

AT WHAT COST? GETTING BACK TO JOBACTIVE



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About Per Capita

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

Our audience is the public, not just experts and policy makers. We engage all Australians who want to see rigorous thinking and evidence-based analysis applied to the issues facing our country's future.

About the author

Simone Casey is a Research Associate at Per Capita, with a diverse portfolio of responsibilities including unemployment, social security, tax transfers, workforce participation, and the structural discrimination perpetuating the inequality of women and people with disabilities. She has been extensively involved in policy initiatives relating to welfare reform, unemployment, and employment services.

In May 2018 Simone was awarded a PhD on the topic of 'Resistance in Employment Services' which was a critique of social policy relevant to the political economy of welfare redistribution and public policy governance. Her priorities at Per Capita include reform of employment services.



Executive summary

This is the third paper in Per Capita's series examining the operation and effectiveness of Australia's employment services system, known as *jobactive*, in the context of the profound labour market disruption caused by the COVID-19 pandemic.

It follows *Redesigning Employment Services after COVID-19*, an analysis of the capacity of *jobactive* to respond to the surge in unemployment after the onset of COVID-19, which was published in April 2020; and an assessment of the fairness of the mutual obligation system, *Mutual Obligation after COVID-19*, published in June.²

With the Mutual Obligation system set to return on 28 September 2020, this briefing provides an update on our earlier estimates of the cost of *jobactive* given the significant increase in the number of unemployed people needing assistance, and reflects on how the system has adapted so far to the unforeseen surge in case numbers.

The fact that the federal government has directed many newly unemployed people to its relatively new Online Employment Services (OES) system to slow the referral of unemployed workers to *jobactive* during the height of the economic shock indicates that policy makers are alive to a looming cost blow-out of the privatised employment services system.

This briefing paper finds that there is likely to be substantial inflation in the cost of *jobactive*, necessitating the allocation of additional government funding for employment services, unless there are radical changes to the *jobactive* model.

As with all areas of public policy, decisions about government funding of employment services have risks that need to be managed. There are trade-offs reflecting the variables of cost and effectiveness which, in the case of *jobactive*, include the need to balance the estimated value of employment services expenditure against its benefits to job seekers and the broader community.

At the centre of the current cost-benefit debate about *jobactive* is a concern about the adequacy of the help provided to unemployed workers either through online services or in person. In fact, neither of these options is the best solution for the post-COVID unemployment and labour market restructuring ahead. As the following analysis makes clear, a more fundamental reconfiguration of resources is required, so that skilled vocational counselling can be aligned to initiatives focused on emergent labour market opportunities.

This briefing paper concludes with observations on the likely impact of recent policy initiatives such as *JobTrainer* and the new Local Jobs Program, and a number of policy recommendations that would strengthen the capacity of Australia's employment services system to provide useful and tailored support for Australians seeking to return to the labour force after the widespread loss of work since early 2020.

² https://percapita.org.au/our_work/mutual-obligation-after-covid-19-the-work-for-the-dole-time-bomb/



¹ https://percapita.org.au/our_work/redesigning-employment-services-after-covid-19/;

Introduction: a 'wheelbarrow' recovery

It is now apparent that recovery from the COVID-19 economic shock will be uneven, with some economists talking about a "two-speed economy" in which the more badly affected states, such as Victoria, taking longer to recover jobs and economic activity. Certain sectors of the economy have been subject to an abrupt restructuring that has left people without jobs in businesses that are unlikely to reopen in the short term.

Per Capita has modelled this as a likely 'wheelbarrow recovery', as illustrated below in Figure 1. This modelling does not account for an increase in unemployed workers that may arise with the withdrawal of JobKeeper and zombie business closures.

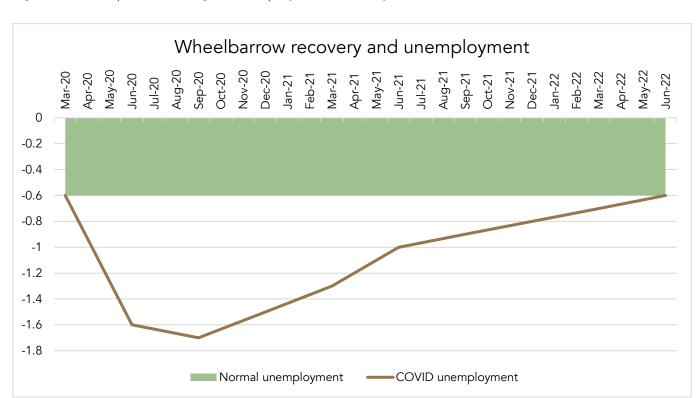


Figure 1: Per Capita rendering of unemployment recovery

Since the green shaded area indicates the usual funding level for *jobactive*, it is clear that the government must carefully consider the additional costs that would arise if *jobactive* was to continue to be funded along old lines. This is because there is a risk of a Federal budget blowout for both administration fees and outcome fees due to the increased caseload on services providers.

