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## **Welfare to work policies in Australia and the welfare reform process**

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## Contents

<b>1. Introduction</b>	3
<b>2. The need for welfare reform</b>	5
2.1 Economic and demographic trends	5
2.2 Trends and patterns of welfare receipt	8
2.3 Groups at risk of long-term dependence	11
2.4 Economic participation of welfare recipients	13
<b>3. Welfare to work reforms</b>	<b>15</b>
3.1 Recent initiatives	15
3.2 The Australian welfare reform process	18
3.3 Piloting new approaches	19
3.4 Findings and recommendations of the Reference Group on Welfare Reform	19
3.5 The way forward	27
Attachment A	29
Attachment B	30
Attachment C	31
References	

## 1. Introduction

Australia's welfare system differs from those in most nations. It is funded from government general revenue, is non-contributory, and is not related to previous earnings. Payments are means tested, and there are no time limits on how long people may receive payments.

It was established in the early 1900s with the introduction of age and invalid pensions, and maternity allowance, and extended during the post World War II period, with the addition of child endowment, widows pension, unemployment, sickness and special benefits. Since then the fundamental structure of the system has remained intact, with incremental change occurring regularly.

Over the years, the system has evolved to the point where there is now an array of income support payments for many different categories of need, that are usually associated with reduced opportunity for workforce participation. These income support payments are complemented by a wide range of services, such as public housing, childcare, employment services and services for people with disabilities.

On many indicators, Australia's welfare system compares well with those of other countries. It combines comprehensive coverage with efficient targeting and effective poverty alleviation. Significant support for the welfare to work transition is available through part-rate income support that assists those with part-time work through a long tail on means tests. In-work benefits are also available for families with workers in low-paid or intermittent employment in Australia, by way of family payments for those with children or one partner not in employment, and through the provision of work-related services (such as child-care payments).

Means tests have been progressively eased to make in work benefits more widely available through reducing withdrawal rates for family payments in particular and continuing to provide partner payments as a means of reducing Effective Marginal Tax Rates and replacement rates for families with low to moderate wages. Because these approaches have tended to receive more emphasis for families and couples, however, unemployment payments still have more stringent means tests than other income support payments.

In many ways, however, our welfare system is still rooted in the past, and has not kept pace with the economic, social and demographic changes of recent times. It embodies assumptions about the structure of work, the structure of families and gender roles that look increasingly outdated.

It was designed when unemployment was generally low and of short duration and when the most common family type was a couple with children and a principal male breadwinner. Welfare payments were provided for the small minority of cases in which a family needed support because of unemployment, severe disability or lone parenthood. Welfare receipt is now much more common due to the growth of unemployment (in particular long-term unemployment), the aging of the population and increased lone parenthood.

The welfare system has also not responded sufficiently to a number of labour market trends, including: the growth in female employment and the decline in male employment; the growth of part-time, casual and non-standard work; increased underemployment; and declining opportunities for unskilled and semi-skilled workers.

While overall employment levels have risen in Australia over the past two decades, this has been accompanied by a much larger increase in the proportion of the working age population receiving income support payments. This is primarily due to changes in the distribution of employment across families, whereby there has been an increased number of families with no adult in employment, and an increasing proportion of children living in these families. Around 1 in 6 Australian children are growing up in families where there is no adult in paid work.

At the same time, the Australian population is growing older, with increasing numbers of older people experiencing long-term joblessness. Many of these people have a disability or are in poor health. As a result, the number of Disability Support Pension recipients is threatening to exceed the number of unemployment payment recipients.

The incidence of joblessness has also fallen unevenly across different geographical locations. Some communities are experiencing high levels of joblessness and exclusion from the mainstream of Australian economic and social life, at the same time as other locations have record low levels of unemployment (eg in Sydney).

These issues have gained some urgency in recent times, with the realisation that nearly a decade of economic growth since the early 1990s has not translated into reduced levels of welfare dependency in the Australian community. There are currently 1 in 7 Australian people of workforce age who rely on welfare for 90 per cent or more of their income.

In this context the Australian government has acted to reform the Australian welfare system. The approach taken has emphasised the need for a broader conception of the nature of the welfare system than just income support and a greater emphasis on tackling joblessness with welfare to work policies rather than just focussing on those registered as unemployed.

Greater emphasis is also being given to the combined impact of a wide range of government programs, and to the need for preventive strategies. And, rather than launching into major new initiatives, the government has taken a more exploratory approach by piloting approaches to assess the relative merits of different approaches.

In October 1999, the Government appointed a reference group to provide advice on future directions for the Australian welfare system. The government outlined six main principles to be addressed by the reference group as part of their terms of reference (Attachment A).

This paper has two main parts. The first part describes the economic and social factors driving the need for welfare reform in Australia. The second part outlines the main directions of welfare to work policies and welfare reform in Australia.

## 2. The need for welfare reform

### 2.1 Economic and demographic trends

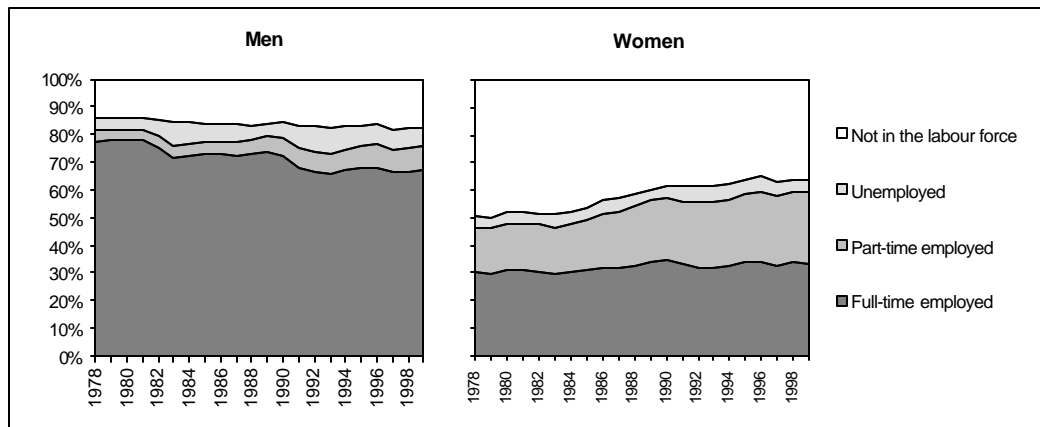
#### Composition of the labour force

Over the last two decades, the Australian labour market has changed dramatically, with significant differences in the patterns of men and women. More women are working, including those with children. Most mothers are now in the paid workforce, at least part-time. Only those with children aged under 5 are more likely to be at home than in paid work. Employment among older women has also increased markedly. For men, however, fewer are working. Of those in work, more are working part-time and there is also more under-employment.

The proportion of men aged 15 to 64 in full-time employment fell from 77% in 1978 to 67% in 1999, while the proportion in part-time employment doubled from 4% to 9%. There was a small net increase in the proportion unemployed (from 5% in 1978 to 6% in 1999), and a larger increase in the proportion not in the labour force (from 14% to 18%). [Figure 2.1](#) clearly shows the impact of the economic cycle on both full-time employment and unemployment, whereas part-time employment rose, and overall labour force participation fell, much more steadily.

