new directions

APRIL 2000

DISCUSSION PAPER 3

pathways to work: tackling long-term unemployment

A report prepared by
THE BOSTON CONSULTING GROUP

BUSINESS COUNCIL OF AUSTRALIA

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Foreword

Our economy has grown faster than any comparable large developed economy for the last decade. Yet despite this strong and steady growth, the Dusseldorp Skills Forum estimates that 15 per cent of young people in Australia do not move from school to full-time work, training or higher education.

The economic costs of this are huge. The social costs – the costs to individuals and the long-term risks to the fabric of our society and to our political culture – are very concerning. Australia is not alone in experiencing these problems, and in many respects our excellent economic performance has us better placed than many countries to tackle them aggressively and optimistically.

Certainly our vision for Australia is an optimistic one.

> **We want to grasp the opportunity for Australians to enjoy the world's best quality of life and standards of living, which are amongst the highest in the world.**
>
> **We want jobs for all who can work, support for the disadvantaged and a fair go for everyone.**
>
> **We want to be a community of Australians, united in our diversity, proud of our achievements, creating wealth and work for all.**

To tackle the problems we need to understand them, and we need to motivate Australians to unity of purpose. Unemployment has been falling and we must retain our resolve to ensure that it continues to fall. If we cannot maintain high economic growth this progress will stall. But the facts of our current situation indicate that more needs to be done. Successfully tackling unemployment will require a multi-pronged approach.

This study was conducted by The Boston Consulting Group. They have focused on the issue of marginalisation from the workforce and examined ways in which that marginalisation might be tackled at source. Once workers are marginalised, experience shows that it is very difficult to get them back into the workforce. Employers are often wary of hiring people who have been out of work for a long period of time. Sometimes they may do so unfairly, but often there is good reason for their wariness. People's skills, their productivity and their self esteem and enthusiasm are often severely damaged by a long period of unemployment.

The analogy with workplace injury is close and was in fact in the consultants' minds as they worked. Considerable progress has been made in Australia in occupational health and safety. Businesses, increasingly, leave no stone unturned in preventing injury and illness in the workplace, but where it does occur they understand that it is critical to get people back to work before they lose their confidence. This paper argues for an analogous approach to the school to work transition and the transition from retrenchment back to work for older workers. It argues that better managed support during these critical transitions offers scope for substantially better performance without any more government spending.

There have been numerous worthy initiatives to address unemployment over the years. This paper is not a critique of those programs. Rather it provides fresh thinking for various stakeholders, including governments, to consider the policy architecture within which such programs are managed.

Like other New Directions Discussion Papers, this one doesn't claim to have all the answers. The discussion papers are not intended as finished packages of reform. They put some important new ideas on the public policy agenda.

Our objective in this exercise is to encourage a constructive dialogue rather than to align the BCA behind fixed positions.

We encourage anyone with views on these issues to come forward and put them.

If you want to contact us, you can write or e-mail us at new.directions@bca.com.au.

Finally, I wish to acknowledge that The Boston Consulting Group conducted this study on a *pro-bono* basis. As is made clear in the Acknowledgments to the report, the project consumed the time of numerous consultants over several months. I know I speak for all members of the Council when I thank them sincerely for their commitment. I believe they have made an important contribution to the debate. I commend The Boston Consulting Group study to you.

Tony Berg
Chairman
New Directions Task Force

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Executive summary

According to the Australian Bureau of Statistics, almost 190,000 Australians who want to work have been unemployed for a year or more. Less restrictive definitions suggest the figure could be over twice this. The problem is not a recent one. Over the last 20 years, the number of people in long-term unemployment has moved up sharply with each recession and then failed to return to pre-recession levels when the economy has fully recovered. This level of long-term unemployment is unacceptable in a country that has enjoyed strong economic growth for almost a decade and has the highest job vacancy levels in over 10 years.

These facts are widely known, and the issue has not been ignored by policy-makers, academics and others. Many regional, state-wide and national initiatives have been launched to address the issue. There have been successes but, despite the extensive research, good intentions and significant expenditure, the problem remains.

Concerted action is required on many fronts – from broader strategies focused on jobs growth, reducing demand volatility, eliminating ‘poverty traps’ and reinforcing mutual obligations, to supply-side programs at the community and individual levels, aimed at supporting high-risk groups through difficult life transitions as well as training the unemployed to fill areas of jobs growth and skills shortage. The coexistence of a strong economy and persistent high levels of long-term unemployment suggests that the latter strategies must be a critical part of the solution.

We focus in this paper on strategies to improve the effectiveness of supply-side programs – that is, those programs focused on improving the job readiness and productivity of individuals. The rationale for this approach is that the effective overall management of these programs can help both to reduce long-term unemployment levels when the economy is strong (as is the case in Australia today) and to reduce the average duration of unemployment when the economy is weaker. Reducing the average duration of an unemployment episode helps individuals to retain skills relevance and productivity, and reduces the number of people who are marginalised by long periods of exclusion from the workforce. This can raise the average productivity of labour generally, and promote a higher level of overall employment in the economy.

At the heart of our approach is the view that fundamental organisational issues hamper the effective allocation and use of resources aimed at improving the job readiness of individuals. We draw on well established management principles both to support this view and to propose solutions to it.

In addition, because the root causes of long-term unemployment are different between both regions and individuals, we propose harnessing, at the local level, the collective knowledge and expertise of community leaders, businesses, teachers and welfare specialists, among others. We believe there is a crucial role for business in particular, which offers potential that has not yet been fully exploited despite what we see as a reservoir of good will and willingness to be involved. This failure is in great part driven by the complexity of state, federal, local and private sector roles, responsibilities and funding avenues that make it extremely difficult for business to play an active role.

The value of early intervention – that is, action to prevent entry into long-term unemployment for individuals at high risk of doing so – is another important principle underpinning our recommendations. We conclude it is important to focus early intervention on major life transitions where people are at significant risk of entering long-term unemployment. In this paper we propose initiatives focused on the school to work transition and termination back to work transition. Failure in these two transitions accounts for over 50% of entries to long-term unemployment.

Failed school to work transition

There is widespread agreement that failure in the transition from school to work is a pathway to marginalisation[1] and long-term unemployment. And, while there are many programs and initiatives designed to provide support for young people at high risk of marginalisation, they tend to operate in isolation, without institutionalised sharing of best practices, and with a plethora of funding sources and reporting arrangements.

Stated simply, some fundamental management principles are missing from the way we manage the school-to-work transition; they are accountability, measurement of outcomes and informed purchasing of services.

1. Unclear accountability

While state government school systems have some degree of accountability for what happens to their students during their education, this accountability ends when they leave the school system. At this point many young people can step into an abyss with nobody having clear accountability. When those who fail this transition ultimately become eligible for welfare benefits, often not until age 18, they become a concern for the federal government but by then their chances of marginalisation may have increased considerably.

2. Inadequate measurement of outcomes

Given the importance of the school-to-work transition, its success rate should be measured to focus attention on outcomes and ensure that feedback is collected on the success or otherwise of vocational training or other initiatives. However, there is no routine measurement of success rates or tracking of what happens to young people after they leave school – especially if they do so before Year 12. Indeed, average TER scores – one of the measures most often used in comparing the performance of individual schools – can be enhanced at the school level when poor academic performers drop out. Without routine measurement of the proportion of school leavers who become marginalised from society, management of the problem is likely to remain inadequate.

3. Lack of a knowledgeable buyer

Young people are the recipients of an uncoordinated set of initiatives and funding from federal and state governments, and non-government welfare bodies. There is no knowledgeable buyer of services for these young people – someone who is motivated to measure the effectiveness of expenditure and determine whether a particular group of young people requires more of a certain type of initiative or less of another. In an environment where the effectiveness of past expenditure is not clearly understood, funding will inevitably be misdirected in some cases and fail to be granted in others.

1 For the purposes of this paper, 'marginalisation' is defined as spending under half of the preceding year in full-time work, education or training

To illustrate this, take the example of 'The Island' in Fitzroy, Melbourne, which is a program designed for young people at risk of marginalisation. For the last 20 years this program has enabled people who have dropped out of school to spend time with tradespeople who can teach them a trade. However, The Island, like many similar programs, has each year to apply for funding from various sources in the federal, state, and private sectors. No one is well positioned to say whether the program should be expanded or contracted, or which specific students would most benefit from places there.

Recommendation

We recommend implementation of an initiative that actively addresses these organisational issues in a way that minimises bureaucratic complexity and facilitates the involvement of business and other local stakeholders. The initiative comprises a package of measures designed to deliver the local accountability, measurement of outcomes and informed purchasing of services that we believe are fundamental to helping at-risk youth to achieve a successful transition from school to work.

To ensure **local accountability**, we recommend that, in regions where a high proportion of young people are at risk of becoming marginalised, accountability for improving school-to-work transitions be assigned to an individual working with the local community. This individual, the *Local Director of Youth Futures*, should have responsibility for young people at a school cluster level (covering, say, four to eight secondary schools) and work very closely with a Community Board comprising local businesses, school principals, vocational education and training (VET) representatives, youth representatives, and other members of the community with relevant expertise.

The Local Director of Youth Futures and the Community Board should be accountable for increasing the participation in work, training or education of school leavers in their cluster. This could be achieved by investing in initiatives (in conjunction with local secondary schools) to help ensure that young people want to remain at school, develop workable options outside traditional schooling, or a combination of both. It could, for example, involve working with local businesses to find employment opportunities for particular school leavers not suited to further education. To help achieve this, the Local Director should be able to facilitate some degree of case management for the at-risk youth for whom he or she is accountable.

The development of close relationships with local businesses should be an important part of the Local Director's role. Such relationships should maximise business involvement and investment in opportunities for training and employing young people in the area. As schools today have some responsibility for developing a range of alternative pathways in education, including VET in schools, it will also be important for Local Directors to develop close working relationships with local secondary school principals.

There are various alternative reporting relationships for Local Directors of Youth Futures. The preferred organisational option canvassed in this paper is premised on an important reform – that state governments take on responsibility and ultimate accountability for 'whole of youth' outcomes, whether young people are in or outside the school system. This could be achieved by state governments extending their responsibility for schools to include the sponsorship of Local Directors of Youth Futures. Both the existing education and extended 'whole of youth' responsibilities could be covered by an expanded state education department, perhaps retitled as the Ministry of Youth Futures. An important advantage offered by this option is that it ensures a strong link between the Local Directors and the schools in their areas.

Each Community Board should have some discretion in selecting its Local Director. Successful candidates could come from a variety of backgrounds, including education, the welfare sector, job network schemes and business. He or she could be, for example, a school principal who has well established networks with local business and providers of education and training, or a committed business leader keen to make an impact in an important social area.

It is essential that the Local Directors' capabilities include effective networking and a strong orientation towards delivering results – a track record of success in a challenging role will be a must, as will a passionate commitment to improving outcomes for young people. They should also be strong communicators who are able to work effectively with stakeholders from a variety of backgrounds and with different agendas.

To ensure there is **measurement of outcomes**, a new measure, the 'youth participation ratio' – defined as the proportion of young people from an age cohort who have spent at least half of the preceding year in full-time work, education or training – should be tracked at the school, local and regional levels. In high-risk areas, outcomes for young people should be tracked after they leave school and until they are at least 20 years old.[2] The ratio should be monitored for each cohort of young people, with the dual objective of increasing participation as much as possible and improving outcomes for every new cohort. The change in the youth participation ratio would become the key performance measure for the Local Director and the Community Board. At the school and local level (cluster of schools), this measurement would provide valuable feedback on their performance, as well as on the success or otherwise of various initiatives to improve youth outcomes.

We recognise that the task facing each Local Director will vary due to region-specific and other issues, many of them outside his or her control. We therefore also recommend in this paper a 'risk adjusted' measure to assess the effectiveness of the initiative in a given region, taking into account the degree of social disadvantage faced by the region

2 It is feasible to establish and maintain a program to track outcomes for young people in high-risk areas after they leave school. For example, the Australian Council for Educational Research (ACER) has, for the last 20 years, conducted longitudinal tracking of national samples of young people from around the age of 14 years (Year 9) until at least age 25.

and adjusting for movements in the overall economy.

Once the above arrangements are in place, attention should be focused on ensuring that each Local Director becomes a **knowledgeable buyer** of programs targeted at at-risk youth. Program funding should be progressively channelled though the Local Directors of Youth Futures, who will allocate it to appropriate initiatives with approval from their Community Boards. Over time, aided by tracking data on outcomes, they will become highly informed customers of these programs on behalf of local youth. Local Directors will also become a strong group of peers who will share knowledge on what works in which circumstances. Program and service providers, instead of seeking funding from distant federal or state government departments, will then deal with people who are closer to real customers for their products.

Elements of the Local Director of Youth Futures initiative are present in a variety of business-community partnerships under way throughout Australia – for example in Whittlesea and Moorabbin, Oakleigh and Springvale in Victoria, and in Kwinana in Western Australia. Overseas, the highly regarded Norwegian model also has strong similarities.

The intention is that the benefits delivered by the recommended initiative should, over time, more than repay the modest infrastructure costs, which include the administrative and salary costs associated with the Local Director and with long-term measurement and tracking. A portion of existing federal funding for related programs (such as Full Service Schools, Jobs Pathway or apprenticeships/traineeships) should be progressively channelled through the Local Directors to support their role as knowledgeable buyers of services for at-risk youth. This is based on the view that the federal government – which will ultimately capture the savings in welfare, rental assistance and so on that these actions will generate – should be prepared to divert funds to state governments that agree to take on ‘whole of youth accountability’ and to measure and report on outcomes. In addition, the initiative should include a very active effort to obtain additional private sector funding from local businesses.

