



Australian  
Council of  
Social Service

## **Submission to the Minister for Employment Participation**

### **The proposed Employment Participation model**

ACOSS, June 2008

## ***The proposed Employment Participation model***

### **Overview**

ACOSS appreciates the opportunity to comment on the Government's proposals to reform employment services along with activity requirements for job seekers and the compliance system.

The proposed new system is designed to improve workforce participation and reduce social exclusion in the context of high levels of long term unemployment and low skill levels among unemployed people in a tight labour market. ACOSS particularly welcomes the following reforms:

- The rigid continuum of support and requirements is replaced by arrangements that give providers more room to adjust support to individual needs;
- Incentives for providers to invest in skills are improved;
- The focus of the compliance system shifts from penalising job seekers after the event towards engaging them with the labour market;
- Activity requirements are to be reviewed;
- Job seekers are to have more opportunity to make informed choices;
- A longitudinal survey and innovation fund will help identify 'what works'.

This submission raises a number of issues for the implementation of these reforms, and options and recommendations to help ensure their success. It focuses on:

- Work Experience;
- Streams 1 to 4;
- Job seeker choice;
- An open system of evaluation and innovation;
- Education and training;
- Activity requirements.

The recommendations are incorporated into the submission and also listed in an Attachment.

## **1. Work experience**

The proposed system of Work Experience is critical for the job prospects of long term unemployed people, most of whom are likely to receive Work Experience once the proposed employment services system matures.

The Work Experience phase is also critical to the future viability and effectiveness of the overall system. Had the proposed system been in place over the last 3 years it is likely that most Newstart Allowance recipients would now be in Work Experience.

### **Targeting of support to reduce long term unemployment**

Two key goals for the new employment services system are to stop people from entering long term unemployment and to help them to leave it.

The proposed system does much to stop people from *entering* long term unemployment. In the first 12-18 months of unemployment many of those at risk of long term unemployment would attract greater resources in Streams 2 to 4 than they now receive in Intensive Support. In addition, providers would have more flexibility to deploy these resources to improve employment outcomes. This is because the standard sequence of Job Search Training and Mutual Obligation is replaced by a more open ended system.

Importantly, assistance through Streams 2 to 4 would also be available to existing long term unemployed people under the proposed transitional arrangements, as long as providers can gear up quickly enough at an early stage of the new contracts to take advantage of these arrangements.

However, once the new system matures in 2 to 3 years' time, it appears that fewer resources overall will be available in future to help many people *leave* long term unemployment because the provider fees decline for job seekers who move from Streams 2 to 4 to Work Experience.

The objectives of the proposed Work Experience phase of assistance are not clear. Although the title suggests that job seekers will be placed in paid or unpaid work, there are insufficient resources to offer work experience of a substantial kind. Further, because it operates as a default pathway in the proposed system, the duration of Work Experience is indefinite. As we outline below, because resources for Work Experience are very limited, there is a risk that long term unemployed people will be 'parked'.

The greater flexibility for providers to tailor work experience to individual needs was sought by ACOSS and is very welcome, but the proposed fee structure restricts the options available. For example, the Proposed Employment Pathway Fund for Work Experience is \$490. This is roughly the same as the Job Seeker Account for the second round of Customised Assistance (for those unemployed for 2 years) in the present system. This is not sufficient, for example, to fund a 3 month wage subsidy or a standard Work for the Dole placement. A 6 month Work for the Dole place typically costs around \$2,000 and a 13 week Wage Assist place costs around \$2,300 (though the net cost to Government is much less if the immediate savings in income support are taken into account).

The proposed service fee for Work Experience is a flat \$320 which the Discussion Paper estimates is sufficient for 4.5 hours of interviews. This is equivalent to an average of one contact per 2 months in the first year of Work Experience. These service fees appear to be lower than those currently available in the second and third years of unemployment in the present service continuum when job seekers undertake Customised Assistance.

Taking these factors into account, the overall level of resources available to assist long term unemployed Work Experience clients in the proposed system appears to be much less than that provided in the second and third years of unemployment in the current system.

Service fees and EPF resources for Work Experience are also significantly lower than the equivalent fees for people assessed as 'at risk' of long term unemployment in Streams 2 to 4 in the proposed new system. This suggests that many job seekers will experience a drop in the level of support they receive once they complete a Stream after 12 to 18 months.

It is difficult to strike an appropriate balance between early intervention and more support for those already out of work long-term. Nevertheless, we believe it would be inequitable to offer a lower level of support for people experiencing long term unemployment, given its adverse effects on incomes, health and well being (see box below). Further, it is likely to be more cost effective to target more resources towards those who are already unemployed long term because they face a greater risk of prolonged joblessness into the future.

For these reasons, most OECD countries target most of their investment in employment assistance to long term unemployed people. Similarly, in 2003 the Job Network system was reconfigured for the third Employment Services Contract round so that people unemployed for 12 months automatically received the highest level of support (Customised Assistance). This was in response to concerns raised by the OECD and others that long term unemployed people were not guaranteed a higher level of support (Intensive Assistance) in the previous version of the Job Network.<sup>1</sup>

In the proposed new system, the potential drop in support as a job seeker's reaches 12 to 18 months of unemployment and transfers into Work Experience could be avoided in two ways. First, the transitional arrangements mean that most existing long term unemployed people are likely to receive higher levels of support through Streams 2 to 4 for at least the first 12 to 18 months of the new system. Second, an unknown number of long term unemployed people will transfer between streams – for example from Stream 1 to Stream 2 or from Stream 4 to Stream 3. The extent of these transfers will depend on the design of the new Job Seeker Classification Instrument, especially the weighting given to duration of unemployment which is not known at this stage.

Nevertheless, once the new employment services system matures (after the first 12 to 18 months) and many of the present cohort of job seekers transition from the Streams into Work Experience, the overall level of resources available to providers is likely to diminish substantially, as indicated by the Federal Budget projections for employment assistance expenditures. The new system is projected to save the Government \$38 million in 2009-10, \$147 million in 2010-11, and \$156 million in 2011-12. A likely reason for this is the low level of resourcing of Work Experience.

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<sup>1</sup> OECD 2001, *Innovations in labour market policies, the Australian way*.

### **The benefits and prospects of reducing long term unemployment**

Almost half of job seekers are now unemployed for over 2 years and one quarter for over 5 years. This is a deeply economically and socially disadvantaged group.