In contrast, the overall participation of women aged 15 to 64 grew strongly (from 50% in 1978 to 64% in 1999), with most of the increase occurring in the 1980s. While women's labour force participation is still much lower than men's, the gap between the two has halved over this period. The increase in labour force participation was driven mainly by the increase in part-time employment (from 16% in 1978 to 26% in 1999). Full-time employment grew only slightly (from 30% in 1978 to 33% in 1999) and there was no change in the unemployment to population ratio (4% in both 1978 and 1999). The fluctuations of the economic cycle had much less effect on women's employment levels than on men's.

**Figure 2.1: Labour force status of men and women aged 15 to 64, as ratios of population, 1978 to 1999.**



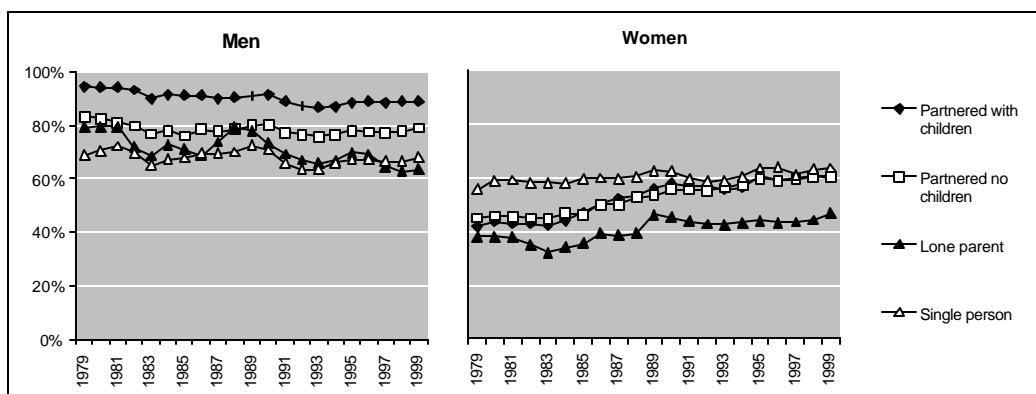
Source: ABS, *Labour Force Australia* (Cat. Nos. 6203.0 & 6204.0), 1978 to 1999.

The overall picture is of an increased proportion of the working-age population in employment, but less in full-time and more in part-time employment. Much of the part-time work is also casual, and is often low-paid (Dunlop 2000). The increase in part-time employment is partly due to increased under-employment over this period.

There has been a relatively small overall increase in the prevalence of unemployment over the last twenty years but the duration of unemployment has increased significantly. Between 1978 and 1999, the average duration of unemployment increased from 25 weeks to 59 weeks for men and from 27 weeks to 44 weeks for women. For men, there has been an increase in labour force non-participation probably due to hidden unemployment, including discouraged job-seekers and marginal attachment to the labour force.

Family status appears to have influenced the employment to population ratios for men and women aged 15 to 64 over the period 1979 to 1999. Employment rates of partnered men decreased although those with children remained consistently higher than those without. Most of the decline occurred in the recessions of the early 1980s and 1990s. There was little overall change in the proportion of single men employed (69% in 1979 and 68% in 1999), although this group was clearly responsive to changes in the economic cycle. Among men, the experience of male lone parents stands out – their employment rate fell by 15 percentage points from 79% in 1979 to 64% in 1999.

**Figure 2.2: Employment to population ratios of men and women aged 15 to 64, by family status, 1979 to 1999.**



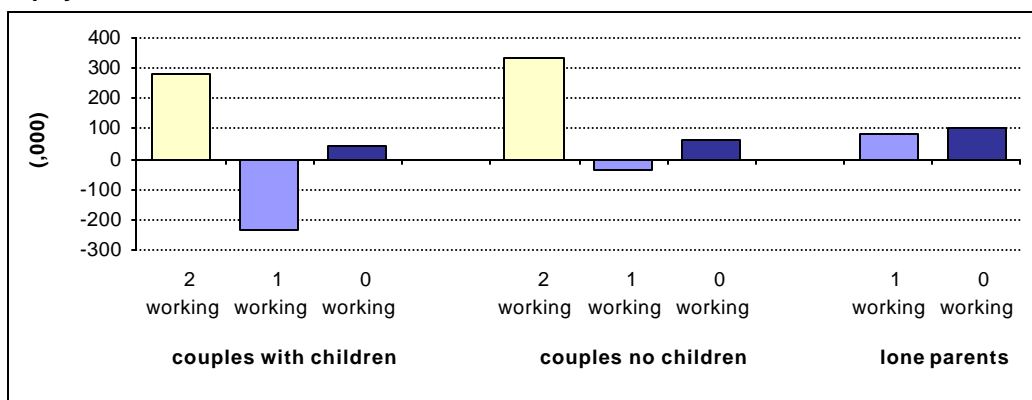
Source: ABS, *Labour Force Status and Other Characteristics of Families, Australia (Cat. No. 6224.0)*, 1979 to 1999.

Partnered women with and without children shared similar patterns of employment. Employment among women with children increased from 42% in 1979 to 60% in 1999, while employment among women without children increased from 45% to 61%. The rate of increase was most rapid in the 1980s, with smaller increases during the 1990s. Female lone parents also experienced rapid employment growth in the 1980s (from 38% in 1980 to 45% in 1990), but there has been little further improvement during the 1990s (47% in 1999). Employment rates of single women without children increased less than for the other groups of women. The employment to population ratio for this group is now only slightly above the ratios of partnered women.

## The distribution of work

Inequality in the distribution of employment has also increased in the past two decades. As well as more dual worker families, there are now more jobless families. The impact of these trends on the employment patterns of family income units is summarised in [Figure 2.3](#). This shows that the number of couples with no paid work has increased alongside the significant increase in the number of couples with two incomes (Miller 1997). This is largely a consequence of increased joblessness among men and the tendency of their wives also to be jobless (Bradbury 1995). The proportion of working-age couple families with one earner fell from 45% in 1982 to 31% in 1996-97, the proportion with two earners increased from 45% to 57% over the same period, and the proportion with neither partner in employment increased from 10.6% to 12.2%. The most rapid growth in this phenomenon occurred during the 1980's. [Figure 2.3](#) also shows a large increase in the number of jobless lone parent families.

**Figure 2.3: Change in number of family income units aged 15 to 64, by number of employed adults, 1982 to 1996-97.**



Source: Landt & Pech 2000.

These changes in the distribution of employment have meant that more children now live in families with two parents working, and in jobless families (Gregory 1999). The data summarised in Table 2.1 show that in June 1999 more than two in every five Australian children were living with two employed parents, while more than one in six were living in jobless families. This represents around 860,000 dependent children living in 440,000 families without a parent in paid work. International comparisons show that joblessness affects a larger proportion of families with children in Australia than in most other industrial nations, although this is not the case for single people and couples without children (Oxley, et al 1999).