In our view it would make sense to invest similar amounts for all young people, whether they are in school or not. The Dusseldorp Skills Forum has calculated that a Year 10 school leaver saves the Education Department about $16,000[3] in education costs, which in the long run is more than negated by government expenditures elsewhere (unemployment benefits, the prison system, the health system, emergency housing, etc). Some or all of that $16,000 per early school leaver should be available to be spent on alternative forms of education, training or job pathways, and should be channelled into these programs by the Local Director of Youth Futures.

3 Dusseldorp Skills Forum (1999)

Failed termination back to work transition

People who involuntarily fall out of employment and fail to find work are another large cluster in the long-term unemployment pool. Approximately 40% of all long-term unemployment entries are from this source. A significant amount of support and funds in the form of welfare payments and job network support is ultimately directed at this group of people. A failed termination-back-to-work transition that ends up in a stint of long-term unemployment costs society in the order of $50,000 to $150,000 per episode, depending on the age, salary level and family circumstances of the worker whose employment is terminated.[4]

Our recommendations in the area of termination-back-to-work transitions are, at face value, quite modest (and less radical than our recommendations addressing school to work transitions). They are concerned with reducing the delay between a company's decision to terminate employment of staff and the provision of intensive job search assistance to individuals at high risk of becoming long-term unemployed. However, in our experience, taking time out of key processes can have a major impact on the effectiveness of outcomes.

Two major observations form the basis of our recommendations: the importance of timely intervention and the potential for early risk profiling.

1. Importance of timely intervention

The effectiveness of job search assistance is diluted when it is provided after some time in unemployment. A job seeker's morale and confidence decline with each month that passes in unemployment. This is then compounded by employers' reluctance to take on workers who have been unemployed for lengthy periods. Our interviews with Job Network members confirm this finding.

People whose employment has been terminated are provided, through the Job Network system, with online jobs information and 'lodge a résumé' services, but it takes an average of four months after termination, and sometimes as much as 12 months, before they become eligible for Intensive Assistance through a Job Network member. This is partly driven by the fact that many of those who receive termination packages will, for some time, be excluded by a means test from government-funded Intensive Assistance and Job Search Training.

Speeding up the process of providing Intensive Assistance will substantially enhance its effectiveness as well as reduce its total cost to government and to people whose employment has been terminated. Many large corporates that provide job search assistance before retrenchment have achieved measurably better outcomes for their former employees than has been possible for government-sponsored agencies, who

4 Costs based on forgone income, forgone taxation revenue, income support payments and expenditure on government programs and services for an average stint of long-term unemployment for various age and skill levels

typically see clients in this group after a lengthy spell in unemployment. The challenge is to enable employees from small and medium companies to take advantage of similarly timely assistance without imposing additional costs on their employers.

2. Early risk profiling

Centrelink has recently begun using a profiling instrument called the Job Seeker Classification Instrument (JSCI) to determine the risk ratings of people applying for unemployment benefits. These ratings are used to fund Intensive Assistance through Job Network members for those deemed to be in high-risk categories. While the instrument is quite new and will undoubtedly require further refinement, it is a major step forward in the area of risk profiling and provides evidence that this is feasible.

If those at high risk of becoming long-term unemployed could be identified with a reasonable degree of accuracy in advance of their employment being terminated, they could be provided with Intensive Assistance and Job Search Training far earlier than they are today.

Recommendation

We recommend the introduction of risk profiling before termination of employment, as described below. This initiative builds on these two observations and encourages businesses to appropriately, but at little additional cost to themselves, assist their high-risk employees in the termination-back-to-work transition.

We recommend that the Intensive Assistance and Job Search Training ultimately provided by government to high-risk individuals be made available, wherever possible, before termination of employment or at least as close as possible to the decision to terminate. This will maximise the probability of effecting a successful re-employment outcome. Successful re-employment will, in turn, result in lower costs both to government and to people who lose their jobs.

In order to achieve this, and to ensure that funding is targeted at those who will genuinely benefit from it, an easy to administer risk-profiling questionnaire should be developed for use before or at the point of termination. Firms of all sizes would have their high-risk employees complete the questionnaire (potentially with the employer's assistance) and submit it to Centrelink so that risk profiling could be confirmed and appropriate job search assistance provided.

Market mechanisms could be brought into play to help make this work in a non-bureaucratic way. For example, Job Network members could be encouraged to market their services to local employers, rather than waiting for referrals from Centrelink. They could offer to interview workers whose employment is about to be terminated and, for any who are found to be at high risk of long-term unemployment, offer to provide assistance in liaising with Centrelink. If the high-risk assessment is confirmed by Centrelink, funding could be provided for immediate Intensive Assistance and Job Search Training. Correspondingly, the success of Job Network would be enhanced by the increased probability of Job Network members securing re-employment for their clients due to the earlier provision of assistance.

A communication strategy to inform high-risk workers of the benefits of commencing their job search while they are still in a job, or immediately following termination of employment, should be an integral part of this initiative.

Our intention here is not to impede employers' ability to terminate employment or to raise the cost of doing so. Such action would be likely to have the unfortunate effect of dissuading employers to take on workers – especially those in high-risk categories. The objective is to enable employers to maximise retrenched workers' opportunities to find work without additional cost to themselves.

This initiative will require some additional funding in the short term, which we believe will be largely offset by the benefits of enhanced success in effecting the re-employment of people at high risk of entering long-term unemployment.

Firstly, implementation of the recommendation would involve a one-off increase in expenditure as government funding is brought forward to provide earlier Intensive Assistance to people at high risk of becoming long-term unemployed. More importantly, there is also the risk of some 'deadweight loss' – an extra drain on funds that is largely avoided today by the typical six to 12 months' wait before intensive assistance is provided – because some individuals receiving early intensive assistance might otherwise have found employment on their own. However, if early intervention significantly increases the probability of successful job search outcomes, as we expect, this should largely offset or very possibly outweigh the expected increase in expenditure due to less accurate risk profiling at this early stage. Finally, some relatively modest investment on the part of government would be required to develop an early risk profiling tool and to promote its use to employers.

The prize would be a significant increase in the effectiveness of Job Network members' efforts, achieved by enabling them to intervene when their chances of impact are highest and thereby to reduce the numbers who move on to long-term unemployment.

Australia's high long-term unemployment level is a complex problem requiring a suite of strategies and initiatives on both the demand side and the supply side. The initiatives we recommend are aimed at ensuring our current expenditure on supply-side programs is allocated and used effectively. They are only a small part of the solution, but we hope this paper will add a valuable dimension to the debate on how we as a nation can have a more significant and enduring impact on the human, social and economic problem represented by high levels of long-term unemployment.

1. Introduction

Since the late 1970s, Australia's long-term unemployment numbers have quadrupled. Despite considerable expenditure and effort, the problem has increased with each successive recession. And these seemingly intractable long-term unemployment levels remain in place despite eight years of strong economic growth and the highest job vacancy levels for over a decade.

It is very important that we embrace the challenge of addressing this problem. Reducing long-term unemployment levels will not only reduce budgetary costs and remove some constraints to economic growth but will, above all, reduce the social costs borne by some of Australia's least privileged citizens.

Concerted action is required on many fronts – from broader strategies focused on jobs growth, reducing demand volatility, eliminating 'poverty traps' and reinforcing mutual obligations, to supply-side programs at the community and individual levels, aimed at supporting high-risk groups through difficult life transitions, as well as training the unemployed to fill areas of jobs growth and skills shortage. The coexistence of a strong economy and persistent high levels of long-term unemployment suggests that the latter strategies must be a critical part of the solution.

The primary purpose of this discussion paper is to examine sustainable and cost-effective strategies to reduce the number of entries into long-term unemployment in Australia, with a particular focus on active prevention at crucial life transitions. We focus on strategies to improve the effectiveness of supply-side programs – that is, those programs aimed at improving the job readiness and productivity of individuals. The rationale for this approach is that the effective overall management of these programs can help both to reduce long-term unemployment levels in today's healthy economy and reduce the average duration of unemployment when the economy is weaker. Reducing the average duration of an unemployment episode prevents skills loss for individuals, enhances productivity, and decreases the chances of creating a more or less permanent 'underclass' of citizens who are effectively marginalised from society.

We hope this paper will help to add a valuable dimension to the debate on how to achieve a more significant and enduring reduction in the number of Australians who bear the significant human and financial costs of long-term unemployment.

2. Extent of long-term unemployment problem

2.1 Size

Official statistics report current long-term unemployment[5] at almost 190,000 people. These are individuals who are both actively looking for work and able to start work, who may or may not be drawing unemployment benefits, who work no more than one hour per week on average, and who have retained this status for at least 12 months. This is an internationally applied definition that is useful for comparing unemployment levels in different countries.

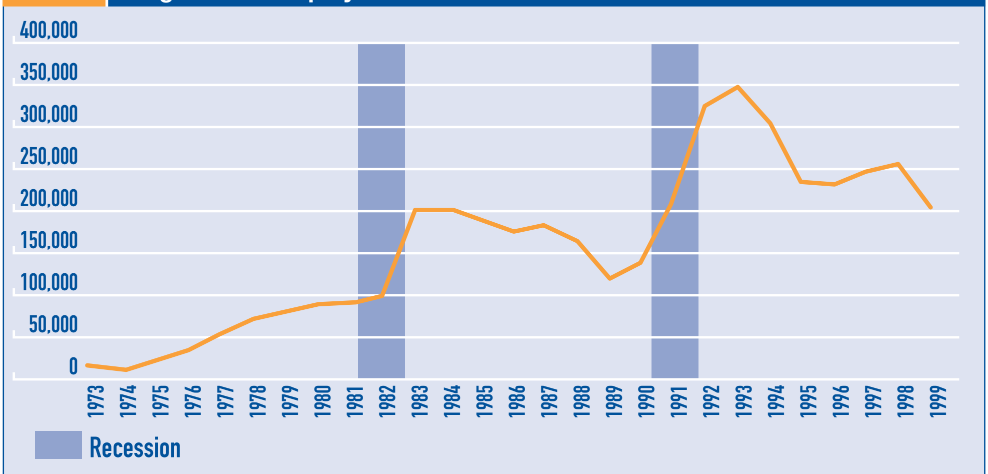
The number would be considerably higher, however, if the ABS data included those not considered part of the labour force, such as people who want to work but are not able to start immediately, or those who have failed in their job search and become discouraged.

An alternative measure of the long-term unemployment level is the number of people receiving unemployment benefits for longer than 12 months (Centrelink data). Using this measure the figure rises to around 386,000 people.[6] The number includes people receiving new start, youth and mature age allowances for over 12 months, and excludes full-time students. To qualify, recipients must be actively looking for work, have worked fewer than six consecutive fortnights in the preceding 12 months, and have earned less than a set maximum salary per week to retain their benefits.

2.2 Growth

The evidence in Australia since the 1970s is that long-term unemployment ratchets up with successive recessions. Inflows to the long-term unemployment pool increase considerably soon after the onset of a recession, while outflows decrease as labour

FIGURE 1 Long-term unemployment over time

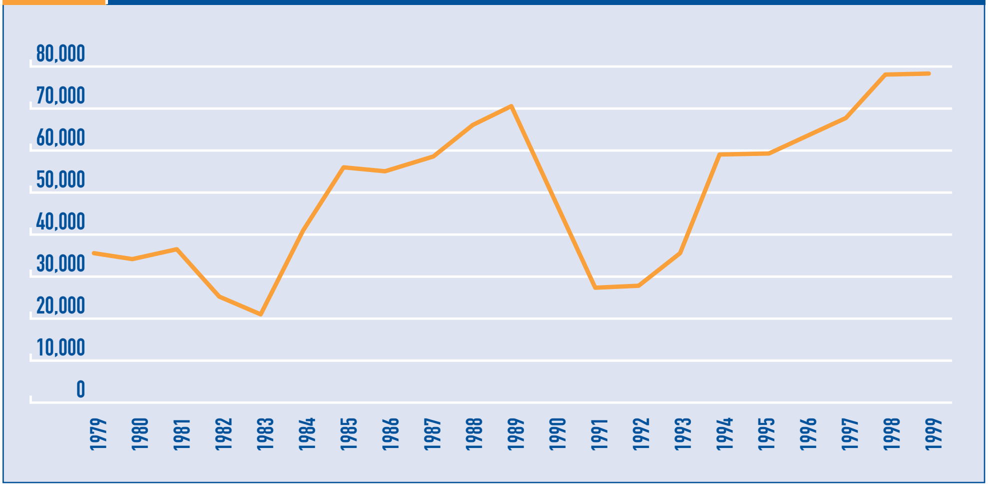


Source: ABS data

5 December 1999, ABS
6 June 1999, Centrelink

demand dries up. And the decline in the unemployment pool that comes with a return to economic growth does not reduce long-term unemployment to pre-recession levels. This is because potential employers may see the long-term unemployed as high risk and many discouraged job seekers reduce the intensity of their search for work. The result is that the number of people in long-term unemployment fails to return to pre-recession levels despite strong economic growth and high job vacancy levels.