There are substantial fiscal and social benefits from helping people to leave long term unemployment. For example, an expert report to the Department of Work and Pensions in UK estimated that even a 5% increase in exits from income support each year would halve the number of people on their Jobseekers Allowance within 5 years. An increase in exits from long term unemployment would have a greater impact since these job seekers are much more likely to continue to receive income support for a prolonged period.<sup>2</sup>

The social benefits of assisting long term unemployed people are also substantial. Prolonged unemployment is a key contributing factor to social exclusion. It is linked to deepening poverty, poor health, and crime.<sup>3</sup>

Most OECD countries target employment assistance services towards long term unemployed people because they have a lower probability of getting a job without help. This is also the case in Australia. If, on the other hand, their employment prospects were close to zero then investment in employment assistance may not be cost effective. However, many long term unemployed Australians do obtain jobs. For example, 45% of job seekers were in jobs 3 months after completion of Customised Assistance, which is mainly confined to long term recipients of income support payments.<sup>4</sup>

Australian and international research indicates that an effective employment assistance program can boost the employment outcomes of long-term and disadvantaged jobseekers by 10% or more. For example, a recent DEWR study concluded that participation in Customised Assistance improved employment prospects by an average of approximately 10%. Most of this improvement in job outcomes occurred in the early stages of participation, suggesting that it was mainly confined to 'job ready' people. If more resources were available to overcome barriers to work among those who are not 'job ready', then Australian and overseas experience with employment programs suggests that the improvement in employment outcomes from Customised Assistance would have been greater.<sup>5</sup>

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<sup>2</sup> Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions; See also Chapman & Piggott (1995), *Costing the job compact*. Economic Record Vol 71, No 215.

<sup>3</sup> For example: 45% of unemployed households live below the OECD poverty line (see Australia Fair 2007, *Update on those missing out*); 45% of sole parents on income support and 35% of Newstart Allowance recipients have mental health conditions (see Butterworth 2007, *The experience of welfare receipt*, Paper for ACOSS conference Adelaide November 2007); financial hardship and health problems worsen with prolonged unemployment (see Dockery 2003, *Looking inside the unemployment spell*, Paper for HILDA Research Conference, University of Melbourne); and the risk of crime increases with high levels of long term unemployment among young people (see Chapman et al 2002, *Unemployment duration schooling and property crime*, Centre for Economic Policy Research Discussion Papers No 447).

<sup>4</sup> Dockery 2003, op cit; DEWR 2007, *Labour market assistance outcomes*.

<sup>5</sup> ACOSS 2008; *Employment participation policies, An international snapshot of policies and practices in the UK, Netherlands,*

Of concern to ACOSS and employment service providers is that the low level of service fees and EPF funds available to providers for Work Experience could lead to 'parking' of long term unemployed people, and lower employment outcomes for long term unemployed people. It is unlikely that the ratcheting up of outcome fees for long term and very long term unemployed people will overcome this problem, especially as that there is no increase in outcome fees between 1 year's and 5 years' unemployment. This is illustrated by experience with the previous system of Intensive Assistance for long term unemployed people that was in place before 2003. Although outcome fees for Intensive Assistance were similar to or higher than those currently proposed for job seekers in Work Experience, there was widespread concern (including from the Productivity Commission and the OECD) at the time that many Intensive Assistance clients were being 'parked'. In the third contract round, these concerns led to the introduction of the Job Seeker Account and a 3 month period of 'activation' at the commencement of each round of Customised Assistance (the phase of employment support that replaced Intensive Assistance). DEWR estimated that the 'net employment impact' of Customised Assistance was 10% in 2006, which is higher than the estimated 2-7% improvement in employment outcomes from the previous system of Intensive Assistance.<sup>6</sup>

The Star Ratings system could reduce the risk of 'parking', depending how much emphasis is placed on outcomes for long term unemployed people. This is because providers would put their survival at risk if they failed to invest in their Work Experience clients and their rating fell. However, the effect of the Star Ratings would be dampened by the fact that all providers would have limited resources to assist their Work Experience clients.

To ensure that providers have the resources and incentives they need to assist long term unemployed people, there is a strong case for substantially higher service fees and Employment Pathways Funds for Work Experience. Most job seekers in Work Experience are likely to need a level of support at least equivalent to that provided to those in Stream 3, that is, those assessed as facing a very high risk of long term unemployment. At the least, they will need support equivalent to that provided in Stream 2 (note that we suggest below that consideration be given to merging Streams 2 and 3). This would reduce the number of job seekers who would otherwise experience a drop in support as they leave their stream.

To ensure an adequate level of assistance for very long term unemployed people, service and EPF fees for Work Experience should be paid on an annual basis.

Another way to prevent this drop in support once job seekers leave a streams would be to relax the proposed rule that restricts participation in the same Stream to only 12 or 18 months within a given spell of unemployment. This restriction runs contrary to the Government's intention to target the level and intensity of employment assistance to

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*New Zealand and USA, ACOSS Paper 155; DEWR 2006, op cit.*

<sup>6</sup> Productivity Commission 2002; *Independent review of the Job Network, inquiry report*; OECD 2001, op cit; DEWR 2006, *Customised assistance, Job search training and Work for the dole – a net impact study*; DEWR 2003, *Intensive Assistance and Job Search Training – a net impact study*. Note that factors other than the design of the program may have contributed to this improvement in outcomes, including stronger employment growth and the fact that the 2002 survey was conducted just before a tender round.

people's needs at the time. If the intention of this rule is to prevent inefficient investment where providers have already 'tried and failed' to secure employment outcomes, it is not clear that the rule achieves that objective. For example, it is likely that many Stream 4 job seekers would benefit from more than 18 months of intensive assistance. Similarly, many long term unemployed people without health or social barriers to work would benefit from a further round of more intensive assistance, as indicated by employment outcomes for those undertaking their second round of Customised Assistance in the present system.

The effect of this rule would be somewhat arbitrary. For example, some job seekers who have completed Stream 1 would transfer to Streams 2 or 3, where they would receive a higher level of assistance than that available in Work Experience. Other, more disadvantaged job seekers who were previously in Stream 3 would transfer to Work Experience where they would receive a lower level of support, because they cannot continue in Stream 3 and are too disadvantaged for Streams 1 or 2. The only basis for reducing the level of support to job seekers in Streams 2 to 4 after 12 to 18 months of unemployment is that continuing investment in employment assistance at these levels is unlikely to yield job outcomes. This may be the case for some, but many others would be denied the opportunity.