It seems unavoidable that the coming Federal budget will need to accommodate an increased appropriation for *jobactive*. This is because, despite pressure to reduce the overall caseload by getting newly unemployed people back to work and off the JobSeeker payment as soon as possible, this is unlikely to be achievable in the short term. If there is no increase in the funding of *jobactive*, it is likely that the Department of Education, Skills and Employment (DESE) will need to shift more people into OES, as the overall increase in caseload will cost more in both administration fees and outcome fees.

³ E.g. Jeff Borland: https://sites.google.com/site/borlandjum/labour-market-snapshots



The cost of jobactive

The projected cost of *jobactive* due to the higher caseload over the forward estimates will be a significant consideration for the DESE for the forthcoming federal budget. The following analysis of the likely increased cost of *jobactive* indicates the approximate size of the budget appropriation likely to be needed.

Firstly, to avoid a blow-out in the current 6-month period, the government decided to allocate roughly half of all the one million new job seeker claimants to *jobactive*, and the other half to OES (i.e. 400,000 each with another 200,000 being eligible for other services/programs or exempt from employment services). This was done to enable *jobactive* agencies to meet (online or by phone) with almost double the number of unemployed workers they had done previously, amidst other strategies intended to avoid bottlenecks in the *jobactive* system.

Per Capita has estimated the cost of *jobactive* administration fees based on the data provided by DESE to the Senate COVID-19 hearings on 6 August 2020. These calculations are based on the temporary increase to fees that was revealed in those hearings and Questions on Notice:

It was 37 per cent admin fees and 63 per cent outcome payments to providers. We've rebalanced that to fifty-fifty. For our providers, that is \$391 each six months. For younger people who are SPI participants, that figure is \$547.

DESE Deputy Secretary Nathan Smythe⁴

Table 1: Per Capita calculation of Administration Fees in jobactive in second half 2020

	Unemployed workers at 1/08/2020	Administration fee	\$ Total				
Stream A	862,152						
Stream B	337,605						
Stream C	108,600						
Total	1,308,357						
(-400,000 in OES)	= 908,357						
aged 25 and under	212,379	\$547	\$116,171,313				
aged over 25	695,978	\$350	\$243,592,300				
Total A	Total Admin Fees for the current 6-month period (Jun-Nov 2020): \$359,763,613						

Source: Per Capita analysis of data provided to Senate COVID-19 Hearing, 6 August 2020⁵

Our analysis of the current *jobactive* caseload reveals the fees for the current 6-month period (June – November 2020) will be worth approximately \$360 million. Normally the caseload would have been

⁵https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Fcommsen%2Fc852e7ab-eb70-4329-b237-5d8335cb3884%2F0000%22



⁴ COVID-19 Senate Hearings 6 August 2020 transcript:

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approximately 700,000 and the federal budget for Administration Fees around \$210 million. The \$150 million increase reflects the impact of the temporary increase in fees as well as the increase in numbers of unemployed workers on the *jobactive* caseload.

In addition to Administration Fees, Employment Fund expenditure for the financial year 2018-2019 was \$281,923,271.6 Credits to the Employment Fund are based on the numbers of job seekers who commence in employment services and are supposed to be pooled across the *jobactive* provider caseload. Work for the Dole is another cost, which we have calculated as likely to cost \$50 million depending on the overall number of unemployed workers that became eligible.

Income from Outcome Fees

Before COVID-19, it was possible to estimate Outcome Fees crudely by simply doing the sums. As Table 2 indicates, if Administration Fees were \$420 million, Employment Fund costs approximately \$280 million, and Work for the Dole expenses approximately \$100 million per annum, we can assume Outcome Fees were approximately \$500 million per annum (\$85 million per month or \$250 million per 6-month period).