FIGURE 2 **Job vacancies in Australia**



Source: ABS Data

2.3 Cost of long-term unemployment

Three areas of costs are associated with long-term unemployment: first, the personal costs borne by the long-term unemployed themselves; second, government expenditure on income support and other services; and third, the opportunity costs of forgone taxation revenue and employment growth.

Personal costs

In forgone income alone, the personal costs of long-term unemployment are significant. For example, a 24-year-old worker, previously on $28,000 per year, will suffer a net loss of income of $12,400 for an average episode of long-term unemployment (representing the difference between earnings and unemployment benefits).

Further, the personal costs of long-term unemployment extend far beyond the financial. The research evidence shows that depression, loss of self-esteem and feelings of worthlessness often accompany lengthy periods of unemployment, and that people in this situation experience more physical health problems than the wider community and suffer significantly higher morbidity and mortality rates.

Cost of government services

There is obviously a large unemployment benefits bill associated with high levels of long-term unemployment, as well as significant expenditure on other government services such as rental assistance and health care.

There has been little quantitative analysis of the impact of long-term unemployment on demand for government services beyond income support, and estimation of this goes well beyond the scope of this discussion paper. However, researchers[7] have concluded that long-term unemployment leads to increased demand for government services including labour market programs, housing assistance, public health, family support services, law enforcement, and corrective services. Coupled with these direct costs of service provision are the administration costs associated with them. In total, these costs are likely to amount to more than 10% of the private income lost through unemployment.[8]

Opportunity costs

Somewhat counter-intuitively, high levels of long-term unemployment are not associated with increased wage restraint and job creation. That is, a large pool of long-term unemployed does not tend to create a 'buyer's market' for labour and thus exert downward pressure on wages. The rationale here is that, with growth in demand, and faced with the prospect of hiring amongst the long-term unemployed, businesses will typically choose to raise prices and/or increase existing wages rather than hire what they what they see as a high cost, less productive job seeker from the ranks of the long-term unemployed.

The opportunity costs of the forgone taxation revenues, reduced wage restraint and constrained employment growth associated with long-term unemployment are likely to be significant. These costs are difficult to assess accurately, particularly because of the difficulty of estimating displacement (i.e., whether an unemployed individual who secures a job does so at the expense of another individual falling into unemployment), but at Australia's present level of long-term unemployment the opportunity costs are likely to be significant.

To understand the impact of all of the above costs to society, we have modelled income loss, unemployment benefits, tax forgone, and consumption of other government services associated with a typical episode of long-term unemployment for workers in four hypothetical age, skill and starting wage categories. Our analysis shows that a 21-year-old early school leaver on a pre-unemployment income of $15,000 would accrue total costs of $51,000 per long-term unemployment episode. A 24-year-old who had completed school and earned a pre-unemployment income of $28,000 would cost $86,100 per long-term unemployment episode. A 34-year-old single parent with two dependent children on a starting income of $25,000 would cost $75,100 per episode.

7 See Dixon (1992); Junankar & Kapuscinski (1992)
8 Dixon (1992)

For a 50-year-old blue collar worker with an employed spouse and a pre-unemployment income of $22,000, the cost would be $83,000 per episode. Finally, a 50-year-old white collar worker earning a pre-unemployment income of $42,000 would cost $147,000 per episode of long-term unemployment.

The total costs associated with long-term unemployment are clearly highly variable, depending to a great extent on the circumstances of the people involved. We believe our estimates – which are shown in greater detail in figure 3 – are conservative. In particular, they are predicated on one episode in long-term unemployment, rather than the multiple episodes that could be experienced. Also, they make no allowance for the tendency of an episode of long-term unemployment to lower an individual's productivity levels and wages long after the episode is over. However, our estimates are useful as conservative measures of the total financial cost of one episode of long-term unemployment for a range of people in varying life circumstances.

FIGURE 3 Approximate total cost of a hypothetical episode of long-term unemployment

Calculation of Cost / Hypothetical Case	21 year old early school leaver, single, annual income before unemployment of $15,000	24 year old, Year 12 graduate, single, annual income before unemployment of $28,000	34 year old single, two dependent children, annual income before unemployment of $25,000	50 year old blue collar worker, married, annual income before unemployment of $22,000, spouse employed	50 year old white collar worker, single, annual income before unemployment of $42,000
Annual loss in tax revenues[1]	1,100	5,100	2,200	3,700	10,400
+ Annual unemployment benefit expenditures[2]	10,500	10,500	17,800	0	10,500
+ Annual cost of service provision[3]	3,900	3,900	3,900	3,900	3,900
= Net annual budget impact of unemployment	15,500	19,500	23,900	7,600	24,800
+ Net loss of income to individual per year	3,400	12,400	5,000	18,300	21,100
= Estimated total cost to society per year	18,900	31,900	28,900	25,900	45,900
x Average duration of episode of long-term employment LTU (years) [4]	2.7	2.7	2.6	3.2	3.2
= Estimated total cost to society per episode of LTU	51,000	86,100	75,100	82,900	146,900

1 Tax pack
2 Centrelink Data
3 10% of average private income lost through unemployment: Dixon, D (1992); ABS: average weekly earnings as of Aug 99: $753.70
4 ABS Data; Centrelink Data; based on age of person unemployed

3. Existing strategies

High levels of long-term unemployment have generated a great deal of analysis and debate from policy makers, academics, think tanks and welfare organisations, among others. Remedial actions proposed or under way include implementing strategies focused on jobs growth, minimising the incidence and impact of recessions, reforming aspects of the welfare system, introducing taxation changes to avert poverty traps, and reinforcing mutual obligations. Action in all of these areas is likely to be necessary to achieve a major, sustainable decrease in long-term unemployment.

A great deal of research has been conducted both to identify those at greatest risk of becoming long-term unemployed and to determine the root causes of their entry to long-term unemployment. This is particularly so in the case of young people – figure 4 provides a very brief summary of some major research findings on the characteristics of young people who are typically engaged in marginal activities and the root causes of their status.

FIGURE 4 Examples of characteristics and root causes of youth long-term unemployment

Characteristics	Root Causes
Early school leaving: 5.7% of year 12 completers are unemployed, compared to 11.8% of early school leavers [1] **Poor levels of numeracy & literacy:** Between 40 and 50% of long-term unemployed have very poor literacy levels (level 1 in prose scale)[1] **Parents' lower levels of education**: Of males whose parents attended university, 15% did not complete year 12. Of males whose parents obtained a secondary school education only, 36% did not complete year 12[2] **Parents' low income & employment status:** 10.5% of youth whose parents are employed in unskilled or semiskilled occupations are unemployed, compared to 5.6% of youth with professional or managerial parents[2] **Geographic isolation:** In 1994, 9.7% of 19-year-olds in non-metropolitan areas had been consistently engaged in marginal activities from age 16, compared with 8.9% of their metropolitan counterparts[3]	**Availability of full-time employment:** Full-time labour participation rates for teenage males was over 50% in 1978 and only 27% in 1997[4] **Poorer quality role models:** Poor family management practices (lack of clear expectations for behaviour, failure to monitor children) and severe or inconsistent punishment increase the risk of school dropout; associating with peers who engage in problem behaviours increases the likelihood that a youth will engage in those behaviours[5] **Lack of social connectedness:** Young people who feel they are not part of society, are not bound by rules, don't believe in trying to be successful or responsible and take an active rebellious stance toward society are at higher risk of drug abuse, delinquency, violence and school dropout[5] **Inappropriateness of traditional schooling:** Disaffection with the school environment, a lack of customised learning opportunities and the desirability of alternative learning settings are often concerns expressed by young people as they contemplate early school leaving[6] **Work disincentive:** High effective marginal tax rates (EMTRs) of around 90% for low-income workers can generate significant disincentives to work[7]

1 ABS Data
2 Ainley J & McKenzie P (1999); Marks G & Fleming M(1998); McClelland A MacDonald H & MacDonald F (1999)
3 McClelland A, MacDonald F & MacDonald H (1998)
4 Norris K, Wooden M (1996); ABS
5 Lehmann JD, Hawkins JD, Catalano RF (1993)
6 Spierings J (1999)
7 Business Council of Australia (1999): 'EMTRs are determined by adding the tax rate applying to earned income to the rate at which welfare is tapered off as income is earned. EMTRs of about 90% now extend over the range of private incomes from around $250 to $600 per week'

A multitude of programs and initiatives, conducted by all arms of government and many non-government organisations, have been implemented at regional, state and national levels to address these issues.

At the federal level, the Australian Labor Party's *The Working Nation: White Paper on Employment and Growth*, 1994, introduced initiatives that provided a range of opportunities for structured work experience and training. These included the Youth Training Initiative, the Job Compact and a number of targeted youth labour market programs.

In 1996, the Coalition government replaced most of the Working Nation initiatives with new programs such as New Apprenticeships, the Job Network scheme, and Full Service Schools for Students at Risk.

One Working Nation initiative retained by the Coalition government was the Australian Student Traineeship Foundation, which has played a major role in increasing the vocational experience in schools and in improving business-school linkages.

In addition to these initiatives, state governments and non-government welfare bodies have launched many initiatives directed at reducing long-term unemployment levels in specific regions or aimed at particular groups, such as young people. Many of these programs appear to have been very effective, others less so. Case studies of two of the more successful of the initiatives aimed at youth are shown in this document (boxes 1 and 2).

BOX 1 The Island: Work Education Program

This program specifically targets 15 to 18-year-olds at high risk of long-term unemployment, who may have low literacy skills, and low self-esteem. The youths are referred to the program by schools and welfare sector providers.

The Island is a work education program, which aims to match a youth's interest and skills with ongoing education and training along pathways to employment. The workshops provide tutoring, for the group and the individual, in numeracy and literacy skills within the context of a specific trade. Training is provided by tradespeople in building, mechanics, cooking, visual arts, metal and computers.

The course is six months, and caters for a maximum of 48 people at any one time. There are eight people per workshop and nine days per module, with an opportunity to concentrate on one particular trade in the remaining time.

The program is 80% funded by the Victorian Department of Education. There is also a relationship with the business sector through the Building Industry Group Training Scheme and The Construction Forestry Mining and Energy Union.

The results of this program have been very positive. In 1999, 65 of the 67 youths who passed through the program entered TAFE, commenced an apprenticeship or found work.

Source: Interview with Ann Brodribb, The Island

BOX 2 Sydney ITeC Repair Centre

Established in 1988, the Sydney ITeC Repair Centre is an example of a successful enterprise employing disadvantaged youth. It typically recruits under 25-year-olds who have become long-term unemployed and who have graduated in the repair of computer peripherals from the Sydney ITeC Training Centre.

A number of bodies have supported the launch of the centre, including the Federal Government, and major IT companies such as IBM, NCER, and Fujitsu. Work Ventures, an employment agency, is the centre's parent company.

The role business plays is crucial. IBM, NCER and Fujitsu outsource electronic repairs to the centre, employ staff from the centre, and provide management support as needed.

In 1995, the Sydney ITeC Repair Centre won the national small business award. It is now the market leader in Sydney for repairs of ATMs and monitors. It is also a self-sustaining business of 65 employees, with a $9 million turnover.

In summary, there is no shortage of good ideas and initiatives but the level of long-term unemployment remains a major social concern. In fact, the Dusseldorp Skills Forum suggests that the situation for youth, in particular, may have worsened.[9] In our view this is less a judgement on the value of these supply-side programs *per se* than recognition of our inability thus far to measure outcomes in a meaningful way, tailor programs to individual needs, and target funding to areas where it is likely to have the most productive impact.

9 Dusseldorp Skills Forum (1998), *Australia's Youth: Reality and Risk*

4. Organisational issues hampering effective allocation of resources

This paper is premised on the view that some fundamental organisational deficiencies constrain the effectiveness of initiatives designed to improve the job readiness of individuals. Without an improvement in organisational arrangements, it will be difficult to distinguish good initiatives, reforms and providers from poor ones, and there will be limited improvement in this area.

The primary organisational deficiencies we see in the area of school-to-work transition are unclear accountability, poor measurement of outcomes and the absence of a knowledgeable buyer. With these key principles of good management missing, it is difficult to achieve continuous improvement.

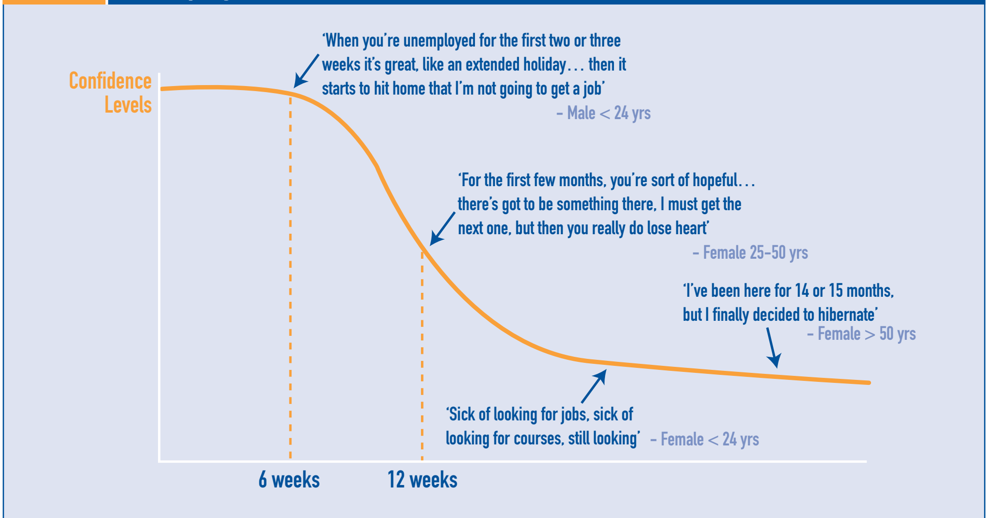
In termination-back-to-work transitions, the organisational deficiencies relate to the timeliness of intervention and the limitations on providing assistance at the time when it will have most impact – prior to termination of employment. We have therefore focused our recommendations on improving organisational arrangements in these areas.