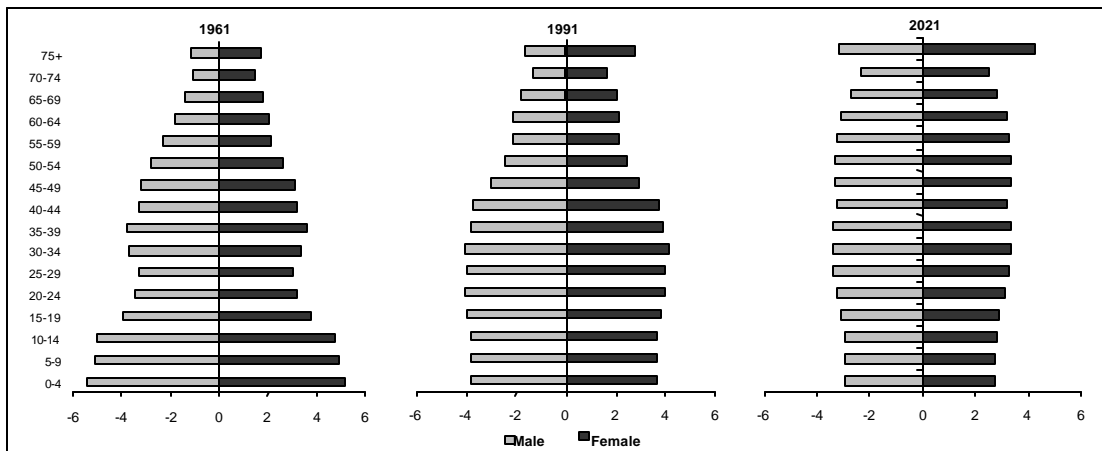
**Table 2.1: Dependent children by family type and parents' employment status, June 1999.**

Family type and employment status	No of dependent* children	% of all dependent children
Two earner couple	2,204,500	44.7
One earner couple	1,451,900	29.4
Jobless couple	339,000	6.9
Employed lone parent	417,900	8.5
Jobless lone parent	518,500	10.5
<b>All families</b>	<b>4,931,700</b>	<b>100.0</b>
<b>Jobless families</b>	<b>857,500</b>	<b>17.4</b>

Source: ABS, Labour Force Status and Other Characteristics of Families (Cat. No. 6224.0), June 1999.

Our population is also ageing. The workforce-age population has grown steadily older during the 1980s and 1990s. Population projections also show a large increase between now and 2021 in the numbers of people in the age groups from 40 years onwards (Figure 2.4). Early retirement (both voluntary and involuntary) has become increasingly prevalent. This increases the risk of low incomes in old age and places additional burdens on the social security system.

**Figure 2.4 Percentage of population, by age group and gender, 1961, 1991 & 2021**



Source: FaCS 2000, Appendix 2.

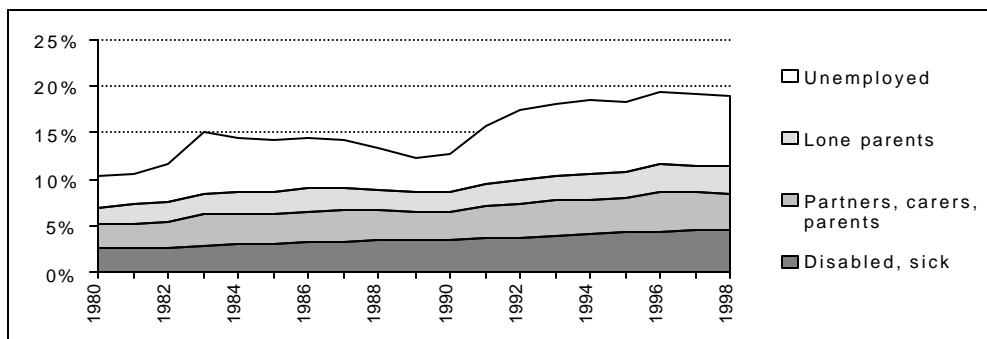
## 2.2 Trends and patterns of welfare receipt

The past 20 years has seen a large increase in the proportion of workforce-age people on social security payments – from around 10 per cent in 1978 to 18 per cent in 1998, now involving some 2.6 million people. People who receive income support payments<sup>1</sup> can be divided into four main groups: unemployed people; lone parents;

<sup>1</sup> Income support payments include all of the basic social security pensions and allowances. Low-income people who receive only some additional family assistance for their children are not defined as income support recipients.

partners/carers/parents; and people with illness or disability. Figure 2.5 shows how the proportion of working-age people receiving these forms of income support almost doubled between 1980 and 1998. Recipient numbers increased in each of these major groups over the 1980s and 1990s, with the largest overall increase occurring among people receiving unemployment payments.

**Figure 2.5: Main groups of working-age income support recipients as proportions of the working-age population, 1980 to 1998.**



Source: Department of Family and Community Services (formerly Department of Social Security) Annual Reports.

### Categorical Nature of the Welfare System

There are two main categories of income support payments – pensions and allowances. Pensions are based on somewhat outdated assumptions about the circumstances that require long term support, such as disability, widowhood and lone parenthood. Allowances tend to be paid to people whose situation is assumed to be temporary – the unemployed and sick. Because of their long-term focus, pensions are more generous.

Another assumption that conditions the pension/allowance divide is that men are labour market aspirants and women are not. Thus men tend to receive payments which require them to show that they cannot support themselves (such as unemployment payments and disability pensions) whereas many women receive payments that assume domestic responsibility and dependency or see caring and parenting as a complete substitute for labour market activity.

#### Unemployment payments

The proportion of the working-age population receiving unemployment payments increased from 3.4% in 1980 to 7.3% in 1998. Three main factors have contributed to this: increases in aggregate unemployment during recent economic downturns; growth in part-time and casual work and underemployment; and changes to income support provisions. There are now over 12 per cent of unemployment payment recipients who declare earnings due to the increased availability of part-time and casual work and changes to income tests that allow recipients to keep more of their earnings. Changes to activity test provisions have increased the proportion of recipients undertaking activities other than job search (such as short-term training) and eligibility has been broadened to include large numbers of people who are temporarily unable to look for work because of illness.

### ***People with disabilities and illness***

The primary payment now in this category is Disability Support Pension (DSP). The number of people receiving this payment rose steadily throughout the 1980s and 1990s. It is generally accepted that one factor behind the steady increase in DSP receipt during the 1980s was the overall increase in unemployment during that period and its selective impact on groups such as middle-aged and older men from blue-collar occupations. The relationship between unemployment and DSP receipt is not direct. The increase in long-term unemployment and subsequent discouragement from job search may well have acted to exacerbate levels of ill-health in the unemployed population. In addition, some unemployed people may seek to claim DSP rather than Newstart Allowance because of its higher payment rate, more lenient income test and lack of activity requirements.

Another important factor is the declining availability of alternative payments (especially Veterans' Pensions) for people aged 50 and over who make up the bulk of DSP recipients. The age pension age for women is being progressively raised from 60 to 65 and other payments for older wives and widows are being phased out. These developments have increased the demand for DSP among the older age group, at the same time that numbers in that age group are also increasing due to the ageing of the baby boomer cohort.