Table 2: Breakdown of expenditure on jobactive by category of expense (Per Capita estimates)

	Cost per 6-month period	Cost per annum
Administration Fees	\$210 million	\$420 million
Work for the Dole Fees	\$50 million	\$100 million
Employment Fund	\$140 million	\$280 million
Outcome Fees	\$250 million	\$500 million
Total appropriation	\$650 million	\$1.3 billion

It is important to note that these figures were based on the old *jobactive* caseload of 600,000. As the current caseload is now one million, this means there are an additional 400,000 people in *jobactive* and that the expenditure will need to increase by two thirds. With more than \$800 million in extra funding required to accommodate this increased demand on the system, it seems likely that a figure in excess of \$2 billion will need to be appropriated in the forthcoming federal budget.

Complicating this assessment, of course, is the fact that it is difficult to calculate future Outcome Fee expenditure given the extent of disruption to the jobs market caused by COVID-19. Slow economic recovery will mean that expenditure on Outcome Fees will be lower than it had been in the past, but the slower rate of job placements will mean that *jobactive* agencies will continue to receive Administration Fees for unemployed workers for longer, which will continue to be an additional drain on *jobactive* expenditure.

The main disruption in Outcome Fees will be from the commencement of unemployed workers into new job placements and the accrual of additional fees at 4-, 12-, and 26-week intervals. Per Capita calculates Outcome Fee payments for job placements (that is, 4-week outcomes) at \$5.5 million per month. As providers receive a different amount for part outcomes and full outcomes, we have broken these down at the ratio of 22% versus 78%.

⁶ Senate Estimates Question on Notice SQ19-001230



Table 3: 4-week Outcome (job placement) Fees per month per annum

Fees for 4-week outcomes	\$160 (part outcome)	\$400 (full outcome)	
Number per month	3476	12324	
Monthly value	\$556,160	\$4,929,600	
		Annual value:	\$ 5,485,760.00

These 4-week outcomes normally convert at a ratio of roughly 50% to 26-week Outcome Fees – that is, half of those placed in jobs for four weeks will still be in employment after six months. At each step in this process, the payments to providers are worth more. As Outcome Fees are payable at 12 weeks, and then again at 26 weeks, this income to *jobactive* agencies has been affected by job losses that occurred when employers were not eligible for *JobKeeper*.

We have calculated that the increase to Administration Fees for the current 6-month period is approximately \$150 million. As it is unlikely the DESE has committed additional funding to *jobactive* beyond that already secured in the earlier appropriation of \$1.3 billion, this is likely to be equivalent to the reduced income to *jobactive* providers from Outcome Fees for the current 6-month period. This means that income for Outcome Fees has roughly halved due to the impact of COVID-19, but not as severely as it would have if *JobKeeper* had not preserved some already 'anchored' Outcome Fee claims. Nevertheless, the recession and resulting ongoing slackness in the labour market can be expected to keep Outcome Fee income lower than it had been for some time.

As the temporary boost to Administration Fees is only until the end of November 2020, this is likely to result in increasing pressure on *jobactive* agency workers to begin anchoring new job placements to maintain their agency income levels. New job placements will be required to step up revenue from outcomes so that 12- and 26- week payments kick back in.

Based on this analysis it is easy to understand why the government has decided to use employment services to enforce Mutual Obligations again: the aim is to return *jobactive* expenditure to the old ratio of 38/62 for Administration Fees versus Outcome Fees to justify the cost of the system.⁷ This may result in unemployed people being pressured into taking any job regardless of job quality or suitability, and to provide payslips for jobs they secure themselves so that *jobactive* agencies can claim outcome payments.

Given the overall higher caseload in *jobactive* now than when the appropriation was originally forecast, there is a risk of overspend if *jobactive* agencies claim too many job outcomes while the Administration Fees remain boosted. However, because caseloads will remain higher than normal for some time, it seems inevitable that the appropriation for *jobactive* in the forthcoming federal budget will need to be increased.

 $^{^{7}}$ This is also sometimes quoted as a 30/70 split depending on what is factored in.



Mutual Obligations and Online Employment Services

The suspension of Mutual Obligation requirements for most of 2020 has shown that it is possible to adopt an approach to job search requirements that is proportionate to labour market conditions. The newly announced change to job search requirements of eight applications per month, down from the prepandemic requirement of 20 applications per month, recognised the more challenging labour market conditions and was a welcome example of a proportionate policy response.