In the next section, we describe the principles we believe should underpin action to overcome these organisational issues and achieve a more enduring impact on long-term unemployment.

5. Early intervention at critical life transitions

Given the difficulty and cost of reversing long-term unemployment, it makes sense to focus intervention efforts on high-risk individuals *before* they enter long-term unemployment. Interviews we conducted with a range of stakeholders, including HR managers in large corporates, job network providers, private outplacement providers and unions, confirmed our view that early intervention contributes significantly to success in preventing an individual's entry to long-term unemployment. And the then Labor government's Committee on Employment Opportunities stated in 1993 that a "person unemployed for less than three months has more than twice the chance of finding work than someone unemployed for a year, and four times the chance of a person unemployed for two years or more". This is in part driven by the decline in confidence that typically accompanies a stint in long-term unemployment.

FIGURE 5 'Unemployment confidence curve'

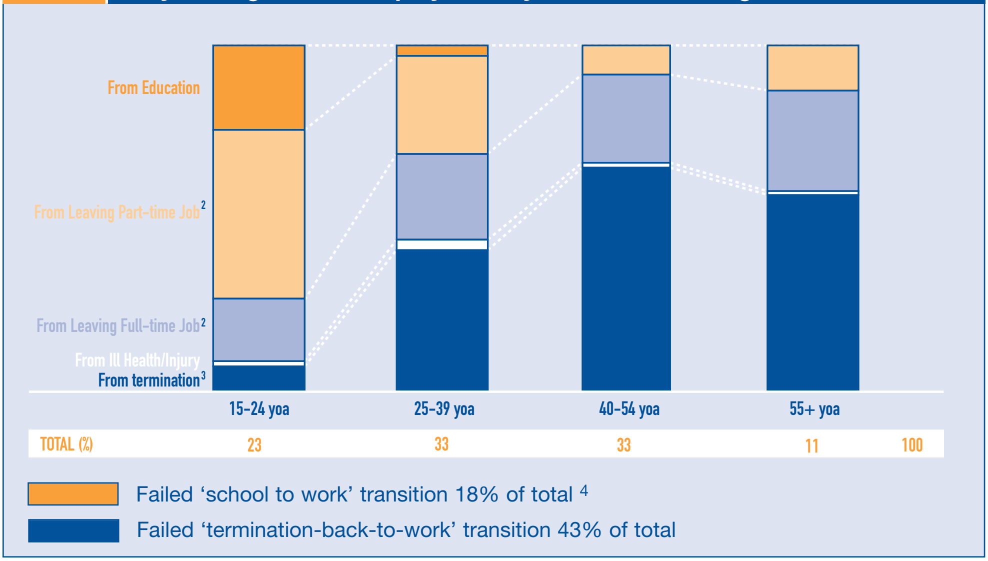


Source: Interviews; Brotherhood of St Laurence (1994b)

In selecting an area of focus for strategies aimed at improving the effectiveness of supply-side programs designed to reduce entries to long-term unemployment, it is useful to look to life transitions associated with a high risk of such entries.

Two of the life transitions that appear to be crucial in determining whether an individual enters long-term unemployment are the school-to-work transition and the termination-back-to-work transition.

FIGURE 6 **Entry to long-term unemployment by life transition: August 1998**



1 Long-term unemployed: ABS labour force data used. The category of people unemployed for over two years who previously had a full-time job was split between voluntary departures and employment termination on the same basis by age group as those unemployed for less than two years

2 Voluntarily left job

3 Includes laid off/retrenched/made redundant/dismissed/employer went out of business/no work available at employer

4 Failed 'school to work' transition includes 15 to 24-year-old people who entered long-term unemployment on leaving a part-time job

Source: ABS Data; BCG Analysis

The two initiatives we discuss in the remainder of this paper are designed to provide early intervention for high-risk groups at these two critical life transitions. They are:

- Appoint Local Directors of Youth Futures as part of a suite of recommendations designed to deliver accountability, measurement of outcomes and informed purchasing of services
- Provide early intensive job search assistance to high-risk groups, using risk profiling prior to termination of employment to identify those groups

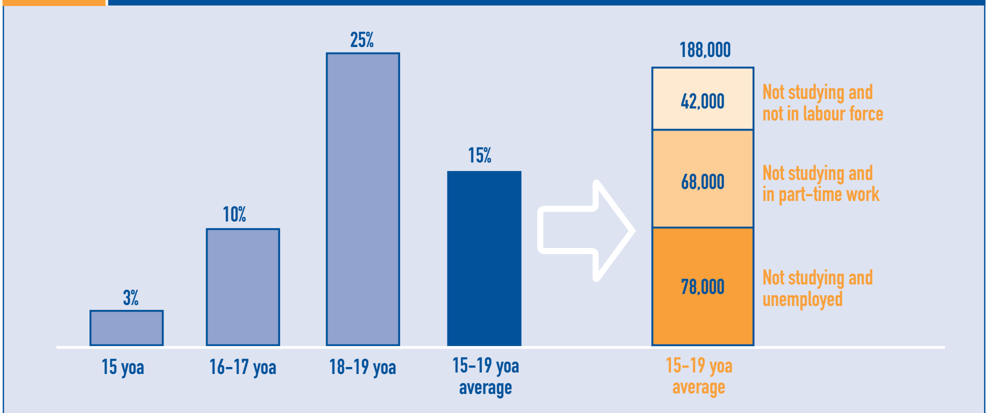
6. Local accountability for school to work transitions

The recommendation to appoint Local Directors of Youth Futures is designed to address failure in the school-to-work transition. It is built on management principles of accountability, measurement of outcomes and providing a knowledgeable buyer, which we believe are missing from today's approach. Also at the heart of the recommendation is active community and business participation in driving successful school to work transitions in local areas.

6.1 Organisational failures in school to work transition

There is widespread agreement that failure in the transition from school to work is a pathway to marginalisation. Approximately 15%[10] of young people in Australia do not move from school to full-time work, training or higher education. This failure in the school-to-work transition is costly in both human and economic terms.

FIGURE 7 Youth neither in education nor in full-time work



Source: McClelland A, MacDonald H & Macdonald F (1998)

Despite this, no agency or individual is accountable for identifying and tracking those individuals at the highest risk of failing this transition, and providing them with appropriate support or training before they become unemployed for long periods and further reduce their chances of finding work. This appears to be a significant organisational failure. Stated simply, some fundamental principles are missing from the way we manage the school-to-work transition; they are accountability, measurement of outcomes and informed purchasing of services.

Local accountability

While state government school systems have some degree of accountability for what happens to students, that accountability ends as soon as individuals leave school and

10 Dusseldorp Skills Forum (1999), *Why Australia needs a national youth commitment*

young people can step into an abyss. When they ultimately become eligible for welfare benefits, often not until age 18, they become a concern for the federal government – but by then their chances of marginalisation may have increased considerably.

Measurement of outcomes

Measurement of the success rate of the transition from school to work is required to focus attention on outcomes and to ensure that feedback is collected on the success or otherwise of vocational training or other initiatives. However, there is no routine measurement of success rates or tracking of what happens to young people after they leave school – especially if they do so before Year 12. It is therefore not surprising that, without routine measurement of the proportion of school leavers who become marginalised – that is, who do not participate in work, training or education after they leave school – management of the problem is insufficient.

The performance of individual schools is often judged – at least informally – on the basis of their average TER (tertiary entrance requirement) results. This has the effect of focusing on academic performance, and also means that poorer performers who drop out of school actually help to improve the final result for an individual school. This measure therefore has the unfortunate consequence of discouraging focus on the poorer performers.

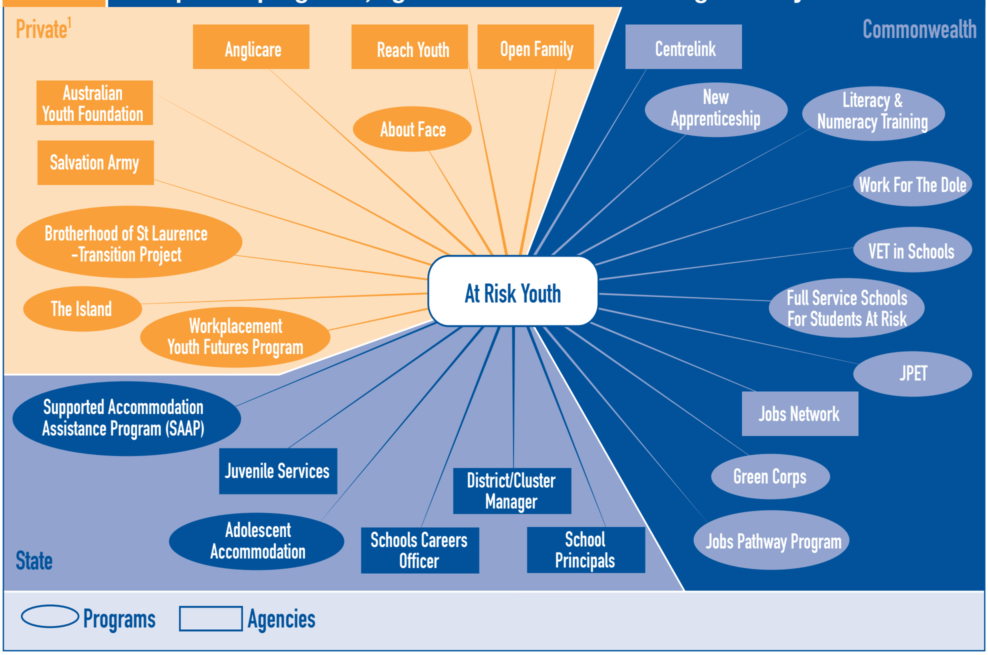
Some states do focus on Year 12 retention rates as an important measure, as Year 12 completions are highly correlated with successful school to work transitions. While the Year 12 retention rate may be a good proxy measure, it is not the end in itself. There will be some students for whom school is not the right place to be and who are more likely to achieve a successful transition if they leave to start work or undertake some form of apprenticeship. These departures from school may be entirely appropriate, but will look bad against a measure that only takes into account the rate of retention at Year 12.

What is needed is a measure of successful transition from school to work, which is the desired end. All stakeholders can then work towards maximising the measure. In most cases this will be by encouraging retention within the school system, but in some cases it will be by looking for alternative pathways outside school.

Knowledgeable buyer

Young people are the recipients of a largely uncoordinated set of initiatives and funding from federal and state governments, as well as from the non-government welfare sector.

FIGURE 8 Examples of programs, agencies involved in assisting at-risk youth in Victoria



1 May be state or commonwealth government funded, at least in part

Many of these programs are undoubtedly making a contribution but, without clear accountability and measurement of outcomes, there is no knowledgeable buyer of services for these young people – someone who is motivated and able to measure the effectiveness of expenditure, and determine whether a particular group of young people requires more of a certain type of initiative or less of another. In an environment where the effectiveness of past expenditure is not clearly understood, and buyers may not be sufficiently informed on local needs, funding will inevitably be misdirected in some cases. Good programs can and do fall over for want of funding, and all program directors have to spend a significant amount of their time wooing funding sources each year – funding sources that may not be well placed to judge the effectiveness or otherwise of any programs they support.

Without knowledgeable buyers, it is also difficult to communicate learning about best practice across regions – currently it is not clear who the audience should be.

6.2 Recommendation

The appointment of Local Directors of Youth Futures is an initiative that aims to address these organisational issues in a way that minimises bureaucracy and facilitates the involvement of business and other local stakeholders in helping to attack the youth long-term unemployment problem.

This initiative directly addresses the organisational shortcomings we identified earlier, by introducing accountability and measurement, and by creating knowledgeable buyers of services for at-risk youth.

The initiative is targeted at highly disadvantaged regions/schools with the poorest participation outcomes for youth, and at high-risk individuals *before* they fall into long-term unemployment. The Local Directors would form a peer group across which knowledge of best practice could be transferred.

Ensuring local accountability

We recommend that in locations where there is a significant population of at-risk youth, accountability for improving school-to-work transitions be assigned to an individual working with the local community.

This individual, the Local Director of Youth Futures, would be responsible for youth employment/training outcomes at a school cluster level (ideally covering four to eight secondary schools). The Local Director would work very closely with a Community Board comprising local businesses, school principals, vocational education and training (VET) representatives, health professionals, welfare specialists and youth representatives. The focus on schools reflects their value as a catchment area for, or a gateway of access to, high-risk youth. Focusing on schools does not mean they are the source of the problem; they are, however, places where all young people spend significant amounts of time, and therefore must be an important part of the solution. Schools are also responsible for developing a range of alternative pathways in education, including vocational education and training VET in schools, making it vital that Local Directors develop close working relationships with local secondary school principals.