### ***Lone parents***

Australian lone parents differ significantly from those of lone parents in other countries, such as the United States. Australia has a lower proportion of lone parents (21 per cent) amongst families with children than the US (29 per cent). In addition, the vast majority were previously married or in a marriage-like relationship, they tend to be older than in the US (median age is 33) and have fewer children (around 50 per cent have only one child). Only 3 per cent of those receiving income support are teenagers and Australia has a declining teenage birth rate which is only around one third that of the US. Australian lone parents are highly representative of the broader Australian population.

Most lone parents on income support receive Parenting Payment Single (PPS). The principal factor behind the significant increase in lone parent recipients (from 1.7% of the working-age population in 1980 to 3.1% in 1998) has been the increased incidence of lone parenthood in the general population (from 13 per cent of families with children in 1980 to 21 per cent of families with children in 1998). This growth in lone parenthood has been a significant contributor to the overall growth in family joblessness discussed earlier.

Around one third of lone parents on benefit have earnings at any one point in time. Given the high cut-out points for assistance, over 80 per cent of lone parents with children aged under 16 in Australia are currently eligible for at least part-rate of pension. Most work part-time and some on low full-time wages also receive some payment. For many, the issue is not whether they are on or off welfare so much as their degree of reliance. In terms of duration, lone parents tend to come onto payment, stay for around two years (75 per cent) with some staying at least five years (25–30 per cent). But, the majority of those who exit for re-partnering or work

reasons return to income support within 12 months either on the same or an alternative payment (eg as the partner of someone on unemployment benefits).

### ***Carers, partners and parents***

The final group consists of people receiving payment because of their caring responsibilities and/or presumed financial dependency on a current or former partner. Relevant payments include Wife Pension, Partner Allowance, Parenting Payment (Partnered), Carer Payment, Widow B Pension and Widow Allowance. These payments are primarily designed for and received by women and, with the exception of Parenting and Carer Payments, most are aimed specifically at people in older age groups. Most people in these payment categories receive payment because of their relationship to people in other payment groups (for example, wives and carers of people with disabilities and partners of unemployed people)<sup>2</sup>. As these groups have grown in size, so has this one. The proportion of working-age people receiving these forms of payment increased from 2.4% in 1980 to 3.9% in 1998.

### ***Patterns of income support receipt***

Administrative longitudinal data suggest that there are a number of distinct patterns of income support receipt (FaCS 2000, Appendix 3). These tend to vary considerably both within and between payment categories.

The most stable population is people receiving disability payments. People who come onto DSP tend to stay on that payment until they reach age pension age or die. Very few ever leave payment for employment. Also, 56 per cent of new DSP recipients come onto payment from another income support payment (38 per cent from Newstart Allowance). This shows the potential for people with disabilities to become dependent on low levels of income for life.

At the other extreme, there is considerable turnover in the population receiving unemployment payments. Many people receive this payment only for short periods of time, but many also alternate periods of employment with periods of income support receipt. About one in seven reports income from employment at any point in time. It is relatively rare for a long-term unemployed person to be entirely dependent on payment for many years.

Net population turnover for lone parents on payment is relatively low. Some leave payment because of re-partnering, others for employment and a substantial group simply moves onto another payment when their eligibility for Parenting Payment Single expires. Lone parents are the group most likely to combine employment and income support on an ongoing basis. And, as noted earlier, of those who leave welfare, the majority do not sustain this exit.

The last of the four main recipient groups is the most diverse. Some of the payments in this group (Wife Pension, widow payments) show patterns of receipt similar to those of DSP, others (Carer Payment, Partner Allowance) are more like Parenting

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<sup>2</sup> Prior to September 1994 many of these people did not receive payments in their own right. The data presented in this paper have been adjusted to allocate partners of payment recipients to the Carers/Partners/Parents payment category.

Payment Single, while Parenting Payment Partnered is most like the unemployment payments.

This increasing diversity of welfare receipt parallels the increasing diversity of labour market experience outlined earlier. The increased availability of part-time employment has provided more opportunities for people to supplement their income support with earnings. On the other hand, increased underemployment and casual employment have meant that many people who in previous times might have been independent of the income support system have had to rely on it to top up their inadequate earnings. The system does not respond to these employment opportunities as readily as it could in terms of providing incentives for and rewards from taking up such work.

### 2.3 Groups at risk of long-term dependence

Figures from the Australian Bureau of Statistics show that around 1.5 million Australian adults of workforce age received more than 90 per cent of their income from government pensions and allowances. About half a million more received between 50 and 90 per cent of their income from social security. [Table 2.3](#) summarises trends in dependency rates for various groups. Between 1986 and 1996-97, the proportion of highly reliant income units increased in all categories except for lone parent families.

Most people who receive income support are highly reliant on it for income. Of approximately 2.6 million workforce-age people receiving income support in March 1999, 83 per cent had less than \$50 a week of private income in addition to their pension or allowance. Only 5 per cent had private income of \$150 a week or more.

**Table 2.2: Workforce-age income units and adults with at least 90 per cent of income from government cash payments, 1986 and 1996-97**

Income unit type	1986*		1996-97*	
	No ('000s)	(%)	No ('000s)	(%)
Couple with children	125.5	6.4	161.9	8.0
Couple without children	118.6	9.1	158.9	10.5
Lone parent	147.6	46.8	196.9	41.8
Single person without children	523.7	18.2	718.8	20.4
<b>Workforce-age adults</b>	<b>1159.5</b>	<b>11.9</b>	<b>1557.4</b>	<b>14.1</b>

Source: ABS, *Income Distribution Australia*, 1986 and 1996-97 unit record data.

\* Data relate to usual weekly income, not annual income. 1986 survey took place between September and December 1986 and the 1996-97 survey over that financial year.

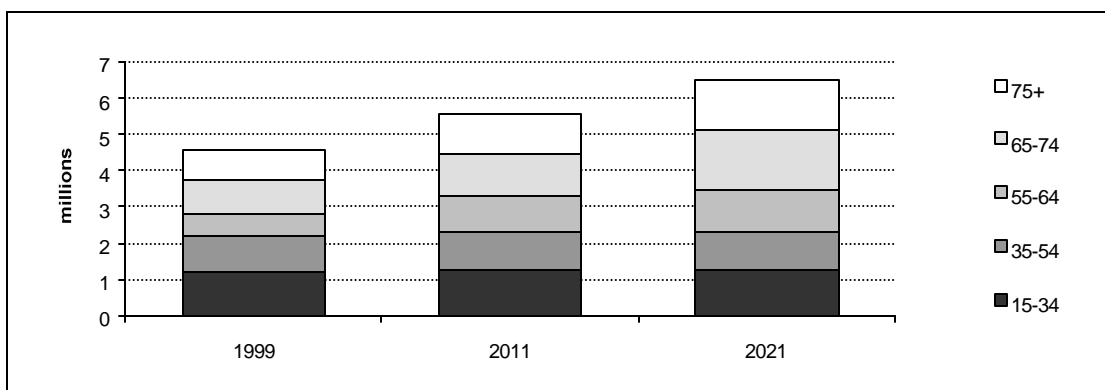
Single people are much more likely to be reliant on income support than couples, whether or not they have children. The other key factor is age – 47 per cent of single people aged 55 to 64 were highly reliant on income support in 1997-98, compared with 15 per cent of single people under the age of 35. Among couples in the same age

groups, the proportions with high reliance were 18 per cent and 2 per cent, respectively.

