

4 February 2011

The Hon Kate Ellis MP
Minister for Employment Participation and Child Care
Parliament House
Canberra ACT 2600

Business
Council of
Australia



Dear Minister Ellis

REVIEW OF EMPLOYMENT SERVICES

Thank you for the opportunity to provide comments on behalf of the Business Council of Australia on the performance of Job Services Australia and the Disability Employment Services. The Business Council of Australia (BCA) comprises CEO's from the top 100 companies in Australia and employs directly close to one million people nationally. The comments below derive from the policy work undertaken by the BCA, together with feedback from member companies about their experiences with current arrangements.

We understand that the purpose of the review you have commissioned is to make relatively minor adjustments to the current system as you prepare for new contract negotiations and we provide appropriate feedback based on the experience of members of the BCA, particularly in relation to indigenous employment.

We also believe it is timely to consider longer term changes to labour market support policy settings to reflect the changing nature of the labour market, the different characteristics of both the demand for labour and of those seeking work, and, indeed those not seeking work but whose participation in the workforce is sought.

In our view it is appropriate to begin thinking through what might be an appropriate set of labour market mechanisms that will address issues of labour market inefficiency, including the high levels of underemployment, the implications of dealing with structural unemployment rather than cyclical unemployment and the need to improve the rate of workforce participation among under-represented groups. It is unlikely that existing arrangements will be sufficient to address these issues.

Structural unemployment – multiple barriers require multi-faceted interventions, collaborative action and new governance

An obvious but important context for this review is the state of the broader labour market. Although jobs services agencies have had to handle some short-term effects of the global financial crisis, the labour market is increasingly facing skills and labour shortages. Unemployment is now lower than it has been for many years, meaning we need to tackle structural, rather than cyclical, unemployment. The

nature of the problem is different and job and labour market services must be adapted accordingly.

Those responsible for designing the current system have sought to address the fundamental change in the nature of unemployment through varying some incentives and rewards to jobs services providers. In particular the placement of those job-seekers (Streams 3&4) facing multiple barriers to employment have attracted extra incentives and rewards, recognising the additional attention and service they require.

But these changes are marginal. When considering the multiple disadvantages faced by job-seekers, together with the pattern of incentives to, and requirements of, providers and job-seekers, the changes made to date are insufficient to correct the balance. Overall system governance and rewards appear still oriented to larger numbers of job-seekers with fewer labour market disadvantages and there continues to be a focus on the rigid application of standardised processes, at odds with the individual configurations of service and support needed by those now (potentially) seeking work. Moreover, the nature of work and workplaces is changing so quickly that current arrangements for communication of employers' needs in relation to skills and attributes are failing to keep pace, resulting in lags in meeting demand and wasted training effort.

A multi-faceted approach is needed to create effective interventions, with incentives appropriately designed for all potential players – jobs services, education and training providers, employers and job seekers themselves – and an appropriate web of services available to support them all. These services will extend beyond those historically associated with 'labour market programs'. They will reflect the need for earlier intervention, recognising that many of the disadvantages are built up over a long period of time. And they will also reflect that in many cases effective intervention will entail addressing systemic issues like widespread discrimination or stereotyping of particular groups. These are not 'services' that can readily be provided by jobs services providers.

For example, many of those who are long-term unemployed or discouraged job seekers face widespread discrimination within the labour market. Research from the Human Rights Commission has highlighted the systemic discrimination facing particular groups who comprise the long-term unemployed or groups under-represented in the labour market, including the disabled, indigenous and older workers. Feedback provided to the Mature Workers Forum suggests the need for a systemic approach to tackling both long-term unemployment and workforce participation from those *discouraged* from seeking work, a group that is not currently serviced through the jobs service providers.

The incentives for workforce participation and employment also need to be strengthened, as highlighted by the Henry Review. The targeting of welfare payments which create high effective marginal tax rates continues to discourage job seekers. For those who have had long periods of unemployment or who come from households where unemployment has spanned generations, there is a need to consider new measures for building a work culture and basic employment skills, perhaps through permanent voluntary or community-based work.

As importantly is the growing prevalence of mental illness within the long-term unemployed. Although mental illness has been highlighted, along with other chronic illness, within reports on health reform, to date there has been little attention paid in

policy terms to how this will be managed either within the community more generally or within the labour market. Jobs services agencies are not well placed to provide this kind of support, nor are they appropriately rewarded for doing so. Similarly, employers too struggle with the ways in which they need to adapt organisational and management practices to accommodate those suffering from mental illness and to do it with due regard for the privacy of individuals.

Summarising, new problems – structural unemployment, non-participation and chronic disease – need new solutions. Those designing services need to be realistic about what can be provided through jobs services providers and what needs to be provided through other arms of government services and in collaboration with the not-for-profit and for-profit sectors. There needs to be a more sophisticated, multi-disciplined approach to tackling long-term unemployment, raising workforce participation and improving the way in which the labour market operates.

This is likely, based on experience to date, to imply the involvement and contribution of multiple agencies of government, the not-for-profit sector and business. In turn, this implies new governance models. The current bi-lateral contractually-based system has served us well for some groups of unemployed, but is not well suited to a web of services focused on the differing needs of job-seekers facing multiple disadvantages. We would suggest that in addition to adjusting incentives for job services through new contracts in this round, evaluation be undertaken of some of the new collaborative approaches currently being trialled in Indigenous employment (see below).