If this rule were relaxed, there may not be a need for a separate Work Experience phase of assistance after the first 12 to 18 months – people would instead be allocated into the stream that is appropriate for their needs (though it would be inappropriate for job seekers to continue in Stream 1 beyond 12 months). Since the proposed streams are much more flexible than the present Job Network continuum, providers would be free to adjust the mix of services for each job seeker, even if they remain in the same stream for some time. If one strategy (for example, training) has failed to produce an employment outcome a different strategy (for example work experience) could be tried. A well designed system of outcome fees and Star Ratings should encourage providers to invest efficiently to achieve job outcomes. If comprehensive modeling of employment outcomes indicates that it would not be cost effective to continue to invest in job seekers at a higher level for extended periods of time, then EPF levels within each stream could be restructured so that they diminish over time.

## **Designing fair and effective work experience**

ACOSS therefore welcomes the greater flexibility offered to providers in the proposed system to put together a package of work experience that best meets individual needs, and to strengthen the link between work experience and job outcomes.

Work experience is likely to be more effective if it is designed to improve employment outcomes, rather than as a deterrent from claiming income support or as a punishment. Job seekers are more likely to engage positively in work experience that is well designed to help them get a job, leading to better motivation and job outcomes and less need to rely on the compliance system to enforce attendance. At the same time, work experience that is focused on employment outcomes can still yield compliance effects. On the other hand, programs that are designed mainly with compliance in mind often have poor employment outcomes. For example, only 32% of Work for the Dole participants obtained employment afterwards, compared with 45% of those who participated in Customised Assistance. A key difference between the two programs is that Work for the Dole does not reward providers for employment outcomes, whereas Customised Assistance does. Although unpaid work

experience is useful for some job seekers, including some who have major social barriers to regular employment, it is not helpful to all. As with other forms of employment assistance, including training, the system should encourage providers to find the right supports to match the needs of each job seeker. The current system, with its fixed sequence of Job Search Training and Work for the Dole, does not achieve this.<sup>7</sup>

The proposed structure is a major advance on the present 'one size fits all' approach to work experience. In the proposed new system, if more resources were made available for work experience through the Employment Pathway Fund then providers could experiment with forms of paid work experience that have been effective here and overseas such as wage subsidies, combinations of work experience and training in regular jobs, and supported work for people with substantial barriers to employment. Although these forms of work experience are superficially more expensive, their cost to Government is offset by the reduction in income support expenses while participants are paid to work and future savings in income support where the program is effective. If they are targeted towards the most disadvantaged job seekers, the future savings in income support can be very substantial, in addition to the social benefits. New forms of paid work experience should therefore be a key target for investment using the Innovation Fund.<sup>8</sup>

Without detracting from the flexibility of the proposed system, it would be desirable to set guidelines to ensure that work experience is of high quality and of benefit to job seekers and the community. This is particularly important when the resources to fund work experience are limited. These guidelines would help address a number of sensitive issues that have emerged with work experience programs here and overseas, including displacement of existing workers, the undermining of workplace relations standards, exploitation of job seekers, and gaming of the system by employers or providers.

Guidelines should also limit the duration of a spell of unpaid work experience, on the grounds that it would be unreasonable to require a job seeker to undertake unpaid work indefinitely and a prolonged period of unpaid work experience is unlikely to improve their employment prospects in any event. For example, Work for the Dole was traditionally of six months' duration and the unpaid Work Experience Placement Program (which extends to for-profit employers) runs for up to 8 weeks.

Further, job seekers should not be required to work for less than the hourly minimum wage, including where the 'pay' is income support. In welfare to work programs in the United States for example, the Fair Labor Standards Act applies to work performed in return for benefits. This is achieved by limiting the hours of unpaid work each fortnight to no more than the income support payment divided by the hourly minimum wage.<sup>9</sup>

Work experience is more likely to be effective where the job seeker has a choice of placements, the work is tailored to their employment assistance needs, and training is provided.

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<sup>7</sup> DEWR 2007, *Labour market assistance outcomes*.

<sup>8</sup> ACOSS 2008, op cit.

<sup>9</sup> ACOSS 2008, op cit.



## **Recommendations:**

1. Service fees and Employment Pathway Fund payments during Work Experience should be annual amounts equivalent to those available in Stream 3, or at the least Stream 2.

2. Guidelines should be introduced for work experience covering such issues as:

- Duration

This should be no longer than 6 months in the case of unpaid work experience generally, and 2 months in the case of unpaid work experience with for-profit private sector employers.

- Levels of remuneration

Hourly remuneration should at least be equivalent to the appropriate Pay Scale (if the work is 'unpaid', then the number of hours worked should be equal to income support payments divided by the relevant hourly wage), and in the case of unpaid work experience a fortnightly supplement of at least \$20 should be available to assist with the participants' work related costs.

In the case of paid work experience, other entitlements of employment should apply including superannuation and occupational health and safety protections.

- Supervision and support

Employment Service Providers should maintain contact with each job seeker's work experience supervisor to ensure that they are supported in the workplace and that any problems that may arise are addressed.

- Relevance of work experience to individual needs and future job prospects

Job seekers should be offered a choice of work experience places. Work experience should be tailored to individual needs and interests including skills development, experience in the workplace, health and disability status and caring responsibilities.

- Community benefit

Unpaid work experience in a not for profit setting should benefit the community.

- Prevention of exploitation

Steps should be taken to protect unpaid work experience participants from exploitation, especially if engaged in the for-profit sector (for example, such work experience should generally be linked to an offer of ongoing paid employment, unless the period of work experience is very short and there is clear evidence that skills are likely to be acquired that would improve future job prospects).

- Prevention of displacement

Steps should be taken to ensure that existing paid employees are not displaced by work experience participants where they are unpaid or their pay is subsidised.

- Insurance

Appropriate insurance coverage should be taken out for each participant.

## **2. Streams 1 to 4**

The proposed employment services system allocates more resources to those at risk of long term unemployment and those with social barriers to work in the first 12-18 months of unemployment.

