health Insurance and Macleay Regional Co operative Limited.

The Business Council of Co operatives and Mutuals recommends that the Australian Government promote the value to civil society of mutuals and co operatives, noting their potential to: generate positive social outcomes for individuals and communities; generate economic and social resilience for individuals; communities and organisations; achieve higher levels of consumer engagement; and improve employee wellbeing in the delivery of services.

## Recommendations

-  Work with business and civil society organisations to promote the benefits of Corporate Social Responsibility.
-  Expand support and eligibility for programmes that provide funding and training to enable people to set up micro businesses.
-  Work with the Business Council of Co operatives and Mutuals to ensure an enabling regulatory, economic and social environment to support mutuals and co operatives.

## Role of Government

In the new system, the role government plays in building community capacity extends to the local, state and federal levels of government. It is a role that includes funding support services and providing community investment on the one hand and regulation and coordination on the other hand.



Recognising that local needs and issues are best understood by local communities, governments can benefit from allowing communities to contribute to policy design. Through co design government can actively engage with local communities to develop policy settings tailored to them. When performed effectively, co design can lead to better and more responsive services, engage individuals socially and build social capital through enhancing community cohesion.

## Recommendation



Adopt the principles of co design in developing policies and programmes aimed at building community capacity, by drawing on the expertise of consumers, business and community stakeholders, exploring innovative ideas, testing initiatives and evaluating interventions.

## Role of Technology

The new social support system includes an important role for technology in building the capacity of communities. Increased access to information and communication technology is an essential tool for people to participate socially and economically.

There is an increasing digital divide where disadvantaged individuals are most at risk of digital exclusion. Government, business and civil society have a role in promoting digital inclusion by providing people skills and confidence to use technology.

Government has a role in both providing the infrastructure for technology and supporting disadvantaged individuals to access it. Civil society organisations need to be proactive in providing disadvantaged individuals access to technological equipment, tools, advice and training.

Given the increasingly digital labour market, business also has a role to play in delivering access to technology and providing individuals with the skills necessary to navigate modern technological workplaces.

## Recommendations



Ensure jobseekers and disadvantaged groups have adequate information and communication technology (ICT) skills and access to ICT, in particular access to online employment and support services and job opportunities in the new system.



Work with civil society and business organisations to advance ICT skills and access for people with disability and mental health conditions to jobs and services.