The Local Director of Youth Futures and the Community Board would take on accountability for increasing the rate of participation in work, education, or training by young people leaving the schools in their cluster. This would be achieved by investing in initiatives to keep young people at school (in conjunction with local secondary schools), developing workable options outside traditional schooling, or a combination of both.

The Local Directors' major responsibilities would include:

- Rallying the local community around the cause of lowering youth marginalisation in the local region
- Organising the application of a risk profiling tool to identify the individuals within local secondary schools who are at greatest risk of becoming marginalised
- With their Community Boards, identifying the major root causes of marginalisation for high risk youth in their regions (e.g., lack of social connectedness, lack of mobility, poor literacy, numeracy or other skills)

- Evaluating existing and potential programs (from various service providers) to address these root causes
- Developing an expenditure plan to purchase appropriate programs and services, and securing Community Board approval of the plan
- Seeking local business sponsorship of targeted initiatives
- Purchasing and monitoring the results of programs and services
- Working with local businesses to maximise employment opportunities for young people in the area
- Sharing learnings with peers in other regions to ensure transfer of best practice.

Each Community Board should have some discretion in selecting its Local Director. He or she could be, for example, a school principal who has well established networks with local business and providers of education and training, or a committed business leader keen to make an impact in an important social area.

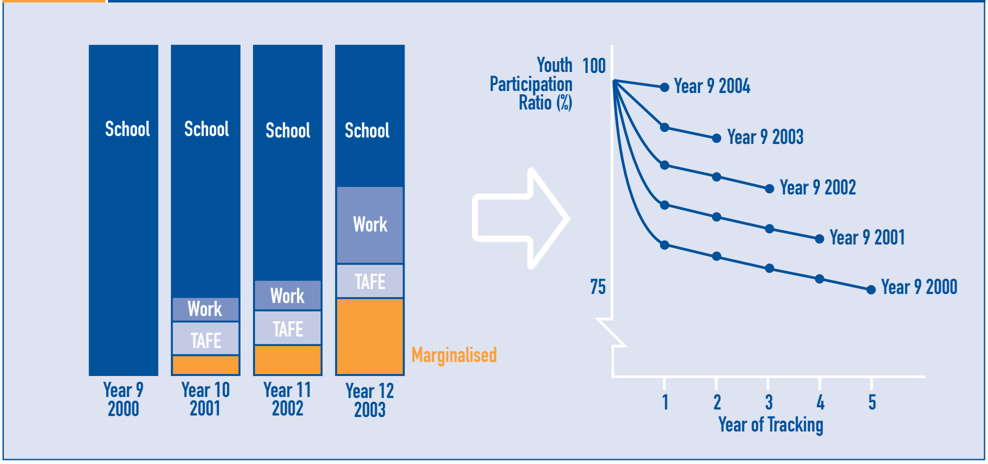
It is essential that the Local Directors' capabilities include effective networking and a strong orientation towards delivering results – a track record of success in a challenging role will be a must, as will a passionate commitment to improving outcomes for young people. They should also be strong communicators who are able to work effectively with stakeholders from a variety of backgrounds and with different agendas. Successful Local Directors will need to be able to perform the role full-time (although some outstanding individuals may be able to make a real difference operating on a part-time basis).

Measurement of outcomes

The 'youth participation ratio' – i.e., the proportion of young people in the region who have been in full-time work, education or training for at least six of the preceding 12 months – should become a measure that is tracked at the school, local and regional levels for high-risk areas. Increasing this ratio should become a rallying objective for the local community.

To compile this ratio, what happens to young people in high-risk areas after they leave school should be tracked until they are at least 20 years old. The ratio should be monitored for each cohort of young people with the dual objectives of keeping it as high as possible and achieving better outcomes for every new cohort.

FIGURE 9 **Tracking of youth participation ratio**



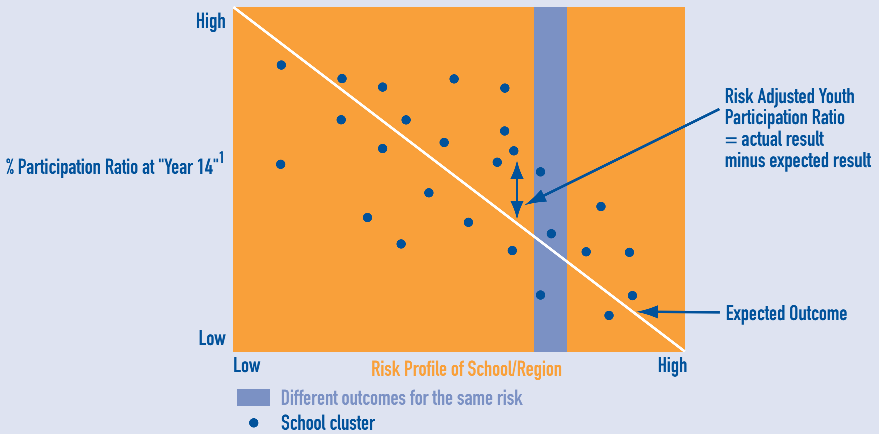
It is feasible to establish and maintain a program to track outcomes for young people in high-risk areas after they leave school. The Australian Council for Educational Research (ACER), for example, has for the last 20 years conducted longitudinal tracking of national samples of young people from around age 14 (Year 9) until at least age 25.

Measurement of change in the youth participation ratio in a region would provide valuable feedback on the performance of the Local Director of Youth Futures, the Community Board and local secondary school principals. It would also provide feedback on the success or otherwise of various initiatives to improve youth outcomes.

However, raw comparisons of youth participation ratios across regions would not be relevant for judging relative performance. Outcomes in each region would be significantly impacted by the level of 'risk' that the region carries, which would in turn be largely driven by the level of social disadvantage it faces. Once sufficient data have been collected, however, it would be possible to 'risk adjust' the youth participation ratio in order to assess the effectiveness of a school or region in light of the level of social disadvantage it faces.

Several studies that have estimated the levels of social disadvantage faced by specific regions in Australia could be used as a basis for risk adjustment. For example, in 1999 Tony Vinsen for the Jesuit Social Services ranked regions in New South Wales and Victoria according to their level of social disadvantage. In the case of Victoria, he used 11 elements of regional social disadvantage including the incidence of low incomes, low birth weights, child abuse and court appearances.

FIGURE 10 Adjusting youth participation ratio



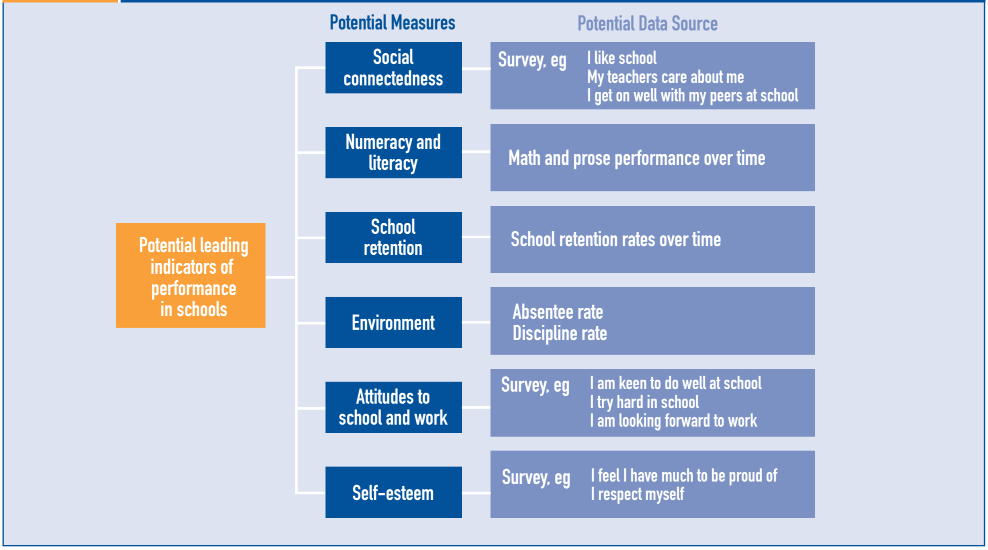
1 Around age 20

The calculation of a risk adjusted youth participation ratio is illustrated in figure 10. This measure would provide a basis for comparing performance across regions, highlighting, for example, relatively good outcomes in regions with high underlying risk and outcomes that are relatively poor even when risk has been taken into account.

The measure would also enable assessment of the value added by the Local Director, Community Board and local secondary schools, given the level of underlying risk in the region. This is analogous to assessing an individual employer's performance in the area of occupational health and safety, taking into account the underlying risk in the industry in which that employer operates.

Both change in the youth participation ratio and the risk adjusted measure will be subject to lag, so the Community Board and the Local Director should, at their discretion, track leading indicators that provide insights by way of proxies on the effect of intervention on regional performance.

FIGURE 11 Potential leading indicators of performance in schools



Knowledgeable buyer

Once the above arrangements are in place, the funding of programs targeted at at-risk youth should be channelled though the Local Directors of Youth Futures who would, with advice from their Community Boards, allocate it to appropriate initiatives. Over time, aided by tracking data on outcomes, they would become informed customers of these programs on behalf of local youth. The Local Directors should also become a strong peer group sharing knowledge about what works in what circumstances and why. Service providers, instead of seeking funding from distant federal or state government departments, would then deal with something closer to real customers for their programs.

We illustrate below the kinds of differences we might see as a result of this initiative.

- The Local Director of Youth Futures would help steer young people to programs or support that meets their needs. For example, of 100 at-risk youth, 40 might be encouraged to remain at school supported by extra counselling; 30 might be encouraged to move to a different nearby school with a curriculum more suited to their needs; another 15 might be bought places at a program like The Island; and the remaining15 might be helped to find positions with local businesses. This customised approach to meeting the individual needs of young people inside and outside school is difficult to coordinate today. At present, federal, state and non-government programs for young people at risk seek out customers who may or may not need the particular type of support they offer.

- Working across five secondary schools in his or her area, the Local Director would become a catalyst to encourage one of these schools to take on a stronger trades orientation, with a view to encouraging interested young people to transfer to that school after Year 9. Another school in the region might be encouraged to develop a strong hospitality sector focus. As all local secondary school principals should be represented on the Community Board charged with raising the local 'youth participation ratio', this should provide a good forum for moving such initiatives forward.
- The Local Director might learn from observing outcomes among the first cohort of early school leavers that certain types of interventions are effective for only a small proportion young people at risk. He or she would limit the use of these interventions to those that experience suggests are likely to benefit, and look for different ways to assist others. No one is well positioned to do that today.
- Of 100 youths at risk for whom a Local Director is accountable, there might be a hard core of 15 who are unlikely to respond to traditional interventions and require a different approach. The Local Director's network of contacts and specialists would provide invaluable input in determining the appropriate intervention.
- The Local Director might learn that the Year 7 teachers in local schools can accurately predict which of their students are likely to drop out by year 10. He or she might therefore decide to fund a targeted program that reaches students several years before they are likely to leave school.
- At a quarterly meeting with counterparts from other regions, the Local Director might learn about a program that is particularly effective with a certain type of young person. Based on that knowledge, he or she might decide to buy some places on the program for local young people who would benefit, using young peers from other regions to sell the benefits of the program.
- The Local Director might decide to galvanise the local community around the objective of raising its 'youth participation ratio' from a disappointing and below average 85% to above 95% over the next five years. He or she might use local forums, including the Chamber of Commerce, the Lions Club and schools to raise the profile of this challenge, and highlight what individuals could do to help achieve the goal – whether by providing work experience, employing more local youth, becoming a mentor to a young person, or joining a local support network. Given the high profile these activities would create in the region, local businesses might be also more energetic in providing their support.
- The Local Director might provide supplementary funding to allow part-time counsellors at each of the schools in his or her area of responsibility to take on case management responsibility for people after they leave school.

- The Local Director of a low employment region might encourage young people to move to high growth regions after graduation, and facilitate their mobility.

Elements of the Local Director of Youth Futures initiative are present in a variety of business-community partnerships under way throughout Australia. The Moorabbin, Oakleigh and Springvale Employment Development Group (MOSEDG) in Victoria, and the Kwinana Industries Council in Western Australia, are examples of community partnerships that are applying similar principles in an attempt to address youth unemployment. Overseas, the highly regarded Norwegian model also has strong similarities. (See Box 5.)

BOX 3 Moorabbin, Oakleigh, Springvale Employment Development Group Inc (MOSEDG)

The aim of MOSEDG is to facilitate a process by which 25 schools can offer vocational programs as part of the school certificate requirement. The MOSEDG school to industry program was piloted in 1996 in response to feedback from employers that students did not have some of the basic skills demanded of their vocation, such as presentation skills, interview skills and technical capabilities.

MOSEDG also employs some of the management principles we believe are critical to achieving success in improving youth outcomes.

As well as the Commonwealth and Victorian State Government, MOSEDG involves the local community. Approximately 300 host employers and a Committee of Management, comprising representatives of schools, host employers and training providers, are heavily involved in the initiative.

The VET programs are selected to reflect the skills needed in the area based on the feedback and advice of the 300 host employers. The students are able to spend a significant amount of time in work placement at their host employers, as part of their school-based VET curriculum. There is also a language skills component available for people whose first language is not English.

The outcomes of the various students are tracked. The type of data collected include, academic results, reasons for leaving the program/school, destination once the students have left the program/school, and what type of occupation was gained by the students who completed the program and finished school. The method of collection of these data comprises exit forms completed by the student and/or the school and a telephone survey held at the end of March/April, plus a planned yearly telephone follow up.