These resources are targeted according to labour market disadvantage into four streams. In terms of targeting and the resources available, Stream 1 is broadly equivalent to Job Search Support, Stream 2 is roughly equivalent to the second round of Customised Assistance, Stream 3 to the first round of Customised Assistance, while Stream 4 is equivalent to the existing Personal Support Program and Job Placement Employment and Training program.

The Discussion Paper proposes that providers be required to offer the full range of services across the streams, though they will still be able to specialise in assisting particular disadvantaged groups in the labour market such as people with disabilities. This is important for population groups such as young people and people of Culturally and Linguistically Diverse backgrounds who would benefit from specialised service provision. As discussed below, ACOSS has concerns about a potential loss of expertise in assisting people with social barriers to work if providers are unable to specialise in Stream 4 services.

The allocation of more resources to those job seekers at greatest risk of prolonged joblessness during the first 12 to 18 months of unemployment is welcome, though as described below the proposed system would benefit from fine tuning.

### **Streams 1 to 3**

Stream 1 job seekers are those assessed as having a low risk of long term unemployment. Resources allocated to this stream are therefore much less than for the other 3 streams on the grounds that many are likely to secure employment without substantial help. Given this, it may be more cost effective to transfer responsibility for employment assistance for this group to Centrelink, at least in the first three months. This would be appropriate because employment assistance at this stage is generally focused on self help. This would also remove the need for these job seekers to visit two separate sites, and give them more time to choose a suitable provider.

However, as the duration of unemployment lengthens from 3 to 12 months, their job prospects are likely to progressively diminish. This group will need careful monitoring to ensure that Stream 1 offers the level of support they require.

The distinction between Streams 2 and 3 is not yet clear. Since job seekers are allocated to these Streams using the Job Seeker Classification Instrument (JCSI) which was originally designed to predict the risk of long term unemployment, it is likely that these two Streams represent different levels of risk of prolonged joblessness.

On past experience in Australia and overseas, the accuracy of the Job Seeker Classification Instrument (JSCI) will be tested by the need to allocate job seekers between Streams 2 and 3. The original Job Network model targeted three levels of disadvantage but this was subsequently reduced to two when it was found that the distinction between three different levels was somewhat arbitrary in practice. The two tier system in place today distinguishes between those at high risk of prolonged joblessness (classified as highly disadvantaged job seekers) and those who are not. The Netherlands, which runs an outcomes based system of contracting for employment services along broadly similar lines to Australia's, had a similar experience. A classification instrument that attempted to distinguish four different levels of labour market disadvantage was later replaced by a two tier system – those ready for employment now and those who need more assistance.<sup>10</sup>

As the distinction between job seekers eligible for Streams 2 and 3 is likely to be somewhat arbitrary in practice, consideration should be given to combining them. If this were done, it would be important to ensure that the problem of the drop in support once job seekers leave the streams for Work Experience is addressed. This is because combining these two streams would remove the option of transfers between them after 12 months' unemployment, and more job seekers would transfer to Work Experience.

## Assessment

To ensure the integrity and efficiency of the new classification system, the JSCI should continue to be designed as a statistical predictor of prolonged unemployment. If the weighting of the factors that comprise the JSCI (such as education levels) is adjusted to give priority to different groups, then the JSCI will no longer fulfil its role of directing employment assistance investment to where it is most needed – those job seekers least likely to obtain employment in the near future without support. At the same time, it is possible that some factors affecting people's future employment prospects, such as caring responsibilities and disabilities (including the cumulative effect of care loads where parents are also caring for adults) receive too little emphasis at present since the JSCI was designed before large numbers of parents and people with disabilities were brought into the Job Network.

Similarly, the integrity of the JSCI has been weakened in the past by its use to regulate the overall cost of the employment services system. Rather than allocating job seekers to different levels of assistance according to their needs, the instrument was adjusted from 2006 to reduce the cost of the Job Network by allocating fewer job seekers to higher levels of support.

An important practical difficulty with JSCI and similar assessment tools is that many barriers to work are not disclosed in the short interviews used to administer the instrument. This is exacerbated by the relatively low level of contact that Centrelink has with job seekers and the fact that the JSCI is administered for the first time in one of the first interviews. Too many assessments are conducted over the phone and it is not clear that interpreters are always available when needed.

Social barriers to work such as domestic violence and mental health problems are among

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<sup>10</sup> Sol & Westerveld 2005, *Contractualism in employment services*, Kluwer Law International, The Hague.

those least likely to be disclosed. It is important to identify these barriers as early as possible and to take them into account. For example, research indicates that over 20% of sole parents have experienced physical or sexual violence in the last 12 months. This is a major barrier to work due to its corrosive effects on self confidence and health, the heightened needs of children for care and support, and the pressures associated with avoiding domestic violence (for example, changing address, legal action) where it is ongoing. If more job seekers disclose domestic violence this could also inform decisions on activity requirements, employment assistance, and referral to relevant services. Similarly, an estimated 35% of unemployed people on income support and 45% of sole parents on income support suffer from anxiety or depression.<sup>11</sup>

Allowing employment service providers to request reassessments is one way to address the problem of non-disclosure. Also, once a job seeker is registered with a provider the provider could be asked to provide a report on any issues they consider should be taken into account in a JSCI assessment, for example communication barriers or a health problem.

A basic principle of the proposed system is that job seekers should receive a level of assistance that accords with their needs. Consistent with this, all job seekers who have completed a stream should be reassessed at that time to determine whether they should undertake Work Experience or enter a different stream. This could be a higher or lower stream, depending on the assessment.

## **Job Search Training**

Replacement of Job Search Training with a period of intensive activity negotiated between the provider and the job seeker strikes a good balance between activation and flexibility. Customised Assistance within the existing Job Network and the 'Gateway' period in the UK employment services system are examples of this approach.<sup>12</sup> Providers could continue to offer a form of job search training, but ideally they would offer a range of different supports to individuals based on their needs. For example, some would benefit from job search training while others would benefit from intensive one-on-one career counselling and support from their consultant.

This approach – a fixed period of intensive activity that is not tied to a particular program or employment pathway - could be replicated at later stages of assistance, for example in Work Experience. For this approach to work effectively, there would have to be sufficient resources available to the provider in the EPF to overcome any barriers to work that are identified. In the UK system this help is provided through the 'Options' that follow the Gateway period (for example wage subsidies or training). If insufficient resources are available then 'activation' is less likely to lead to employment, providers are more likely to rely on compliance systems to keep job seekers engaged, and vulnerable job seekers are at greater risk of breaching their activity requirements.