Specific comments from employers on current arrangements

Issues raised regularly by BCA members in the context of our indigenous activities relate to:

- The regional distribution of jobs services providers can be resource-intensive for large employers, particularly where they seek to establish national programs. This is exacerbated by:
 - a lack of cooperation across job service providers. Employers often have to deal with many providers to get outcomes.
 - a lack of knowledge about contemporary job/skill requirements of big employers among jobs services providers. For example, banks and many customer-facing businesses need technical skills AND customer service attributes. Without this understanding employers spend a lot of unnecessary time briefing many of the service providers.
- Preparation of candidates is still falling short.
 - Many candidates lack basic employability skills. Although some employers will invest heavily to address this, most cannot (and should not be expected to). There are too many Indigenous school leavers who cannot properly read or write.

- Yet, despite this gap members continue to report ‘training for training sake’, giving rise to the impression that candidates are being run through a standardised process (see above).
- Government assistance lacks flexibility to address barriers as they arise, directed instead to specific program targets identified previously.
 - For example, there is no money to support broad cultural awareness training in organisations, but this is fundamental to successful Indigenous employment outcomes and expensive if an employer has many workplaces/employees.
 - This feedback has also been provided in relation to disability support, where subsidies and assistance made available to support disabled people in particular workplaces continues to be too specific and to be administered separately through education and training and employment services programs. Providing more flexible support that allows the specific needs of individuals would be more cost-effective.
 - The quality of government support depends on luck of the draw in terms of who you work with in the departments (Department of Education, Employment and Workplace Relations and Department of Families, Housing, Community Services and Indigenous Affairs) and frequent staff rotation means loss of knowledge about the company. There continues to be cynicism among some in the departments about the motives and needs of big business and little commitment to providing a one-stop advice service.

Many employers are trying to increase employment opportunities for disadvantaged job seekers. However they need more support (including financial) for doing so. Wage subsidies are not necessarily the answer. Several large employers have indicated that they do not like to make use of subsidies and would prefer more flexible, broader support, reflecting that the needs of specific groups, and importantly individuals, differ.

Urging jobs services to engage more effectively with business and large employers is only one part of the process. This does not necessarily mean that we need another ‘layer’ in the process. Rather there should be some alternative means for engaging large employers operating across regions and perhaps beginning the process of reflecting that the effective service design of the future will entail webs of services and multilateral communication across agencies and organisations.

From the perspective of job seekers and jobs services providers

The Henry Review has again raised the issue of high effective marginal tax rates arising from the interaction of the tax and transfer system. This naturally flows from having a targeted welfare system. Yet the issue is about transitions and how we better support people to move through them successfully – from elements of the education system, to and within the labour market and from the labour market.

The Henry review has provided some sensible reform directions around reducing the number of income support payments available and reforming means tested withdrawal rates (reflecting different work expectations) as well as better targeting

family-related payments. These issues, while complex, warrant further consideration. Reflecting the potential of reforms in this area to contribute to enhanced labour market participation outcomes over time, BCA will increasingly be contributing to the debate in this area.

Matching skills/capacity to demand remains a big issue. As noted above, the better and closer the communication between the various players in the labour market – employers, job services providers and education and training providers – to ensure that training is relevant to employment pathways and at the right quality. Again incentives should be directed to training outcomes, not just throughput, and changing demographic target groups. The disadvantage (and discouragement) of mature workers undertaking apprenticeships from within the education and training system, for example, is reinforced by continuing programmatic and funding regimes.

We also sense from members' experiences that there needs to be a review of how the system of classification of job seekers is working. From the outside it looks like a blunt instrument that can have significant adverse effects if people get locked into a particular stream. Through our work in indigenous employment we have been impressed by some alternative, non-language, approaches to assessing individual capabilities. I believe they are being used in some instances but not sure how widely. These alternative approaches could be further explored and encouraged.

We clearly need to promote individualised approaches in practice (not just in word), backed by greater innovation and flexibility. The current black letter law and risk-averse approach to rules and processes within jobs services providers is stifling the innovation and flexibility needed to address a different set of employment issues. However this means first addressing these issues within government agencies themselves and the forms of accountability they require of contractors.

Concluding observations

While beyond the scope of the current review, jobs services need to be seen in the context of the operation of the total labour market. While they can provide a valuable service in helping to match the demands for labour with job seekers, they cannot and do not address the needs of those who are currently not participating in the labour market or who are seeking a greater involvement. The current mechanisms for designing employment pathways for several groups are not working as well as they might and perhaps do not reflect the speed and extent of change in the nature of work, workplaces and the structure of the economy. In particular, despite the focus on school retention targets and numeracy and literacy testing, there are too many indigenous school leavers presenting for interview that cannot read or write.

From this perspective, a key issue is how we prevent those at high risk of long term unemployment (for example, Indigenous children) from getting into the pool of unemployment in the first place. By focusing on the transitions across the life cycle and directing policy to ensuring successful transitions between the stages, we recognise that the pathway to successful employment outcomes begins early and within the education system. In other words, how do we build an inclusion pathway for them through school? For many this will require appropriate attention to housing and health issues and early identification of those who are at risk of either falling out of the formal education system or the labour market.

There are many small-scale regional and community-based programs emerging to assist disadvantaged groups and communities. For example, the Indigenous Employment and Enterprise Action Group and other organisations (e.g. Jawun) are already coordinating regional approaches in Shepparton and Cairns with the engagement of companies like Wesfarmers and KPMG. There are other programs involving not-for-profit organisations working in partnership with education and training institutions and local government and with support from corporate partners working to support successful educational outcomes in disadvantaged communities. These initiatives show that new governance models and forms of providing public assistance are required to address the weaknesses of the labour market and ensure that all are enabled and encouraged to participate fully. Bringing the jobs services providers into this is crucial, as is funding of some sort for these approaches.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Tarrant', with a stylized flourish at the end.

Maria Tarrant
Acting Chief Executive