Of the workforce age income support payment groups, the older unemployed and disabled people are the most dependent. They have low levels of additional income and high probabilities of long periods continuing to receive income support (including through retirement). There is significant overlap between these groups, with many older unemployed people reporting significant levels of disability. Significant numbers of older unemployed people move onto DSP, and once on DSP very few ever leave the social security system before they die. Also, demographic projections show that this group is likely to grow significantly in the near future (Figure 2.6).

The least dependent are young unemployed people (who tend to move on quickly from the income support system), followed by lone parents (who often work and/or study whilst receiving income support). It is however important to note that within these groups there remain significant numbers of people at risk of long-term dependence.

**Figure 2.6: Projection of income support recipient numbers, based on current age specific rates of income support, by age group, 1999 to 2021**



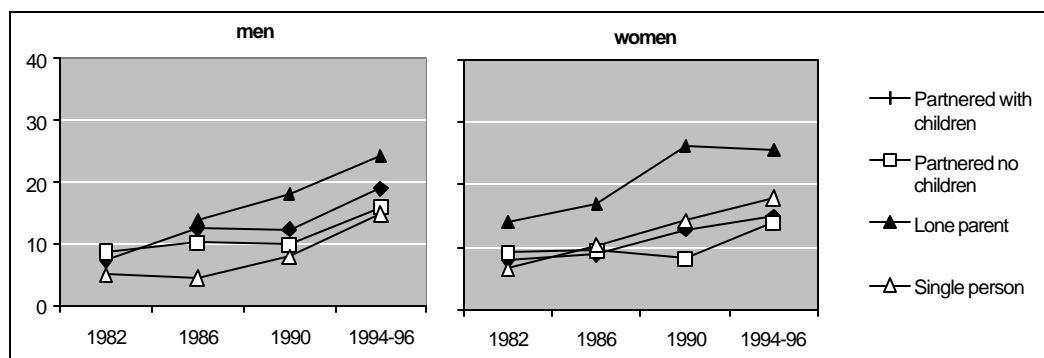
Source: FaCS 2000, Appendix 2.

Research suggests that extended periods of welfare dependency can also adversely affect the life chances of children. Australian longitudinal social security data show that young people from income support recipient families are themselves more likely to become parents at an early age, leave school prematurely, receive income support and become heavily reliant on income support. By the time they are about to turn 19, about one in six young people from income support recipient families have spent more than half the previous three years on income support themselves. This compares with an average probability of about one in fifteen. Other factors associated with high income support dependence between the ages of 16 and 18 are living with only one parent at age 15, living in public housing at age 15 and/or having a primary parent who identified as indigenous (Pech & McCoull 1999).

## 2.4 Economic participation of welfare recipients

The overall level of economic participation among welfare recipients has risen in Australia over the past two decades. [Figure 2.7](#) shows significant increases in employment levels among people receiving income support. Consistent with administrative data, lone parents had consistently the highest employment rates at each point in time. Employment rates of women in families increased strongly in the late 1980s, whereas employment rates have increased more strongly for men during the 1990s. The increased employment of female income support recipients represents an increase in aggregate labour supply, whereas for men it represents a decrease in aggregate labour supply (ie a net movement from full-time to part-time employment), of which at least part is underemployment (Landt & Pech 2000).

**Figure 2.7: Proportions of working-age income support recipients in employment, by gender and family status, 1982, 1986, 1990 & 1994-96.**



Source: Landt & Pech 2000.

Participation in education also increased among female income support recipients over the 1980s and 1990s, but not among men (Landt & Pech 2000). Survey data (Pech & Pawagi 1999) also show that female lone parents are the income support group with the highest rate of participation in education. Thus, it appears that increasing proportions of women on income support are deciding that time spent improving their skills is a worthwhile investment. Research from both the US and Canada has also confirmed the value of education for the employment prospects of female income support recipients (Harris & Edin (2000) and Barrett (2000) respectively).

### Risk Factors for Long Term Welfare Dependence

However, there remain large groups who remain relatively inactive - predominantly people in the older age groups - and at risk of long-term welfare dependence. In addition, many of those who are active in employment or education are not able to sustain an exit from welfare and return to income support at a later time. For instance, administrative data show that 70 per cent of people receiving income support in September 1995 were also on payment in June 1999. An additional ten per cent had progressed to age pension, highlighting the high incidence of income support receipt in the years immediately before age pension age.

People receiving the activity-tested unemployment allowances had the highest exit rate, followed by people on parenting payments (partnered and single) and Partner Allowance, many of whom leave payment when their partner gets a job. Among workforce-age pensioners, only Carer Pensioners and Sole Parent Pensioners had an exit rate of more than 5 per cent.

Significant numbers had transferred from one payment to another. Many more people had moved from an allowance to a workforce-age pension (14 per cent of allowees did this) than from a pension to an allowance (only 5 per cent of pensioners did this). Most allowance to pension movements were to Disability Support Pension (DSP), while most pension to allowance movements were to Newstart Allowance.

This substantial movement of people from allowance payments to pension payments may be of concern, as it is clear that pensioners are much more likely than allowees to become highly reliant on income support. This trend reflects a variety of factors, including population ageing and the multiple disadvantages faced by some income support recipients, including poor health (which may also deteriorate with age and duration on income support).

Another contributing factor may be the differing rates and conditions for pensions and allowances, which are likely to have an incentive effect for some people at the margins of pension eligibility. Because pensions are paid at higher rates than allowances, are less stringently means-tested and generally have no activity requirements, they are attractive to some allowance recipients.

The more generous payment conditions of pensions compared with allowances may have contributed to the growth in recipient numbers in the payments that are not subject to activity tests, or other participation requirements.

To sum up, the social security system in Australia may have contributed to the growth in welfare dependency, particularly amongst the older age groups. The system tends to focus on alleviating short-term financial need, with less emphasis on facilitating the transition to work of welfare recipients. Some parts of the system still create work and savings disincentives. Eligibility requirements for many income support payments are still focused primarily on incapacity and barriers to work, rather than emphasising people's capacities and potential. In short, the income support system still does too little to prevent and discourage welfare dependency.

### **3. Welfare to Work Reforms**

#### **3.1 Recent initiatives**

The Australian government has identified welfare reform as a major area for policy reform. It follows on from a range of very significant policy changes with broad impact on the Australian community, including those people receiving assistance from the welfare system.