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<sup>11</sup> ACOSS 2005, *Facts about single parents and welfare*; Butterworth 2007, op cit.

<sup>12</sup> ACOSS 2008, op cit. The Gateway is a component of the British 'New Deals'. It is a three to four month period of supported job search designed to improve employment outcomes and identify barriers to work. Those who do not obtain work within this period are referred to New Deal 'Options' such as training or work experience.

## **Employment Pathway Fund**

The Employment Pathway Fund (EPF) is an investment fund for disadvantaged job seekers. This is a desirable feature of any employment assistance system since Outcome Fees and Star Ratings alone do not guarantee job seekers the level of investment they need to overcome barriers to work.

However, as the experience with the Job Seeker Account demonstrates, it is vital that the fund is administered in a flexible way. Otherwise the fund will be under-spent or innovation will be stifled. Another major problem with the Job Seeker Accounts was their high administration costs. This was due to a tension between simplicity of administration and the need for accountability for expenditure of public funds.

One way to resolve this tension is to remove the requirement for DEEWR to approve EPF expenses for each job seeker. Instead, providers could be required to acquit each year their aggregate EPF expenses for each Stream, divided into broad categories such as 'vocational training' and 'paid work experience'.

At the same time, providers could be asked to record their annual 'investment' in different forms of employment support for each job seeker in their Employment Pathway Plan. The purpose of this information would be to improve provider accountability towards job seekers as distinct from Government. It would help create a stronger sense of 'mutual obligation' between providers and job seekers. Also, this information could be aggregated, along with data on job seeker profiles and outcomes, to give a better picture of the kinds of support that work best for different jobseekers.

As is the case now with Job Seeker Accounts, it is desirable to allow providers to aggregate their EPF among job seekers so that those with a higher need for support receive more help. However, the system should guard against the leakage of EPF resources from higher to lower streams as providers cross-subsidise their operations, since this would defeat the purpose of allocating higher levels of EPF resources to those most disadvantaged in the labour market. This could be prevented by quarantining EPF amounts within each Stream, so that, for example, Stream 4 funds could not be used to subsidise Stream 1 operations.

## **Stream 4**

Stream 4 replaces the Personal Support Program (PSP) and Job Preparation and Employment and Training Program (JPET). Access to this Stream is through a Job Capacity Assessment.

The basic differences between Stream 4 and these current programs are that more resources are available (including an Employment Pathway Fund), the Stream is uncapped, and it has been integrated into the mainstream employment services system with employment outcomes as the primary objective.

We welcome the allocation of additional resources to this highly disadvantaged group of job seekers, though the integration of this stream within the mainstream employment services system carries risks as well as benefits. The main risk is that the social support and work preparation services that are the hallmark of PSP and JPET may be diminished. This could happen for two reasons. First, specialist PSP and JPET providers would have to offer the full suite of employment services or enter into partnership arrangements with other

providers. This could dilute the current emphasis on employment preparation and support and lead to a loss of expertise in this field. Second, there are no specific incentives in the fee structure for Stream 4 to offer social support services, unless they yield an employment outcome within 18 months, which is shorter than the maximum duration of the PSP program.

The re-orientation of services for Stream 4 job seekers towards employment outcomes is desirable in principle, but past experience with similar incentive structures suggests that providers may be encouraged to cut corners by focusing on those who are closest to job ready and on job search assistance as distinct from help with the deeper social and health problems that constrain people's future job prospects. The Star Ratings could play an important role in preventing this.

As suggested in our previous submission, it would also be desirable to improve incentives for State and Territory Government-funded health and social support services (through the National Reform agenda) to cooperate with employment service providers at the local level to address health and social barriers to work. This is likely to have a more widespread and lasting impact than the use of the proposed Innovation Fund for this purpose.<sup>13</sup>

There is already a queue of around 26,000 people awaiting PSP support. Assisting this group now by expanding the existing program would meet their needs and build a base for the future Stream 4. At the least, the less stringent PSP activity requirements should apply to those on the waiting list.

Another problem with the transitional arrangements is that not everyone currently in PSP would transition automatically into Stream 4. If they were instead transferred to Work Experience, this would cut short the social support and work preparation they currently receive within PSP.

Since Stream 4 is relatively well resourced, the decline in resources for job seekers who leave that Stream for Work Experience will have a greater impact on these job seekers. Providers are also concerned that 18 months may not be long enough to address people's barriers to work before the resources are cut back. Some job seekers may be reassessed at this stage and enter Streams 2 or 3, which are better resourced than Work Experience. However, it is not clear whether the most disadvantaged former Stream 4 job seekers would do so. This underscores our concerns with the fee structure for Work Experience.

## Recommendations

3. Providers should be permitted to specialise in the provision of Stream 4 services:

- Providers should also be able to specialise in assisting disadvantaged groups of job seekers, for example young people, people with disabilities, and people of Culturally and Linguistically Diverse backgrounds.

4. The existing Personal Support Program (PSP) and Job Placement Employment and

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<sup>13</sup> ACOSS 2008, *Supporting participation, from work first to work capacity, submission to the Minister for Employment Participation*.

Training (JPET) program should be expanded between now and the transfer of participants to Stream 4, to reduce waiting lists:

- At the least, those on the waiting lists for these programs should be subject to similar activity requirements to those applying to participants in PSP and JPET.

5. All PSP participants should transition into Stream 4, at least for a minimum period.

6. Consideration should be given to:

- collapsing Streams 2 and 3 into a single stream for those assessed through the JSCI as at-risk of long term unemployment;
- transferring responsibility for employment assistance for Stream 1 job seekers to Centrelink for the first 3 months.

7. Job seekers should be assessed on completion of a Stream, and based on this assessment there should be an option to transfer them into a higher or lower Stream (except for Stream 1):

- Where a job seeker to be assessed is registered with a provider, the provider should be invited to submit a report on factors they consider should be taken into account.
- Providers should also be able to request further assessments during Work Experience.

8. Employment Service Providers should be able to request to Centrelink that a reassessment be done where they consider a job seeker has been incorrectly classified:

- Such requests should generally be granted where the provider has clearly documented their reasons.