However, the period of Mutual Obligation suspension was challenging for *jobactive* providers.⁸ It caused workflow inefficiencies and inconvenience because providers were limited in their ability to claim commencement payments until they had completed the deed requirements of the initial interview, in which new entrants to the system are asked to sign a job plan and privacy waiver, while service providers canvass labour market opportunities and introduce the job seeker to the services available.

There are multiple instances of job seekers reporting that they have been coerced by *jobactive* agencies to sign job plans and undertake activities such as online training. This suggests providers have been acting to meet all contractual requirements of the deed for initial appointments, despite government advice that job seekers in the system did not have to meet such requirements for six months.

For unemployed people, the period of Mutual Obligation suspension provided respite from *jobactive* supervision, but it has also been a time of increasing stress during which they have had to compete with more people for fewer available jobs. While *JobSeeker* and *JobKeeper* payments have provided income stability during this period, for many people the experience of unsuccessfully applying for jobs for which they are qualified is new and frustrating. This group of newly unemployed people is likely to grow increasingly dispirited about their job prospects and will need access to high quality, targeted support.

The government's decision to stream 400,000 newly unemployed people into OES was primarily due to the high number of people who applied for the *JobSeeker* payment when COVID-19 led to the sudden shut down of employer businesses.

The OES is likely to be suitable for recently unemployed job seekers for a number of reasons. Firstly, research has found that self-directed job search is effective but only for a limited duration. Descendly, referral to the OES is based on appropriate streaming using the online job seeker snapshot tool, which collects information in the same way as the Job Seeker Classification Instrument. This OES caseload is classified as having low support needs: these are people who are capable of undertaking an effective job search using existing online services such as Seek, Indeed, or the DESE job search portal JobsHub, which aggregates the content from these sites. Unemployed workers in OES will be streamed to *jobactive* agencies at their request, or after six months of unemployment.

¹⁰ https://wol.iza.org/articles/internet-as-a-labor-market-matchmaker



⁸ We acknowledge that *jobactive* agencies respond to direction from the DESE on how to meet their contractual obligations and specific requirements laid out in guidelines.

⁹ https://thenewdaily.com.au/news/national/2020/05/11/coronavirus-jobseeker-mutual-obligations-letter/; https://www.abc.net.au/news/2020-08-28/coronavirus-jobseeker-system-relies-on-there-being-jobs-to-get/12601294; https://www.abc.net.au/news/2020-08-26/your-rights-work-for-the-dole-during-covid-19/12592546

There is a counter argument: that the provision of personalised employment support is not what the *jobactive* system was designed for. This has recently become apparent, as some unemployed people have reported not being able to access useful support from *jobactive* providers that is relevant to their qualifications and skills,¹¹ or which prepares them for the likelihood of job recovery in the fields in which they were previously employed.

Furthermore, the skilled vocational counselling that is required for people made unemployed as a result of the COVID-19 economic shock is beyond the capability of many existing *jobactive* workers. While online tools like JobOutlook and SkillsMatch provide automated advice on skills reorientation, this is not a good substitute for expert career guidance from vocational counsellors informed by understanding of local labour market conditions. As we have consistently argued, vocational counselling must be mapped to real knowledge of labour market demand and provide immediate pathways for re-skilling unemployed people in areas of labour force demand.

As labour market conditions improve, *jobactive* will revert to its former role of monitoring job search compliance. The enforcement of Mutual Obligations through the resumption of the Targeted Compliance Framework system of payment suspensions and demerit points will ensure unemployed people are actively applying for jobs, with the intention of reducing the cost of both the *jobactive* system and unemployment payments. It does not, however, take into account the potentially harmful impact of this compliance framework on unemployed people experiencing the hardships of unemployment for the first time, particularly once the rate of *JobSeeker* is reduced.

The government's rationale for reducing the rate of the Coronavirus Supplement to JobSeeker, from \$550 per fortnight to \$250 per fortnight, is that the higher rate is removing incentives for unemployed people to find work, as a part-time job on minimum wage can pay less than the full supplement rate of *JobSeeker*. Although this argument has been promoted by the OECD as valid when there are high numbers of jobs available, 12 it is acknowledged by the same body to be harmful in the context of historically high levels of unemployment. 13 The OECD has also warned against enforcing onerous activation on the newly unemployed during periods of high unemployment such as those experienced during the GFC. 14

What happened to Work for the Dole?