MOSEDG is the 1999 Australia National Training Authority (ANTA) award winner for best VET in schools program.

Source: Interview with Deidre de George, Executive Officer, MOSEDG Inc

BOX 4 Kwinana Industries Council – Excellence In Education Compact

This case study illustrates the potential for local businesses and schools to work together to improve the outcomes of young people. The Kwinana Industries Council - Excellence in Education Compact is a formal agreement between eight secondary schools in the Kwinana region and the Kwinana Industries Council. It represents a commitment to "work together to achieve excellence in education and broaden the learning experience of students…to encompass a better understanding of commerce and industry and to help students gain a better understanding of the working world that is their future"

Other relevant stakeholders involved in the program are the council of enterprises, the local Chamber of Commerce and Industry, as well as the non-government secondary schools. Each member of the program contributes an annual levy of $90,000.

Through the program, youth at risk are provided with vocational education and training (VET). There are 21 VET programs, including Aboriginal art, business studies, hospitality, engineering, maritime business, retail, and visual arts. In addition, there are six school-based traineeships in engineering, hospitality, clerical/administration, horticulture and small business.

Young people in the program become involved in a supportive network of industry and community links and partnerships. For example, industry holds open days, develops work experience kits, and provides resources packs for schools. The community runs youth forums and careers expos, as well as providing art awards.

The results produced have been excellent. In 1995 there was one VET course for 15 students. Today there are 21 VET courses for 511 students. Retention to year 12 rates have grown from 60%, in 1995, to 80% today. The Kwinana Senior High School engineering traineeship has been operating for three years and has a 100% graduate employment rate.

Source: ACER (1999); interview with Graham Harvey (KIC Industry Liaison Officer)

We also see a strong analogy in the strategies adopted by many large companies over the last 10 years to improve occupational health and safety (see appendix).

6.3 Implementation

Various structural, funding, and span of control models can be considered for the Local Director of Youth Futures. We discuss below our preferred models and the reasons for choosing them.

Span of control

The preferred span of control would be one that allowed Local Directors of Youth Futures to have personal knowledge of the children who are most at risk in their region. However, it also makes sense to look to the territory boundaries used by the other organisations and agencies with whom the Regional Director will work. For this reason, local government areas (LGAs) may form the desirable span of control for Local Directors.

Funding

The intention is that the benefits delivered by the recommended initiative should, over time, more than repay the modest infrastructure costs, which include the administrative and salary costs associated with the Local Director and with long-term measurement and tracking. A portion of existing federal funding for related programs (such as Full Service Schools, Jobs Pathway or apprenticeships/traineeships) should be progressively channelled through the Local Directors to support their role as knowledgeable buyers of services for at-risk youth. This is based on the view that the federal government – which will ultimately capture the savings in welfare, rental assistance and so on that these actions will generate – should be prepared to divert funds to state governments that agree to take on 'whole of youth accountability' and to measure and report on outcomes. In addition, the initiative should include a very active effort to obtain additional private sector funding from local businesses.

In our view it would make sense to invest similar amounts for all young people, whether they are in school or not. The Dusseldorp Skills Forum has calculated that a Year 10 school leaver saves the Education Department about $16,000[11] in education costs, which in the long run is more than negated by government expenditures elsewhere (unemployment benefits, the prison system, the health system, emergency housing, etc.). That $16,000 per early school leaver should be available to be spent on alternative forms of education, training or job pathways, and should be channelled into these programs by the Local Director of Youth Futures.

Reporting structures

The premise of the preferred organisational option canvassed in this paper (figure 12) is an important reform – that state governments take on responsibility for 'whole of youth' outcomes, whether young people are in or outside the school system. This could be achieved by state governments extending their responsibility for schools to include the sponsorship of Local Directors of Youth Futures. Both the existing education and extended 'whole of youth' responsibilities could be covered by an expanded state education department, perhaps retitled as the Ministry of Youth Futures, to reflect its broader role. An important advantage offered by this option is that it ensures a strong link between the Local Directors and the schools in their areas.

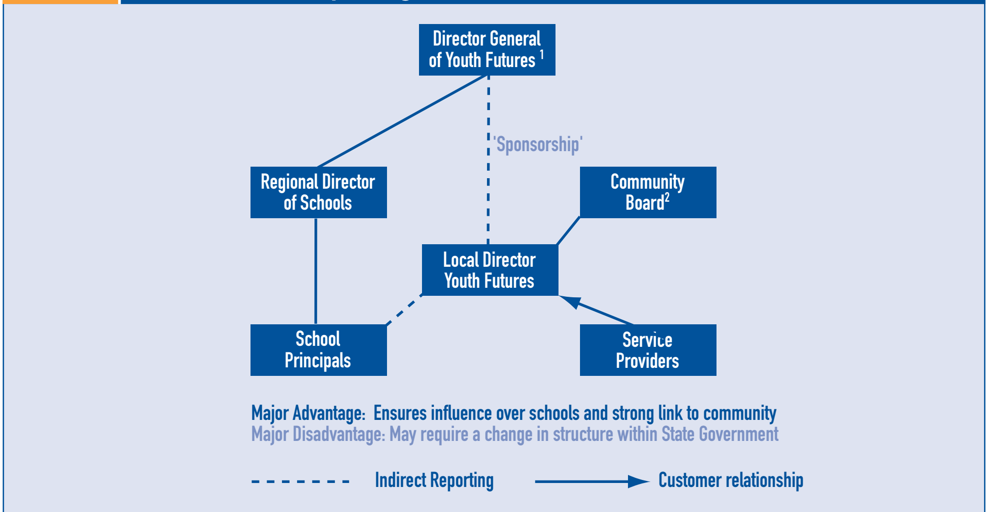
The rationale for choosing state governments rather than the federal government to take on 'whole of youth' accountability is that the states already control the school systems that are a major part of the youth experience. To give primary responsibility for youth to a level of government that does not control the school system would, in our view, doom it to failure.

The federal government should be the overall sponsor of the program, which would include organising and funding the tracking of outcomes, so as to ensure

11 Dusseldorp Skills Forum (1999)

comparability of performance across states, and establishing guidelines for the use of Commonwealth funds. Local governments could participate through the Community Boards, particularly if they were organised at the local government area level.

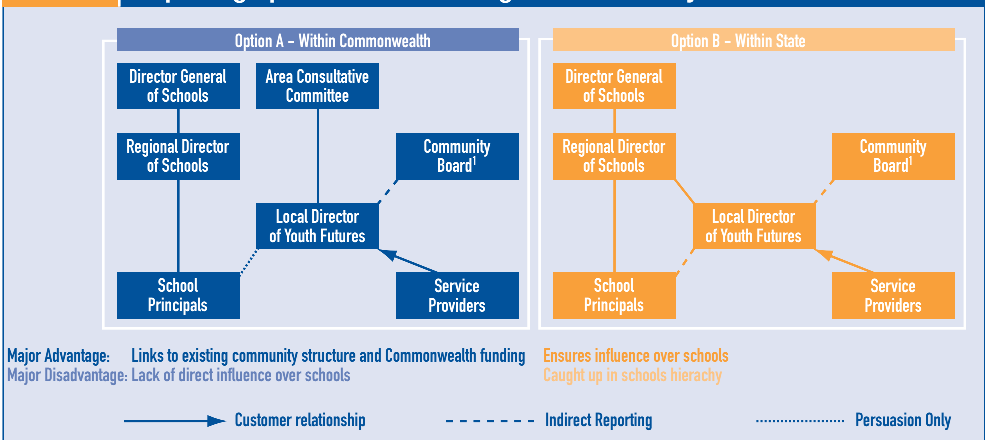
FIGURE 12 Recommended reporting structure



1 Expand role of current director general of schools
2 Would include local school principals, representatives of local business, welfare, youth, etc

Alternative organisational options within existing federal and state structures could also be considered. Option A in figure 13 has the Local Directors reporting into Area Consultative Committees, which are federally funded institutions. Option B has them integrated into state education departments. However, in our view these two models have the disadvantages of being too distant and too close, respectively, to the school system.

FIGURE 13 Reporting options within existing federal/state systems



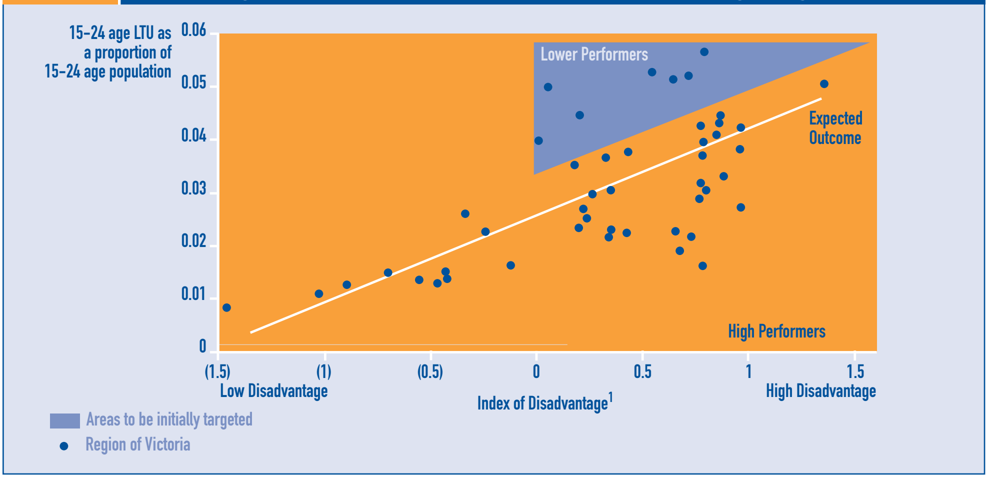
1 Would include local school principals, representatives of local business, welfare, youth, etc

While it is very important to have the right membership on the Community Board, criteria for membership should not be hard-wired and may change by region. What is critical is that the criteria be set by the state government, incorporate a defined set of regional needs in terms of expertise, and ensure there is no conflict of interest, particularly among service providers and Local Directors.

Piloting

Importantly, this initiative should be phased in over time, beginning with a manageable number of regions in order to experiment and bed down an appropriate model for widespread implementation. The pilot regions should be chosen taking into account the areas of greatest need. Figure 14 shows a framework for targeting the regions. However, other factors will also need to be taken into account in selecting pilot areas, such as the existence of local social coalitions that can readily form Community Boards.

FIGURE 14 Youth long-term unemployment by level of disadvantage: regions of Victoria



1 Vinson, T (1999)

Source: ABS Data , Centrelink Data, Vinson, T (1999)

BOX 5 Norway follow up service

Overseas, the highly regarded Norwegian model has strong similarities to our recommendations on school to work transition.

"With very high rates of school participation in Norway, the labour market consequences for those who do not have a basic upper secondary qualification have become more severe, and the reintegration of the relatively small absolute numbers of drop-outs who have low levels of achievement, low aspirations, personal difficulties or who are disaffected with school becomes both more pressing and more resource intensive. One of Reform 94's key initiatives was the establishment of a follow-up service for school drop-outs (around three per cent of the cohort drop out in the first 12 months of upper secondary education), which has much in common with Sweden's Municipal Follow-up Responsibility. Coordinated at the County level, the fundamental goal of the service is to reintegrate early leavers into school, and to do so quickly, within the period of their statutory right, so that they are able to gain an upper secondary qualification. Managed at the County level, the service operates through a network of coordinators who in turn work with local counsellors or mentors who are the principal point of contact with the young people. The service contacts all those who are entitled to an upper secondary place but fail to apply, as well as those who drop out of school.

"The service works closely with the school counsellor service and the school psychological service, which among other tasks work to prevent drop-outs (at times co-locating with it, or being run by it), with the Public Employment Service, and with health, welfare and other community services. Each young person who accepts an offer of assistance is assigned a personal counsellor or mentor, and is required to develop a personal action plan that is regularly reviewed. The assistance that is provided is not standardised, but closely tailored to individual need. In addition to personal advice, counselling and access to community services, young people can be offered trainee places in firms, subsidised employment, education and training opportunities, or combinations of these.

"The service is well resourced. As an example, in Akershus County, which has a group with a statutory right of some 16,000, of whom perhaps five per cent constitute the target group for the follow-up service, the service has the full-time equivalent of 14 staff. These are in addition to the nine employees of the school psychological service and the youth officers of the Public Employment Service with whom the follow-up service works closely.

"Initial evaluations of the follow-up service have been positive, with drop-out rates falling and very high proportions of those contacted by the service engaged in positive activities. The combination of a trainee place within a firm, which offers subsidised employment and on-the-job training with some school attendance, has been found to be the most successful approach in re-motivating and reinserting drop-outs."

OECD Directorate for Education, Employment, Labour and Social Affairs (1998), *Thematic Review of the Transition from Initial Education to Working Life*, Country Note: Norway

7. Intervention prior to termination of employment

Our second area of focus is the termination-back-to-work transition. Our recommendations here are more modest than those concerned with the school to work transition but also aim to improve the effectiveness and outcomes of current expenditure.