9. The Job Seeker Classification Instrument should continue to be designed as a tool to predict the risk of prolonged unemployment.

10. Centrelink staff administering the JSCI should receive training in identifying and responding to domestic violence, and local employment consultants should be invited to participate:

- Interpreters should be available and as far as possible JSCI interviews should be conducted face to face

11. Providers should be able to acquit their total EPF expenses within each Stream annually, divided into categories such as 'vocational training' and 'work experience':

- However, the nature of the annual 'investment' in each job seeker should also be recorded in their Employment Pathway Plan as a form of provider accountability to job seekers;

- This information should be aggregated and publicised along with data on job seeker profiles and outcomes so that information on effective practice is shared.

12. The use of EPF funds by a provider should be quarantined to jobseekers in the same Stream.

### **3. Compliance system**

#### **Existing system of payment suspensions**

The proposed compliance system gives providers more scope to decide whether a Participation Report should be lodged and Centrelink more scope to decide whether an 8 week penalty is appropriate. It also allows job seekers to work off financial penalties through a period of intensive activity. This is a welcome shift from penalising people after the event towards using the compliance system to re-engage them, though the 8 week penalty is still too harsh. It is particularly harsh for those in socially vulnerable situations such as those caring of children (or adults with disabilities), people with chronic or episodic physical or mental illnesses, pregnant women, people who are targets of family violence, and homeless people.

Welcome action has been taken already to increase the discretion for providers in lodging Participation Reports. However, if this does not reverse current trends in penalties then approximately 45,000 8 week penalties could be imposed between July 2008 and July 2009, when the new employment services system is introduced. There seems to be no impediment beyond modest administrative costs to introducing elements of the proposed new compliance regime now to stem the recent surge of penalties.

Elements of the existing system that protect vulnerable job seekers, including the vulnerability flags, contacting people directly to re-engage them as soon as breaches occur, and the opportunity for people to explain their circumstances to Centrelink when a Participation Report is lodged by an employment service provider, should continue.

The design of other aspects of the penalty system, including the suspension of payments on the first and second breaches, the proposed comprehensive compliance assessments, and the nature of the intensive activity that job seekers will have to engage in to avoid 8 week penalties, should be informed by detailed consultation with ACOSS and other stakeholders.

#### **No show-no pay rule**

The proposed 'no show-no pay' rule is to apply to job seekers who miss a day of activity (such as work experience or training) without good reason. While incentives are needed for regular attendance, this is of concern if job seekers are unable to avoid a financial penalty by re-engaging (as in the other reforms to the compliance system), or if the new rule increases 'red tape' and expense for job seekers and providers. For example, if the imposition of a day's reduction in payment were automatic, and job seekers had to provide written evidence of reasons for failure to attend (such as medical certificates), the system could quickly become bound up in red tape.

In any event, a rigid requirement to attend on a daily basis may not be appropriate in many cases, for example where people have chronic health or social barriers to work. In these



cases, a strict requirement to attend on a daily basis could run counter to one of the objectives of work experience or training – to acclimatise those job seekers who have lost contact with the labour market to the work environment.

If work experience extends for longer than 6 months (which is possible in theory in the proposed system – see discussion above), the risk that vulnerable job seekers would be penalised for repeated non attendance, and possibly leave the income support system altogether without finding a job, would increase.

### **Recommendations:**

13. The 8 week period of suspension of income support should be substantially reduced.

14. Consultation should be conducted with ACOSS and other relevant stakeholders over the details of the new compliance system including the following matters:

- The design of the proposed ‘no show-no pay’ rule, including options for job seekers to avert a loss of payment through further activity, a discretion for providers not to impose a payment reduction where the job seeker has barriers to work affecting attendance, and measures to minimise red tape and compliance costs;
- The triggers for and implications of a comprehensive compliance assessment;
- Limits on the overall duration of any suspension of payments;
- The nature of the proposed ‘intensive activity’ in lieu of financial penalties;
- Protections for vulnerable job seekers;
- Preventive action, including warning jobseekers who obtain employment that they may face a financial penalty if they leave the job without good reason;
- Any proposed legislative changes, in advance of their introduction.

15. The proposed comprehensive compliance assessment, and lifting of penalties on commencement of intensive activity, should be introduced as soon as practicable.

### **4. Job seeker choice**

The present system does not assist job seekers to make an informed choice of provider. This means that providers are less influenced by ‘market signals’ from job seekers, and job seekers and providers may be poorly matched. On the other hand, the motivation of job seekers to participate in employment assistance is likely to be stronger the more choice they exercise over both their provider and employment pathway.

Information is not systematically provided to jobseekers about the services and performance of local providers, and there is little time for them to choose a provider after they claim income support. Opportunities to give feedback are largely limited to a complaints line. This is a weak indicator of service quality since positive comments are not encouraged and many will not complain because they fear it would jeopardise future relationships.

Ideally, choice of provider would not be limited to new applicants and circumstances where relationships with providers have broken down. Effective choice is only likely to occur when consumers are invited to make a positive decision to either stay with the existing provider or change providers. An appropriate time to make this invitation would be once a job seeker completes a stream of assistance.

Consumer choice should also extend to the development of Employment Pathway Plans. Although in theory agreements between job seekers and providers are negotiated, this is rarely the case in practice. The reasons for this include the inflexibility of the present service continuum, the limited resources available to providers to innovate, and an over-emphasis on compliance with a fixed set of requirements in the present system. Since the proposed employment services system is more flexible than the present one, this opens up an opportunity for providers to offer choices of employment pathway for at least the most disadvantaged job seekers – subject to the level of resources available.

Experience in the Netherlands with job seeker choice of employment assistance through Individual Integration Agreements suggests that this can increase job seekers' motivation to participate, and ultimately their employment outcomes. There is also less need to rely on compliance mechanisms to actively engage job seekers.<sup>14</sup>

To facilitate greater choice of provider, tolerances for business shares among providers would need to be increased.

More fundamentally, there is a need for a change of service culture within Centrelink and employment service providers from the present process-driven system to one that encourages job seekers to engage with providers and exercise more influence over their employment pathways. An independent body that monitors the extent of job seeker choice, the processes that facilitate or deny this (for example the quality of information provided by Centrelink) and their satisfaction with the assistance received, and feeds this information back to providers, would assist with the change process. The role of such a body would be strengthened if the performance management system took consumer satisfaction into account in a more systematic way. Changes along these lines would contribute more to the emergence of a well functioning 'market' for employment services than an emphasis on detailed oversight of provider compliance with contractual requirements.