The establishment of Centrelink and the Job Network were radical changes to the delivery of welfare and employment services. They replaced the traditional delivery of services within government with contractual arrangements, specifying the outcomes required for programs funded by government and, in the case of the Job

Network, opening up the delivery of such programs to private and community sector bodies.

### **The New Tax System**

The New Tax System introduced on 1 July 2000 affected all Australians by reducing income taxes and introducing a broad-based tax on goods and services. In respect of welfare to work policy, the changes included:

- Increased payments for family assistance and child care
- Greater incentives for working low to middle-income families; and
- Greater incentives for people moving into full-time employment.

Combined with personal income tax cuts worth \$12 billion a year (which ensure that 80 per cent of tax payers will face a marginal tax rate of 30 per cent or less) these measures provide substantial income for low income families and at the same time, significantly improve work incentives. The effective marginal tax rate for many of those in the social security system will drop from 85.5 per cent to 61.5 per cent over a substantial range of income. Workers employed full-time will have more incentive to improve their circumstances in the workforce.

Providing assistance to low income families in this way has been preferred by the Government to the introduction of an Earned Income Tax Credit (EITC) similar to that in other countries. In Australia, social security for parents, especially lone parents, has not suffered from the same level of stigma as in other countries perhaps because of the breadth of coverage of these families. In addition, cash benefits for low-income families are generally well regarded. Thus in relation to families, for example, reducing benefit tapers are a realistic alternative to an EITC and provide more transparent work incentives for low and middle income earners. Further, they do not complicate the system and respond more immediately to transitions in and out of the workforce than an EITC might.

### **Stronger families and communities strategy**

The Government announced a major new direction for family and community policy in Australia with the launch of the *Stronger Families and Community Strategy* in April 2000. The strategy has been influenced by evidence that prevention and early intervention approaches starting in early childhood are important for developing an individual's foundation skills for participation throughout the rest of their life. Another strong underpinning of the strategy is the finding that strong communities support families and individuals to become more self-reliant and solve their own problems.

The Strategy, which will cost some \$240 million over four years includes parenting and relationship education, community leadership training, the development of volunteering and support for local solutions to local problems. The Strategy will be implemented in partnership with the business and community sectors.

## **Parenting Payment Intervention Pilot**

In early 2000, a pilot was established to test the impact of intervention strategies on Parenting Payment<sup>3</sup> customers who are, or have the potential to become, long term income support reliant. The intervention strategies used were similar to those pursued under the voluntary Jobs, Education and Training (JET) program but with a more structured and activist approach.

Four target groups were selected among a sample of some 5,200 customers with no current earnings on their file, no history of use of the JET program and no child for whom Child Disability Allowance is paid. The four target groups were:

- long term Parenting Payment (Single) customers receiving payment for over 5 years
- customers recently granted Parenting Payment in the last four months
- customers with a youngest child aged 12 to 15
- customers receiving Parenting Payment (Partnered) for over one year with a partner on Newstart Allowance for more than 6 months.

The pilot involved a face to face interview and a follow-up phone interview conducted by Centrelink JET Advisers. The effectiveness of compulsory versus voluntary participation in the interview was tested by requiring some customers to attend a payment entitlement interview, after which they were invited to stay for a JET interview. A further group was invited by letter to attend a JET interview on a voluntary basis.

Consistent with the UK experience of the prototype New Deal for Lone Parents, attendance at an interview was much higher under a compulsory approach with 81 per cent attending the interview compared with only 17 per cent under the voluntary approach.

Reactions of customers who participated in the interview were generally positive. Just over 70 per cent reported that they had gained a better understanding of available assistance and 78 per cent reported that the interview helped them to think about their future. Almost one-third of participants reported that the interview had helped them to change their plans to increase their level of economic participation

The main barrier to participation reported by participants was a lack of work skills (50 per cent). Some eight per cent of the Parenting Payment single customers reported never having worked and some 16 per cent of the Parenting Payment customers with Newstart partners reported never having worked.

Almost half the participants planned to be in work within two years, a significant number planned to do further training (25 per cent) and around 25 per cent expected

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<sup>3</sup> Parenting Payment is paid to lone parents and partnered parents with a dependent child under 16 years of age. Parenting Payment (single) is paid under pension conditions to lone parents whilst Parenting Payment (partnered) is paid under allowance conditions with a slightly more generous income test than unemployment payments (Newstart Allowance). Once the youngest child of a Parenting Payee turns 16, the parent must claim another payment, such as Newstart Allowance.

to be doing voluntary work. Of significant concern was the finding that the group approaching loss of Parenting Payment when their youngest child turned 16 had lower levels of workforce aspiration and around one third of this group had not thought about what they would do when their youngest child reached 16.

There was strong support from pilot participants for the approach trialed. Around 85 per cent of participants reporting support for compulsory interviews for all or some Parenting Payment customers. Support for activity requirements was also high from those who were interviewed with 66 per cent of respondents agreeing or strongly agreeing that an activity should be required in addition to parenting.

The long-term results of the pilot will be followed up with longitudinal tracking of participants subsequent income support receipt and labour force participation.

### **3.2 The Australian welfare reform process**

In October 1999, the Australian Government commissioned a review of social security arrangements and related services. In establishing the Review the Government emphasised that it desired an evaluation of how well placed the existing system was to meet the challenges of 21<sup>st</sup> Century. Australia now spends around \$50 billion per annum on social welfare payment and services in the FaCS portfolio, of which \$38 billion is on income support. Forward estimates indicate that this expenditure will grow by around 21 per cent over the next three years. While the sustainability of the system in the longer term is a concern, the Government also made it clear that it was not seeking short-term savings through cutting benefits or limiting entitlements. A significant concern was the high incidence of joblessness among families with children in Australia and emerging evidence about the intergenerational impacts for children growing up in jobless families.

An additional driver was the aging of the population. The Australian population, in common with many other countries, is getting steadily older and older people tend to need more support than younger people. The Australian Bureau of Statistics estimates that in twenty years time there will be about four million people aged over 65, compared with less than two and a half million now. Increasing trends of early retirement – both voluntary and involuntary – have also led Government to increase the emphasis on encouraging people to maximise their capacity for self-reliance through the lifecycle.

The purpose of the review was to develop policies and strategies that strike a better balance between providing a strong safety net and allowing all Australians to participate fully in the workforce where they are able. A Reference Group, with representatives from the community sector, business, academia and government, was commissioned to report to the Government initially in March 2000 and present its final report in July 2000 with recommendations on reform proposals. The final report, *Participation Support for a More Equitable Society* (Reference Group on Welfare Reform 2000) was published in August 2000.

### **3.3 Piloting new approaches**

Pending receipt of the Reference Group's final report, the Government established some pilots which will provide additional assistance (and in some cases requirements)

for those at risk of long-term welfare dependence. This approach is consistent with the OECD's suggestion that pilots and evaluation should proceed full-scale implementations of interventions.

Government policy encouraging economic participation has in the past been on two main fronts. On the one hand, assistance has been provided on a voluntary basis to some groups likely to benefit from investment in work-related skills (for instance lone parents). On the other hand, activity tests are applied stringently to ensure those able to work are actively pursuing employment opportunities.