Approximately 40% of all entries into long-term unemployment are people who involuntarily fall out of employment and fail to find another job. A significant amount of support and funds in the form of welfare payments and job network support is directed at this group of people. A failed termination-back-to-work transition that results in an average duration episode of long-term unemployment can cost society in the order of $50,000 to $150,000, depending on the age, salary level and family circumstances of the worker whose employment is terminated (see figure 3).[12]

Two major observations form the basis of our recommendations:

- Timely intervention is valuable in terms of both improved outcomes and more effective use of funds
- Risk profiling is being improved, which should allow the early identification of the people most at risk of becoming long-term unemployed

7.1 Importance of timely intervention

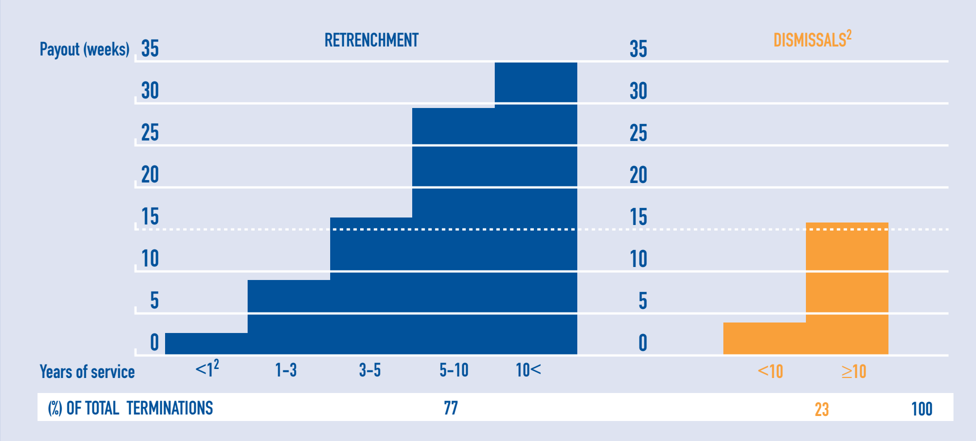
People whose employment has been terminated are provided, through Job Network, with online jobs information and 'lodge a résumé' services, but it takes an average of four months after termination, and sometimes as much as 12 months, before they become eligible for Intensive Assistance through a Job Network member. This is partly driven by the fact that those who receive termination packages will generally be excluded by a means test from government-funded Intensive Assistance and Job Search Training.

The effectiveness of Intensive Assistance is diluted when it is provided after some time in unemployment. A job seeker's morale and confidence decline with each month that passes in unemployment. This is compounded by prospective employers' suspicion of workers who have been unemployed for lengthy periods and their increasing reluctance to employ them.

Speeding up the process of providing Intensive Assistance and Job Search Training to workers whose employment has been terminated will not only reduce the total cost of supporting this high-risk category of workers but also has the potential to substantially enhance the effectiveness of Job Network.

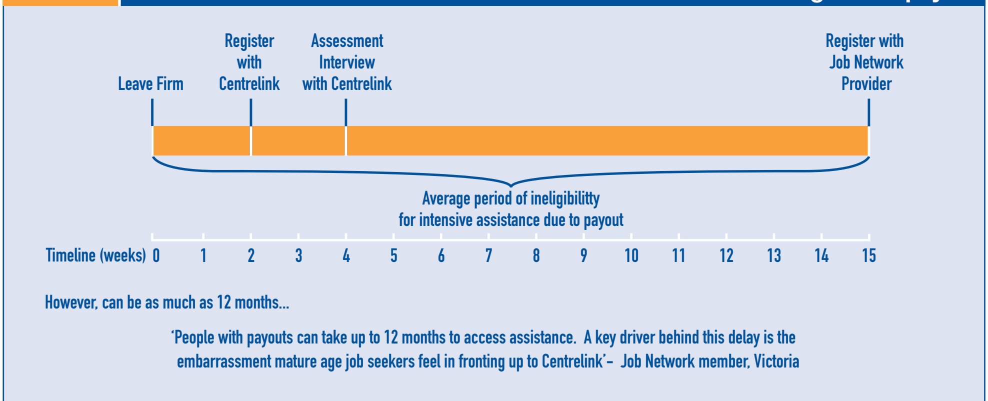
12 For example, based on forgone income, forgone taxation revenue, income support payments and government programs and services, the cost of an average duration stint in unemployment (3.2 years) for a 50-year-old single white collar worker previously earning $42,000 would be $125,800.

FIGURE 15 Average size of payout



1 Includes redundancy, annual leave and long service leave
2 Assumes accrued annual leave owing is two weeks for six months service, all other annual leave accrued is four weeks
3 Assumes that 90% of those fired have worked less than 10 years with current employer
4 Terminations include both retrenchments and dismissals. Terminations account for 45% of all departures from employment
Source: ABS Data, November 1998; NSW Employment Protection regulation, Interviews with Trade Unions, Interviews with Job Network members

FIGURE 16 Minimum time to intensive assistance for termination with average sized payout



1 Includes redundancy, annual leave and long service leave
Source: Interviews with Centrelink, Job Network members, Employment Services funded by the state

7.2 Early risk profiling

There is evidence that it is possible to identify those at high risk of becoming long-term unemployed in advance of their employment being terminated.

Centrelink has recently begun using an instrument called the Job Seeker Classification Instrument (JSCI) to determine the risk rating of people applying for unemployment benefits. This risk rating is used to determine whether an individual is eligible for government-funded Intensive Assistance through Job Network. While the instrument is quite new and will undoubtedly require further refinement, it is a major step forward in the area of risk profiling and provides evidence that it is feasible.

Once individuals at high risk of becoming long-term unemployed are identified, they can be provided with targeted intensive assistance. There are several good examples, particularly among larger corporates, of the value of early intervention and intensive case assistance in maximising the chances of high-risk employees finding work after termination.

FIGURE 17 Closure of BHP Steelworks (1999): best practice case study

Management recognises need to downsize → Management makes early preparations for termination process → Staff whose employment to be terminated are offered suitable programs → Employment Terminated → Follow-up Results

Management recognises need to downsize
- Decided to close Newcastle steelworks
- 2,200 terminations of employment

Management makes early preparations for termination process
- Closure announced 2.5 years prior to closure
- Financial commitment of $2.4m set aside to advise and retrain those to be terminated1
- Employment Centre set up on site
- Personal Action Planning Team (PAPT) set up to handle terminations

Staff whose employment to be terminated are offered suitable programs
- Broad range of assistance,service and programs made available (874 register for assistance)
  - GENERIC PROGRAMS initiatives available to every staff member, eg financial planning, personal counselling
  - SPECIFIC PROGRAMS initiatives tailored to the individuals chosen eg leisure and lifestyle workshops(for retirees), small business and consulting workshops (for those who were to begin their own small business)

Follow-up Results
- Three waves of follow-up
- At the beginning of process register all those retrenchees who seek employment with Employment Centre
- Document progress of job seekers after two months and six months

RESULTS
- After two months – 22% of those registered found employment
- After six months, still to be measured

PATHWAYS (and BHP's) MISSION

'We want people who leave the company to feel they have been treated fairly and are well prepared for the future. We want people who remain to believe that their workmates were treated fairly'

1 Total cost of Pathways is estimated at $7-8m, which includes all HR labour costs
Source: Interviews with BHP HR staff

FIGURE 18 Closure of pulp mill: best practice case study

Management recognises need to downsize → Management makes early preparations for termination process → Staff whose employment to be terminated are offered suitable programs → Employment Terminated → Follow-up Results

Management recognises need to downsize
- Decided to close plant
- 32 terminations of employment

Management makes early preparations for termination process
- Plant closure announced 9 months prior to closure
- Job Shop' set up on site, operated like a Centrelink office
- suitable infrastructure, telephones, PC's, etc
- lists of local employers made available
- job boards for vacancies
- schedules of outplacement consultants advertised

Staff whose employment to be terminated are offered suitable programs

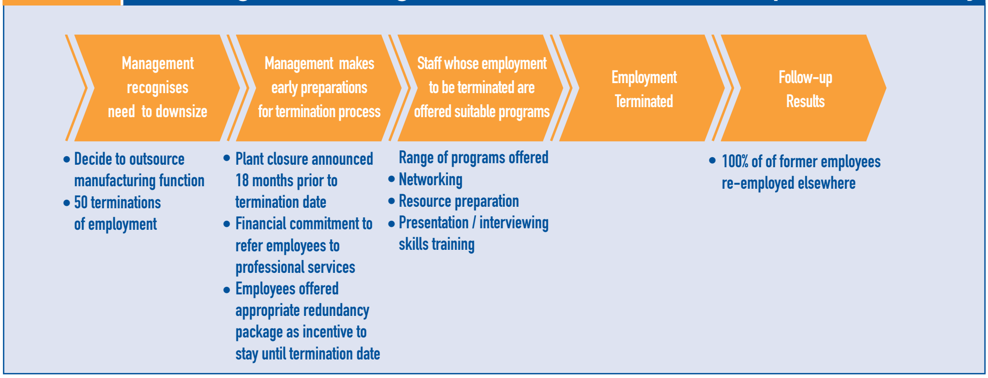
Range of programs offered1
- Job search skills training
- Financial planning
- Workshops on social impact of termination
  - involved spouses
  - focused on emotions and habits to be expected post termination
- Company-sponsored vocational courses (eg, fork-lift licence, chainsaw course)

Follow-up Results
- 30 out of 32 former employees found jobs within 6 months

'If we had not provided assistance prior to termination, most of those terminated would not have found jobs'

1 The company permitted time off work as required by employees to search for jobs, attend interviews, etc
Source: Industry Interview

FIGURE 19 Downsizing of consumer goods manufacturer & retailer: best practice case study



Source: Industry Interview

Most large corporates have the resources both to identify employees who will need intensive job search assistance after their employment is terminated and to provide that assistance to them before they leave the company. For small and medium businesses this is generally not the case. The large corporates' experience illustrated in figures 17-19 demonstrates that early, targeted intervention improves employment outcomes for people who have involuntarily left work. As a significant proportion[13] of employment terminations now come from smaller businesses, it would clearly be desirable to enable the latter to provide such assistance to their at-risk employees.

7.3 Recommendation

The 'risk profiling prior to termination of employment' initiative described below is built on the principle of early, targeted intervention to improve employment outcomes. It encourages businesses to assist their high-risk employees in the termination-back-to-work transition, but does not impose a cost burden in doing so.

We recommend that the Intensive Assistance and Job Search Training ultimately provided by government to high-risk individuals be made available, wherever possible, before termination of employment and as close as possible to the decision to terminate. This will maximise the probability of assistance leading to a successful re-employment outcome.

In order to achieve this, and to ensure that funding goes to those who will genuinely benefit from it, an easy to administer risk-profiling questionnaire will need to be developed for use before or at the point of termination. Firms of all sizes will be encouraged to have their high-risk employees complete the questionnaire (potentially with the employer's assistance) and submit it to Centrelink for confirmation so that government-funded Intensive Assistance and Job Search Training can be provided immediately.

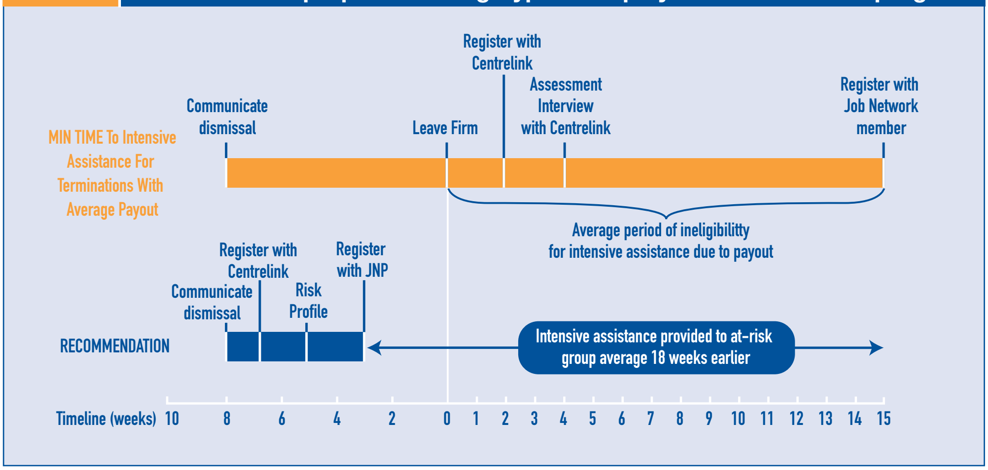
13 Interviews with 12 Job Network members and employment consultants, covering around 6000 job seekers, suggest that terminations of employment from smaller businesses could amount to more than 50% of all terminations of employment.

Market mechanisms could be brought into play to help make this work. For example, Job Network members could be encouraged to market their services to local employers, rather than waiting for referrals from Centrelink. They could offer to interview workers whose employment is about to be terminated and, for any who are found to be at high risk of long-term unemployment, offer to provide assistance in liaising with Centrelink. If Centrelink confirms the high-risk assessment, funding should be provided for immediate intensive assistance. The success of Job Network will be enhanced by the increased probability of Job Network members securing re-employment for their clients due to the earlier provision of appropriate assistance.

Assistance should be accompanied by communications that inform high-risk workers of the benefits of beginning their job search while they are still in a job or immediately after their employment is terminated.

Our intention here is not to impede employers' ability to terminate employment, or to raise the cost of doing so. Such action would be likely to have the unfortunate effect of dissuading employers to take on workers – especially those in high-risk categories. The initiative is instead directed at enabling employers to maximise terminated workers' opportunities to find work without additional cost to themselves. The desired outcome is a significant decline in the time to assistance for high-risk individuals and a consequent reduction in the proportion of terminated employees who fail to make a successful transition back to work.