## **Recommendations:**

16. An independent body should be established to monitor consumer choice and satisfaction with services, provide general information to facilitate choice of provider and employment assistance, monitor the level of 'red tape' in the system (for both providers and consumers), handle complaints from consumers and recommend appropriate changes to policies and procedures to Government.

- This should include monitoring of the timeliness and quality of information provided locally by Centrelink and providers on the range of services available;
- While the overall level of monitoring of service quality for KPI3 of the performance

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<sup>14</sup> ACOSS 2008, op cit.

management system should be reduced, information on consumer satisfaction should be collected more systematically, including from the independent body.

17. Active choice of provider should be facilitated by:

- A cooling off period after registration with a new provider;
- An option for job seekers to change providers at significant milestones such as the completion of a Stream of assistance, which is notified to job seekers by Centrelink;
- This option should not be restricted to circumstances where the relationship between job seekers and providers has broken down.

18. Providers should be required to offer job seekers a choice of activities to improve their employment prospects when negotiating Employment Pathway Plans.

19. Business share tolerances should be significantly increased to facilitate choice of provider:

- One option to improve financial certainty for providers would be to not proceed with the proposed reallocation of business shares half way through the 3 year contract.

## ***5. An open system of evaluation and innovation***

Only limited information is available to providers, peak bodies and independent researchers on job seeker profiles, flows and outcomes. This has diminished research in the field and detracts from the evidence base for service innovation. For example, the Innovation Fund is more likely to yield lasting improvements in services and outcomes if its use is linked to experimental research on what works. This could be facilitated by researchers within DEEWR or academia.

DEEWR has already commissioned a detailed longitudinal survey tracking outcomes for people with disabilities, parents, mature age people and very long term unemployed people affected by the previous Welfare to Work policy, and a fresh longitudinal survey is planned for the new employment services system. To our knowledge, at this stage no publications have been released detailing results from the first of these surveys. These surveys would make a greater contribution to future service provision if the data were made available to peak bodies and independent researchers. Some of the data (for example on employment outcomes for different groups of job seekers) would also assist providers to prepare their tenders.

Examples of the benefits of open access to such data are the use of the HILDA survey by the Productivity Commission to analyse transitions between unemployment, casual work and permanent jobs, the use of the Survey of Employment and Unemployment Patterns by independent researchers to assess the effectiveness of different labour market programs, and the use of FACSIAs longitudinal data set by researchers commissioned by Government to assist with employment program evaluation. However in recent years there has been a dearth of published independent research on the effectiveness of employment assistance. The main reason for this is a lack of suitable data. If DEEWR were to release relevant administrative data and the results of its longitudinal surveys on a confidentialised basis, it

would contribute to a culture of healthy debate over policy development in this field, and assist providers to learn from best practice.<sup>15</sup>

An alternative approach would be to establish an evaluation and monitoring body that is at arms length from policy development. This could facilitate open access to data and the sharing of information on best practice. It could either be a government body, or peak bodies in the sector could be encouraged to undertake this role.

Some years ago DEWR had a research and evaluation advisory committee comprising independent experts from the employment services and welfare sectors and academic institutions, to advise it on the evaluation of its programs. This interchange between internal evaluators and external experts contributed to rigorous evaluation.

### **Recommendations:**

20. DEEWR should make available to peak bodies (including ACOSS) and independent researchers regular data on job seeker profiles, flows (including benefits and employment services), and outcomes (including employment and skills) on a national and regional level, including data from the existing and proposed longitudinal surveys:

- One possible model is the administration by the Melbourne Institute of access to confidentialised data from the HILDA survey;
- Alternatively, an independent body could be established to undertake regular monitoring and evaluation of the effectiveness of employment assistance services using these data, which it would make available to stakeholders and researchers.

21. The Innovation Fund should be available to fund experimental programs, including substantial paid work experience, training or combinations of these for disadvantaged job seekers:

- DEEWR could assist with the data requirements for evaluation of these programs, and the evaluation results should be publicly available.

22. A research and evaluation consultative committee should be established to advise DEEWR on its monitoring and evaluation program and to explore options to research best practice and the effects of different models of employment assistance.

## **6. Education and training**

The present Job Network fee structure offers few incentives for providers to invest in or refer people to training. The proposed 20% bonus should improve provider incentives to train but this depends on other factors such as Star Ratings and other training-related Outcome Fees. For example, education and training related Outcome Fees in the present

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<sup>15</sup> See for example, Productivity Commission 2006, *The role of non traditional work in the Australian labour market*; Stromback & Dockery 2002, *Labour market programs and labour market outcomes*, Melbourne Institute Working Papers; Borland & Wilkins 2003, *Effects of activity test arrangements on exit from payments, the 9 month intensive review*, Melbourne Institute Working Paper 25/03.

system are more limited for adults with low education levels than they are for young people in a similar position, which discourages life long learning.

Providers advise us that it is often as difficult to assist a disadvantaged job seeker to complete a course as it is to obtain a job. Yet the evidence suggests that skills acquisition can greatly improve their prospects of secure employment. Clear incentives are needed for employment service providers and Registered Training Organisations offering 'Productivity Places' training to work together to support job seekers with barriers to training.<sup>16</sup>

For job seekers, there are strong disincentives to train in the present payment structure and activity requirements. For example, Austudy Payment for fulltime adult students is \$40 per week lower than Newstart Allowance. Newstart Allowance recipients still face job search requirements while they undertake an approved course that absorbs all of their required hours of activity (for example 15 hours a week in the case of parents of school age children). These activity restrictions are to be eased but there is more that could be done, especially for parents and people with disabilities who are likely to have greater difficulty juggling training and work requirements.

### **Recommendations:**

23. The Star Ratings system should be substantially adjusted to encourage providers to invest in, and refer job seekers to, education and training opportunities.

24. Existing Outcome Fees for education and training outcomes for young people with low education levels should extend to adults in similar circumstances.

25. Incentives and resources should be available to Employment Service Providers and Registered Training Organisations offering Productivity Places training to collaborate to support job seekers with barriers to training.<sup>17</sup>

26. Financial disincentives to training should be removed including by raising Austudy Payment to the same level as Newstart Allowance, extending a costs of education supplement to recipients of Allowance payments, and further extending the duration of JET child care assistance.