More recently, the focus has turned to more active forms of assistance. In the most recent Budget the government announced several pilots of different approaches to increasing social and economic participation among income support recipients and those at risk of long term dependency in the future. These pilots aim to increase levels of economic and social participation among people who are at risk of long-term reliance on income support and who may benefit from earlier access to services or alternative approaches to building their capacities for participation. Each of these trials will involve a face to face interview, referral to existing services where appropriate and development of a participation plan. The pilots will also test the provision of up to \$500 in discretionary funds for services or items to assist with a return to work. This approach may offer a cost-effective way of empowering recipients to identify their own pathways out of welfare. More detail on the pilots is at Attachment B.

### **Disability Assessment and Work Capacity Trial**

In addition to the above pilots, the Government is testing different approaches to identifying capacity for participation among people with disabilities and proving interventions from a broader group of service providers. This trial seeks to test whether a new approach for people with a disability, including a more detailed assessment of an individual's capacity for work, leads to better targeting of existing interventions and improves outcomes. Participants will be drawn from Disability Support Pension claimants and recipients of unemployment payments (Newstart) who have disabilities. The trial will also test the capacity of the non-government sector to provide rehabilitation services in cases where rehabilitation is considered appropriate.

### **3.4 Findings and Recommendations of the Reference Group**

The Final Report of the Reference Group on Welfare Reform advocated the need to overhaul the whole welfare system (both income support and services) and refocus it on participation. It rejected approaches based on restricting access to payments or time limits for eligibility. However the Reference Group also acknowledged that the poverty alleviation goal of the social safety net may have been over-emphasised and that the current system was failing many of those it had been designed to help because there had been insufficient emphasis on the welfare to work transition:

“Australia's social support system should activate, enhance and support people's capacities for economic and social participation.” (Reference Group on Welfare Reform March 2000)

Particular problems identified with the system included:

- Fragmented service delivery arrangements which are not sufficiently focussed on participation goals for all people of workforce age;
- A rigid, categorical and complex array of payments which relies heavily on presumptions of capacity for participation and doesn't recognise the diversity of each individual's capacity and circumstances;
- Poor incentives and support for some forms of work
- Insufficient recognition of the many forms in which people make a contribution, including social participation.

The final report argued that welfare reform was a community wide issue that needed commitment from business and the broader community as well as government in order to be successful. A long term vision for a new participation support system was developed by the Reference Group which included the following five key features:

- ❖ Individualised service delivery
- ❖ Simpler income support structure
- ❖ Incentives and financial assistance
- ❖ Mutual Obligation
- ❖ Social Partnerships

The Reference Group argued in their final report that each of these features required attention both to achieve balance between additional facilitation, incentives and requirement and to maximise the likely outcomes of welfare to work initiatives.

### **Individualised service delivery**

The approach to service delivery and service provision advocated by the Reference Group would focus on individual capacities and outcomes, rather than payment category, when determining access to services and assistance. The new service delivery system set out in the final report seeks to link the disparate parts of the current service delivery network through a central gateway for assessment and streaming, backed up with integrated Information Technology management and reporting systems.

Streaming to one of three levels of service provision would depend upon a person's assessed labour force disadvantage and likely risk of long term dependence, along with the likelihood of achieving an outcome. This system would require much more sophisticated assessment and profiling tools than are currently available.

The report envisages that around 75 per cent of people would be referred to the base level of assistance that offered self-help and information provision. Typically people in this tier would include those who are job ready or participating in education and

need no specific assistance, those who are caring or parenting and not yet ready for economic participation and those for whom an outcome is considered remote.

The second tier is titled low-level brokerage and would encompass those people who need to be linked to available service or require additional help with planning.

The most intensive tier - high-level brokerage - would offer individualised assistance to those who are not yet job ready or who have multiple barriers to assistance but for whom an outcome is considered likely with the provision of such assistance.

A diagram of this conceptual model of the service delivery system is at Attachment B.

The challenges for government thrown up by this model include:

- The development of better assessment and profiling tools to aid streaming and rationing of services
- Determining likely outcomes for people with more complex needs
- Incorporating access to social participation opportunities (eg volunteer work) within the model
- Providing a degree of integration across disparate Commonwealth, State and non-government service providers and agencies
- Determining appropriate funding regimes – input, output or outcome based
- Privacy concerns with more integration of IT networks
- Identifying agencies best placed to carry out the roles of gateway, low level broker and high level broker
- Appropriate risk management and assurance frameworks.

### **Simpler income support structure**

The Reference Group found a number of shortcomings with the categorical system of income support available to people of workforce age in Australia. In particular the Reference Group argued that the system does not adequately recognise the individual variation in circumstances and capacity among people receiving income support nor does it support the transitions that people make across their life course, for example, from being a primary carer back into the labour market. The Reference Group also identified some unintended behavioural incentives, including incentives to reduce work effort in order to meet eligibility rules for more generous pensions and/or non-activity tested allowances (such as Disability Support Pension or Widow Allowance). Complexity of the arrangements was also noted as creating confusion for staff administering the system as well as claimants. The table overleaf sets out some of the main differences between payments for people of workforce age in the Australia welfare system:

The Reference Group recommended that, in the longer term, the categorical system of pensions and allowances should be replaced with an integrated payment structure for all people of workforce age. The nature of this payment structure would be a conditional minimum income (or participation income) model with a base rate and supplementary add-on modules to address various additional needs such as:

- The costs of children
- The additional cost of living as the only adult in a household
- Additional costs of a lone parent or single income family
- Costs of childcare
- Housing costs above some specified level
- Costs of disability
- Remote area costs

**Table 2. 4 Summary of main workforce age payments - rates and income tests**

<b>PAYMENT CATEGORY</b>	<b>BASIC RATES OF PAYMENT (\$PF)</b>	<b>INCOME TESTS (\$PF)</b>
<b>PENSIONS</b> Age Pension Disability Support Pension Carer Payment Parenting Payment (Single) Mature Age Allowance/ Mature Age Partner Allowance (granted before July 1996)	Single: 386.90 Partnered: 322.90 <u>Single DSP under 21, no children</u> < 18, at home: 233.40* < 18, independent: 333.70* 18-20, at home: 264.50* 18-20, independent: 360.60*	Free Area: 106 (single) 188 (couple) plus 24.60 per child Taper: 40% of income above free area (20% for each of a couple)
<b>ALLOWANCES</b> Newstart Allowance Sickness Allowance Widow Allowance Partner Allowance Mature Age Allowance (granted after July 1996)	Single, no children: 344.90 Single, with children or Single, 60+ years, 9+ mths duration: 373.00 Partnered: 311.10	Free Area: 62 Tapers: 50% of income between 62 and 142 70% of income above 142 <u>Partner income test:</u> Free area 530 Taper: 70%
<b>PARENTING PAYMENT (PARTNERED)</b>	311.10	As for allowances, except 50% taper applies between 62 and 245
<b>AUSTUDY PAYMENT</b>	Single or Partnered, no children: 281.10 Single, with children: 368.30 Partnered, children: 308.70 <u>Previously long-term unemployed</u> Single: 341.40 Partnered: 308.70	Free Area: 236 Tapers: 50% of income 236 and 316 70% of income above 316 'Income bank' of unused free area up to \$6,000
<b>YOUTH ALLOWANCE</b>	Single, 16-17 at home: 153.90 Single, 18+ at home: 185.00 Single, not at home or Partnered, no children: 281.10 Single, with children: 368.30 Partnered, children: 308.70 <u>Previously long-term unemployed 21+</u> Single, at home: 227.20 Single, not at home: 341.40 Partnered: 308.70	Full-time students – as for Austudy Payment Other – as for Allowances Parental income test applies if not independent.
<b>SPECIAL BENEFIT</b>	Newstart or Youth Allowance rates apply.	No Free Area Benefit reduced by \$1 for every \$1 of income.