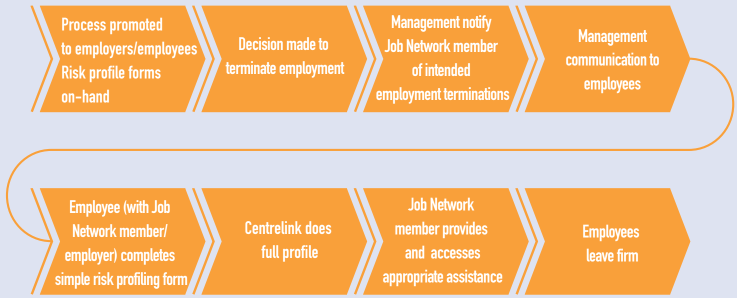
FIGURE 20 Current versus proposed timing: typical employment termination program



7.4 Implementation

We present below an option for implementing early risk profiling in a way that minimises the cost burden for both government and smaller businesses, at the same time as maximising the probability of compliance.

FIGURE 21 Potential process for termination of employment



In an ideal world, employers would be actively involved in identifying high-risk employees whose employment is about to terminated, giving them early warning, promoting the assistance available to them, and proactively helping them to secure employment outside the organisation.

Even in a less than ideal world – where, for example, there are unforeseen lay-offs in small firms – employees' details can be submitted to a local Job Network member or Centrelink on the day their employment is terminated, so that they can quickly be made aware of the implications, risks and opportunities of their situation, as well as the availability of assistance.

Maximising compliance

Compliance will be related to both the effort required on the part of employers and employees, and the cost of risk profiling and providing job search assistance. It will therefore be important to ensure the form-filling requirements are not onerous. Forms should be short and readily available.

Promotion of the initiative to employers, employees and Job Network members will be critical in influencing compliance. Job Network members can be a significant influence here, by promoting to employers the availability of targeted assistance for high-risk individuals before their employment is terminated. It will be in their interest to do this, as funding will be made available for the placement of people who are at high risk of entering long-term unemployment. At the same time, it is important to minimise the risk of gaming the system – any Job Network member found to be gaming should be de-listed and fined.

Educational materials for employees, employers and Job Network members might also be required. Such materials should provide information that will maximise re-employment outcomes. They could be provided by Centrelink or other organisations focused on improving the employment outcomes of specific groups, such as mature-age workers.

Minimising cost

Implementation of the recommendation would involve a one-off increase in government expenditure to bring forward early Intensive Assistance and Job Search Training to high-risk individuals. In addition, some relatively modest investment on the part of government would be required to develop an early risk profiling tool and to promote its use to employers and Job Network members.

More significantly, it is inevitable that some of the people provided with early access to intensive job search assistance under this recommendation would have found employment without that assistance. This is defined as 'deadweight loss' – an extra drain on funds that is largely avoided today by the typical six to 12 months' wait before Intensive Assistance is provided. On the other hand, we have argued that providing Intensive Assistance earlier will substantially increase the probability of its being effective and ultimately reduce the drain on government funds caused by long-term unemployment.

To understand the overall impact of our proposals on government expenditure, therefore, the net impact of these two factors – increased deadweight loss offset by increased effectiveness – must be understood.

We have undertaken some very simple modelling to try to estimate this. More elaborate modelling, using data developed for the purpose, would be required to better understand the net impact. Nevertheless, our modelling suggests that if earlier intervention improves the probability of successfully placing a person at risk of long-term unemployment by 20 percentage points (from around 20% currently to 40%), this will offset the cost of providing intensive assistance to an additional two-fifths of the recipients who may not in fact have required that assistance (i.e., 40% additional deadweight loss). A description of our simplified modelling and the assumptions underlying the model accompany figure 22.

BOX 6 Net budget impact of early risk profiling

Early risk profiling and intensive job search assistance are likely to entail both budgetary benefits and costs incremental to those entailed in current policy. To explore the net budget impact of early intervention, a very simple model was constructed that captures a range of effects. This model does not attempt to capture the full complexity of the job market – for example, it assumes a static employment displacement rate of 65%. More sophisticated modelling, using data developed for the purpose, would be required to get a more accurate handle on the effects. However, the model parameters are based on estimates that our research suggests are reasonable.

The current system is captured in the model as follows. Of the people classed as Flex 3 and given intensive assistance six months after entering unemployment, 20% obtain jobs in an average of six further months; the rest are assumed to go on to complete a three-year stint of unemployment (approximately equal to the average duration of long-term unemployment today). The net tax/transfer impact per year of unemployment averages around $20,000;* payment to job service providers averages $5200 in the case of successful job search and $1800 in the case of unsuccessful job search.

Early intervention changes both the duration and the probability of some people's unemployment spells. In the model, these duration and probability effects are the two incremental budgetary benefits of early intervention. The model expresses costs and benefits on a 'per person intensively assisted under the current scheme' basis – setting that number equal to one.

First, what we call the 'hastening effect' is that some people are assisted to obtain jobs earlier than they do under the current system. Early screening and intervention help this 20% into work six months earlier. This incremental benefit is calculated as $p_0\,(1-d)\frac{e}{m}L$, where

- p_0 is the current probability of job search success at the six month mark for Flex 3 candidates (20%),
- d is the displacement effect (set at 65%),**
- L is the total budget cost of a long-term unemployment episode ($60,000),
- e is the number of months saved by early intervention (six), and
- m is the total number of months of a long-term unemployment episode (36).

We call the second budgetary benefit of early intervention the 'improved probability effect'. This effect assists some of those who under the current system go on to a three-year unemployment stint, boosting their probability of attaining work. The logic of this effect is that early intervention will help some people whose skills and motivation deteriorate under the current system such that they enter long spells of unemployment.

This is captured as, $\Delta p(1-d)\frac{m-t}{m}L$ where

- Δp is the incremental probability of attaining work due to early intervention
- t is the expected time taken to find a job after commencement of assistance (assumed to be six months)

Costs of early intervention are also twofold. First, due to the 'improved probability effect', the government will pay the $5200 successful job placement fees on behalf of some of those for whom it currently only pays the $1800 unsuccessful job search payment to service providers. The cost is therefore calculated as $\Delta p(s-u)$, where

- s is the total budget cost of successful intensive job search assistance, including placement bonus ($5200), and
- u is the budget cost of unsuccessful job search assistance ($1800)

We call the second cost of early intervention the 'deadweight loss effect'. Early intervention will inevitably be less well targeted than intervention that is postponed until the six-month mark, so a larger number of $5200 fees for successful job placement will be paid on behalf of people who would have obtained jobs without them. This is simply xs, where

- x is the number of people, expressed as a fraction of the number of people who receive

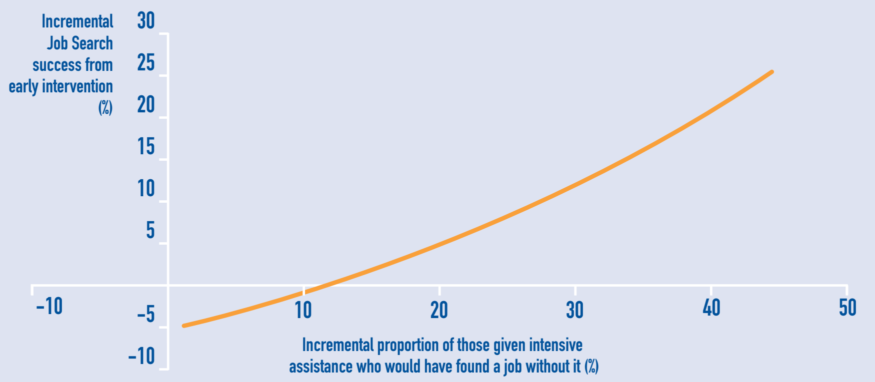
* $20,000 is derived by adding average Newstart payments (the Newstart annual budget to June 1999 over the average number of recipients [$7,735]) to average tax payments for someone on average weekly earnings ($10,936), and adding a provision for additional government services to those on unemployment benefits, which we estimate as approximately $1500 (which is consistent with estimates in the literature, e.g., Dixon [1992]).

** 65% displacement implies that for every 100 people who are successfully assisted to find jobs, 65 people are displaced from employment and go onto unemployment benefits.

intensive assistance under the current policy. A transformation of this term to $\frac{x}{1+x}$ is useful, giving the proportion of all people receiving assistance who would have received a job without assistance.

Given uncertainty about the size of the 'improved probability effect' Δp and the 'deadweight loss effect' x, it is useful to simulate combinations of these effects that would be neutral with respect to their net budget impact. Figure 22 plots Δp against $\frac{x}{1+x}$ which shows that a 40% 'deadweight loss' cost can be offset by a 20% improved probability of job assistance success. Furthermore even with no improvement in probability, a 12% deadweight loss effect can be afforded because of the hastening effect (this is after taking account of the impact of displacement). Getting some people back to work sooner is a benefit, even if no additional people get back to work.

FIGURE 22 Increase in job search success rate needed to offset cost of less effective targeting



Will earlier intervention improve outcomes by 20 percentage points? And is it possible to design a risk profiling instrument to be used prior to termination that is three-fifths as accurate as the one conducted today?

We do not have hard evidence to prove that this is possible, but the overwhelming view of practitioners in this field is that the early provision of intensive assistance to high-risk individuals would significantly reduce the probability of their entering long-term unemployment. Furthermore the JSCI provides the basis of an early risk profiling tool that could be further refined and modified to be used prior to retrenchment. This view was supported in our interviews with employers managing redundancy programs.

We certainly believe that designing and piloting a risk profiling tool that can be used prior to retrenchment, and then using that as a basis for piloting early intensive job search assistance through Job Network, are initiatives well worth pursuing.

The prize is a significant increase in the effectiveness of the efforts of the Job Network members, achieved by enabling them to intervene when their chances of impact are highest and thereby reduce the numbers who move on to long-term unemployment.

8. Conclusion

Australia's high long-term unemployment level is a complex problem requiring a number of strategies and initiatives. An enormous amount of research and policy advice is available on this subject and we do not imagine that our proposals do more than modestly complement the extensive work already done. However, looking at the long-term unemployment level through the lens of our organisation and management experience, the issues that strike us are those that suggest failures occur due to gaps in organisation and management processes and accountabilities.

Our suggestions therefore deal with accountabilities, timeliness, information management and performance measurement.

These are the types of issues that major organisations grapple with today and that we see in our daily work with them. Our view is that some of these disciplines are missing or inadequate in the way in which the two major transitions to employment are managed. Therefore, it is reasonable to assume that addressing these shortcomings will usefully complement all of the other work being done to address the long-term unemployment problem.

We hope that this paper will stimulate discussion and lead to some constructive initiatives that will assist in reducing the human, social and economic costs of long-term unemployment.

Appendix: Managing occupational health and safety – an analogy

In the 1980s, the typical large company was profitable but had a poor occupational health and safety (OH&S) record with high injury rates and, on average, long periods of lost time for each injury

Most companies during the 1980s devolved responsibility for profit generation down to the business unit or factory level. However, the cost of time lost through injury was 'below the line' as it was insured and the costs were not seen at the business unit or factory level. There was therefore no incentive to invest in return to work, and an injured worker was typically replaced by what was seen as a more motivated, healthier individual.

Key performance indicators tended to be profit related, with OH&S measures given little prominence. This is not to say that OH&S was ignored. There was usually a central OH&S department that tried to improve safety and rehabilitation performance. Such departments typically funded many programs to improve outcomes but, as the business unit heads were measured on profitability, the programs were often paid lip service only.

The 1990s have seen a dramatic improvement in injury rates and a reduction in time lost right across the corporate sector. How did this happen?

It began when corporations realised that the costs of their poor OH&S records were spiralling out of control, as evidenced by climbing insurance premiums that were increasingly linked to OH&S performance. This led to a determination in most corporates to begin tackling safety head-on.

Accountability

First they pushed accountability for OH&S outcomes down to the business unit or even the factory level. In many corporates it was no longer sufficient to run a profitable business unit – it also had to be safe if you were to receive your performance bonus. Insurance premiums were made an 'above the line cost' by disaggregating them back to business unit level and treating them as a controllable expense.

Accountability was pushed down to the lowest possible level of management despite the fact that a proportion of injuries were outside management control – some workers did not follow instructions and wear safety equipment; others had pre-existing injuries. Yet it was argued that management at the local level was in the best position to influence outcomes going forward.

Measurement of outcomes

OH&S key performance measures – such as injury rates and lost time rates – became extremely important. Often they occupied the first page of the report reviewed at management and Board meetings. These measures were tracked over time and benchmarked against other business units after adjustments for differing risk levels.

Knowledgeable buyer

Business unit heads also became the customers for OH&S programs designed to improve outcomes. They still received advice from the central OH&S department but made their own decisions on what programs were used and how much was to be spent on one versus another.

The results were dramatic. In the 1990s injury rates in the corporate sector tumbled, and with them the cost of workers compensation.

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Australian Workers' Union
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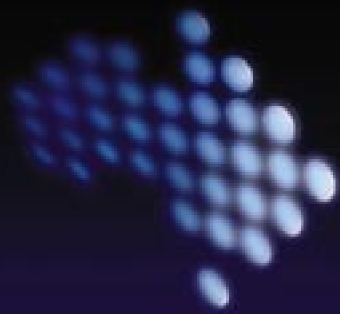

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