The suspension of Work for the Dole was necessary because of social distancing during the pandemic and reflected the OECD's recommendations along these lines. As of 28 September 2020, Work for the Dole will resume "where it is safe to do so" and *jobactive* agencies will be required to renegotiate agreements with host providers along with updated risk assessments that should reflect DHHS and WorkSafe requirements for COVID-19 along with other Work Health and Safety risks.

The impacts of COVID-19 on the market of host providers will make arrangements for Work for the Dole problematic. After six months during which activities were suspended, it is likely some Work for the Dole hosts will have lost revenue and may no longer be fully operational. It is likely the new requirements for

¹⁴ https://www.oecd.org/els/emp/Employment-Outlook-2013-chap3.pdf



¹¹ Feedback observed on various social media platforms

¹² https://www.oecd.org/els/emp/36780874.pdf

¹³ https://www.oecd.org/coronavirus/policy-responses/supporting-people-and-companies-to-deal-with-the-covid-19-virus-options-for-an-immediate-employment-and-social-policy-response-d33dffe6/

risk assessments and host agreements will result in a high impost on both *jobactive* providers and Work for the Dole hosts, which only the larger and more established hosts will have the capacity to meet.

It is notable that the DESE advised that unemployed workers will be able to undertake 'Approved Training' instead of Work for the Dole. ¹⁵ Approved Training is a category of training course of less than one-year duration. Amendments to the *jobactive* guidelines will be required to clarify direction to providers that this is an option for unemployed workers aged under 30, who were previously required to undertake Employability Skills Training or Work for the Dole as the default activity.

This is a welcome initiative, but additional measures will be required to ensure that people are referred to appropriate training made available through *JobTrainer*. It is important that referrals to *JobTrainer* should be managed by skilled vocational counselling services, rather than through *jobactive* agencies, which have never been well situated to utilise training due to a lack of incentive within their government-contracted obligations.

JobTrainer and the new Local Jobs Program

The *JobTrainer* and Local Jobs Programs are two welcome initiatives that show flexibility in the strategies being developed by DESE. These are additional to funding for re-skilling, but it is important that they respond quickly to the needs of the unemployed. Efficiency in the implementation of these programs will be integral to ensuring they are available as soon as needed.

It is relevant to note, then, that in August, the federal government was still negotiating matched funding for *JobTrainer* with the states and territories, and that at the time of writing, Western Australia had not yet committed.

The Local Jobs Program promises to provide a mechanism for funding projects in designated priority areas. This initiative is an extension of the existing Regional Employment Trials and will provide funding for specific re-skilling or upskilling projects through grants of between \$10,000 to \$200,000 for initiatives that meet priorities developed in Local Jobs Plans. It is intended that such projects will be focused on training and re-skilling opportunities, tailored non-accredited training or professional development projects, job seeker mentoring, and employment pathway and internship programs.

However, a weakness of these programs is that they do not provide for the fundamental need for job creation in either the public or private sectors.

Further, unless carefully administered, there are risks that arrangements for the provision of these programs may be exploited by opportunistic private training organisations. Per Capita recommends the funding for these programs be given to publicly funded TAFE institutions to provide Skilled Vocational Counselling, and to coordinate access to part-qualifications and micro-credentials that support re-skilling. Referral to this Skilled Vocational Counselling or any other relevant training activities should be an accredited job plan activity for people enrolled in the *jobactive* system.

¹⁵ <u>https://jobsearch.gov.au/covid-19-information</u>



Flexibility of the Employment Fund and Approved Training

The main categories of current Employment Fund expenditure are Accredited Training, Other Training, and Wage Subsidies. Each involves strict rules that impede flexible access to training opportunities: for example, Vocational Training is available only for limited courses because incentives to training providers are focused only on training that aligns to a national list of qualifications identified as being in demand.

Wage Subsidies are only available for certain categories of applicants and tend to be focused on the long-term unemployed and others with significant barriers to employment. Another restriction on access to the Employment Fund is that credits to the Fund are based on job seeker commencements after certain points in time. This is the case for Stream A job seekers classified as low needs, for whom the provider only receives the Employment Fund credit when they have been on their books for 13 weeks.