27. Activity requirements should be further adjusted to remove barriers to training. This should include the suspension of job search requirements while income support recipients are engaged in approved education or training that meets their hourly participation requirements (either full time or at least 15 hours per week, as appropriate).

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<sup>16</sup> See ACOSS 2008, *Submission to the Department for Education, Employment and Workplace Relations on the Productivity Places program*.

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## **7. Activity requirements**

We welcome the proposed review of activity requirements by the Participation Task Force, with a focus on making it easier for parents to combine job search, work and care.

Consumer organisations and service providers have reported to us that the new activity requirements introduced from July 2006 have created difficulties for parents, people with a partial work capacity and mature age people in the following areas:

- The '15 hour rule' has been administered in an inflexible way for those with fluctuating work hours and incomes;
- Parents have had difficult meeting requirements during school holidays;
- There has been very limited access to legislated 'temporary exemptions' for principal carers for reasons such as domestic violence

From July 2006 to mid-2007, of the 60,000 parents who attended participation interviews with Centrelink less than 500 were granted exemptions on grounds of domestic violence, yet an estimated 20% of sole parents have experienced physical or sexual violence in the past 12 months;<sup>18</sup>

- Many people with part time work requirements have needlessly been required to attend Centrelink in person every fortnight;
- Many jobs offer unsocial or unpredictable hours that are not suitable for the principal carers;
- The 'no worse off' rule regarding acceptance of job offers by parents is too complex;
- Parents are being pressured to use unsatisfactory informal child care arrangements where formal care is not available;
- Many principal carers also have disabilities or their children have disabilities, but these additional barriers to work and care loads are not consistently taken into account;
- The system does not accommodate people with recently diagnosed illnesses, illnesses with uncertain prognosis, and people with episodic conditions;
- People on the waiting list for the Personal Support Program may still face standard activity requirements until they secure a place in the program;
- The scope for mature age people to meet their requirements through voluntary work is more limited.

More broadly, the present activity requirements are rules-based rather than principles-

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<sup>18</sup> ACOSS 2005, *Facts about single parents and welfare*, ACOSS Info 380.

based, leaving too little scope to adjust requirements to circumstances such as the early stages of diagnosis of an illness or disability.

### **Recommendations:**

28. The Terms of Reference for the Participation Task Force should include the following:

- To evaluate and recommend to the Minister appropriate adjustments to participation requirements for parents, people with disabilities and mature age people;
- To consult widely, including with relevant peak bodies, consumer organisations and service providers, and to issue a draft report for public comment and feedback;
- To make recommendations to re-design the present set of activity requirements so that they are principles-based rather than rules-based, while maintaining a set of default requirements to ensure national consistency and fairness;
- To make recommendations to adjust activity requirements for parents to strike a better balance between job search and care, taking account of such issues as irregular employment, school holidays, availability of child care, the complexity of the 'no worse off' rule, and the combined effects of caring for children and other factors such as disabilities.
- To make recommendations for a more flexible system of requirements for people with illnesses and disabilities that takes account of the circumstances of people with newly diagnosed and episodic conditions.

29. Principal carers and people with partial work capacity who are currently required to attend Centrelink fortnightly should instead be required to attend on a monthly basis, to be implemented as soon as possible.

30. A separate, more flexible set of activity requirements should be introduced for Stream 4 job seekers.

## ***Attachment:***

### ***Recommendations***

#### **Work Experience:**

1. Service fees and Employment Pathway Fund payments during Work Experience should be annual amounts equivalent to those available in Stream 3, or at the least Stream 2.

2. Guidelines should be introduced for work experience covering such issues as:

- Duration

This should be no longer than 6 months in the case of unpaid work experience generally, and 2 months in the case of unpaid work experience with for-profit private sector employers.

- Levels of remuneration

Hourly remuneration should at least be equivalent to the appropriate Pay Scale (if the work is 'unpaid', then the number of hours worked should be equal to income support payments divided by the relevant hourly wage), and in the case of unpaid work experience a fortnightly supplement of at least \$20 should be available to assist with the participants' work related costs.

In the case of paid work experience, other entitlements of employment should apply including superannuation and occupational health and safety protections.

- Supervision and support

Employment Service Providers should maintain contact with each job seeker's work experience supervisor to ensure that they are supported in the workplace and that any problems that may arise are addressed.

- Relevance of work experience to individual needs and future job prospects

Job seekers should be offered a choice of work experience places. Work experience should be tailored to individual needs and interests including skills development, experience in the workplace, health and disability status and caring responsibilities.

- Community benefit

Unpaid work experience in a not for profit setting should benefit the community.

- Prevention of exploitation

Steps should be taken to protect unpaid work experience participants from exploitation, especially if engaged in the for-profit sector (for example, such work experience should generally be linked to an offer of ongoing paid employment,



unless the period of work experience is very short and there is clear evidence that skills are likely to be acquired that would improve future job prospects).

- Prevention of displacement

Steps should be taken to ensure that existing paid employees are not displaced by work experience participants where they are unpaid or their pay is subsidised.

- Insurance

Appropriate insurance coverage should be taken out for each participant.

### **Streams 1 to 4**

3. Providers should be permitted to specialise in the provision of Stream 4 services:

- Providers should also be able to specialise in assisting disadvantaged groups of job seekers, for example young people, people with disabilities, and people of Culturally and Linguistically Diverse backgrounds.

4. The existing Personal Support Program (PSP) and Job Placement Employment and Training (JPET) program should be expanded between now and the transfer of participants to Stream 4, to reduce waiting lists:

- At the least, those on the waiting lists for these programs should be subject to similar activity requirements to those applying to participants in PSP and JPET.

5. All PSP participants should transition into Stream 4, at least for a minimum period.

6. Consideration should be given to:

- collapsing Streams 2 and 3 into a single stream for those assessed through the JSCI as at-risk of long term unemployment;
- transferring responsibility for employment assistance for Stream 1 job seekers to Centrelink for the first 3 months.

7. Job seekers should be assessed on completion of a Stream, and based on this assessment there should be an option to transfer them into a higher or lower Stream (except for Stream 1):

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### **An open system of evaluation and innovation**

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default requirements to ensure national consistency and fairness;

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