In order for the Employment Fund to be a valuable resource to help unemployed people access work preparation and re-skilling, entry requirements need to be more flexible. Such flexibilities should optimise the use of the Employment Fund for the Approved Training that *JobTrainer* and the new Local Jobs Programs may generate.



Conclusion

COVID-19 has made it abundantly clear that unemployment can be engineered through policy decisions that affect labour market conditions. If nothing else, COVID-19 has taught us that market interventions are the most significant determinants of unemployment rather than the behaviour of the unemployed.

Understanding this exposes the falsity of construing unemployment as a behavioural deficiency. If it is accepted that unemployment is mainly a problem of labour market conditions, then more attention can be paid to how to improve access to the labour market, and provide incentives to participation, rather than to implementing punitive activation strategies.

Access and incentives can be improved by ensuring there is availability of part-time work for those who prefer it or who have lower work capacity, such as parents and people with disabilities, and by ensuring that all jobs provide mandated employment conditions and benefits. This is the real priority for labour market and industrial relations reform.

Finally, it is clear that, with so many more job seekers in the labour market than there are available jobs, activation-focussed labour market programs will no longer be effective, if indeed they ever were. This means there is a need to refocus active labour market programs on investment: in skills training for many people newly unemployed due to COVID-19, and in active job creation projects that provide entry-level opportunities for those who are at risk of being left behind when the economic recovery is underway.

Recommendations

The government should carefully consider the long-term costs of persistent and intractable high levels of unemployment that are likely to emerge from the COVID-19 economic shock. This will require an honest appraisal of the benefit of current policy settings in employment services against the potential social and economic harms of maintaining an activation-focussed, punitive system, and moving away from unhelpful ideological constructions of the causes of unemployment.

There is strong consensus between economists and social policy analysts on additional strategies that will be needed to prevent unemployment scarring, which Per Capita supports. These include:

- Resource a Skilled Vocational Counselling Service in the publicly funded TAFE sector to manage referrals to training for those affected by labour market restructuring;
- Allow referral to Skilled Vocational Counselling as an accredited activity in agreed Job Plans, rather than appointments with *jobactive* providers;
- Review the New Employment Services Model (NESM) so that it is fit for post-COVID unemployment and consider bringing forward the transition to the NESM;
- Ensure the Panel Model for NESM allows a diversity of providers that will be responsive to the needs of employers;
- Abolish Work for the Dole and fund genuine work experience programs, linked with accredited skills training in areas of labour market shortages;
- Fund job creation projects, including through distributed community generation grants; and
- Increase flexibility in the use of the Employment Fund to support more diverse forms of training and accreditation.



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Appendix: Data sources

Table 4: jobactive participants with 12- and 26-week employment outcomes in 2018-19 by stream

Stream	Participants with 12-week outcomes	12-week outcomes (%)	Participants with 26-week outcomes	26-week outcomes (%)
Stream A	86,428	51.9%	69,369	54.9%
Stream B	61,264	36.8%	43,862	34.7%
Stream C	18,842	11.3%	12,784	10.1%
Stream A	451	0.3%	302	0.2%
Volunteer				
Total	166,626	100.00%	126,263	100.0%

Source: Senate Estimates QON SQ19-001225

Table 5: 4-, 12-, and 26-week partial and full outcomes

Outcome	Partial outcome (share of total)	Full outcome (share of total)	Total outcomes	
4-week	121,930 (22.1%)	430,890 (77.9%)	552,820	
12-week	161,030 (34.7%)	302,920 (65.3%)	463,950	
26-week	N/A	289,740 (100%)	289,740	

Source: Next Generation Employment Services Discussion Paper, Appendix¹⁶

Table 6: Placements and outcomes by stream (1 July 2015 – 31 May 2018)

Stream	Job placements (share of total)					2-week outcomes nare of total)		26-week outcomes (share of total)	
Stream A Volunteer	6,510	0.6%	1,320	0.2%	1,140	0.2%	620	0.2%	
Stream A	595,340	56.5%	307,890	55.7%	265,880	57.3%	177,270	61.2%	
Stream B	317,110	30.1%	176,070	31.8%	143,580	30.9%	82,530	28.5%	
Stream C	135,370	12.8%	67,550	12.2%	53,360	11.5%	29,310	10.1%	
Total	1,054,360		552,820		463,950		289,740		

¹⁶ https://docs.employment.gov.au/documents/next-generation-employment-services-appendices



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