\* Includes Youth Disability Supplement of 79.50

In addition to these forms of support, a participation supplement was also suggested as either a fortnightly payment (which could build up as a lump sum in an “account”) to address the additional costs of some forms of economic participation (eg education, voluntary work, etc).

In addition to standardising rates (which are at present some \$21 per week higher for single adults receiving pensions rather than allowances), the Reference Group also recommended adopting a consistent approach to means testing, indexation and taxation treatment of workforce age payments.

The long-term nature of this goal is highlighted by the likely costs involved and the difficult balances government would need to consider in implementing a more integrated payment structure. For example, aligning allowance rates with those of pensions would cost upwards of \$1 billion per annum. In addition, the issue of coverage arises because at present full-time workers and the self-employed are generally excluded from receiving unemployment payments because of their inability to meet the test of seeking and being available for suitable paid work. Removal of sharp distinctions between the “unemployed” and other participants as a basis for payment would bring this issue to the fore.

The Reference Group also identified some possible initial steps towards a more integrated payment structure:

- Amalgamating allowance payments for mature age jobless people (Widow Allowance, Mature Age Allowance, Partner Allowance and Newstart Allowance) into one payment with appropriate requirements for participation and additional employment assistance to be made available; and
- Integrating payments for adults who are unemployed, temporarily incapacitated and adult students (Newstart Allowance, Sickness Allowance and Austudy Payment) into a unified structure.

### **Incentives and financial assistance**

One of the strengths of the Australia welfare system identified by the Reference Group is its broad coverage of needy people at low costs. However, the tight targeting which accompanies its design was also identified as creating some workforce disincentives and resulting in some black spots of inadequate rewards for some forms of work or workforce disincentives for families in some specific circumstances.

The Reference Group recommended improved incentives for part-time work through liberalising means tests for people currently receiving allowance payments to approach the withdrawal rates for people currently receiving pension payments (40 cents in the dollar). However, that too large a reduction in withdrawal rates might reduce the incentive for welfare recipients to take up full-time work, unless eligibility for income support was extended to full-time workers and the self-employed (a very costly option) or some other form of in-work benefits were also made available.

A further issue arises because of the interaction between income support and family assistance cut-outs. If the pension income test were adopted for all workforce age payments, there would be a sudden death loss of family assistance once people lost their

eligibility for basic income support. The cost of increasing the cut-out point for Family Tax Benefit to remove this overlap would be prohibitive.

As well as the issue of cost, the Reference Group also acknowledged that the likely behavioural responses to the approaches canvassed above are very uncertain. Consequently, the Final Report advocates a tentative approach to making work pay with pilots to test different approaches to in-work benefits and targeting the costs of the transition to work, rather than big bang solutions.

Priorities for early attention and piloting included:

- Participation supplements/accounts to meet the costs of economic participation such as education, training, transport, etc, which could be drawn fortnightly and “banked: into an account to be drawn on at a later date for larger expenditure, including a possible wage subsidy.
- Return to work bonuses along the lines of the Canadian Self Sufficiency Project earnings supplements.
- Measures to reduce the very high effective marginal tax rates faced by public housing tenants whose rent rebates are reassessed when they return to work and stack on top of pension and allowance withdrawal rates.
- Income-contingent loans to cover the costs of more expensive activities, such as private training courses, setting up small businesses, etc.

In response to strong representations from many submissions, the Reference Group also recommended that a transition bank be implemented to improve the return from intermittent and casual work by smoothing the impact of the income test.<sup>4</sup>

A strong theme of the Reference Group’s consideration of financial incentives was the need to improve the evidence base for the behavioural impacts of improved financial incentives. Associated with this was the recognition that positive financial incentives need to be “sold” to income support recipients through effective service delivery mechanisms.

### **Mutual obligations**

The reference group adopted a very broad notion of mutual obligations as the conceptual basis for the participation support system. Within this model, government, business, communities, non-government organisations and individuals were seen as having social obligations to society at large. The reference group argued that each of these has a role to play in enabling people to move from welfare to work and additional efforts would be needed from each to implement welfare reform.

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<sup>4</sup> A transition bank would allow income support recipients with seasonal or intermittent casual work to build up a “bank” of unused income test free areas over time. Once they undertake work, their income is offset against this bank until the balance is reduced to nil thus evening out the impact of income tests on intermittent earnings. If extended to people who return to permanent full-time work, the transition bank could also act as a return to work bonus by providing income support for a short period (one or two fortnights) after a person has returned to work.

The final report also differentiates between obligations that are societal expectations and those that are requirements, enshrined in legislation. Strategies for achieving voluntary compliance from each of these parties were also seen as important with sanctions only to be used as a last resort.

The Reference Group identified the Government's obligations as managing the economy, maintaining a strong social safety net, investing in individual and community capacity building and expanding its leadership role in providing opportunities for disadvantaged people.

The Final Report argues very strongly for additional effort from business in providing employment opportunities for people who experience discrimination, including Indigenous people, mature age workers, people with disabilities and workers with family responsibilities. In addition the notion of corporate social responsibility and the triple bottom line were identified as areas for further development.

The role of communities in tackling social and economic exclusion within a social capital building framework was also canvassed by the Reference Group, which argued that particularly disadvantaged communities in depressed regions need additional support from government to tackle joblessness and create opportunities for participation.

The final report of the Reference Group on welfare reform advocates a framework of mutual obligations to encompass all people of workforce age receiving income support. Within this framework, people with the capacity and availability would be expected to undertake some form of economic participation with a return to work goal. Others with substantial caring responsibilities or with permanent incapacities would not be required to participate economically but their social participation would be seen as discharging their mutual obligation.

In some circumstances it is envisaged that people could choose social participation as a substitute for economic participation or as a pathway towards economic participation (eg voluntary work) but they would not be required to undertake social participation for its own sake (eg workfare programs). The fundamental approach taken to mutual obligation was to tailor requirements (if any) to a person's specific individual capacities and circumstances within the context of their community and family.

In developing this approach the Reference Group cited evidence of wide community support for appropriate forms of participation as the basis of income support receipt for those with capacity. They were also influenced by evidence that income support recipients generally wish to participate themselves. There is a strong emphasis in the report on strategies to obtain voluntary compliance and enabling people to choose their own pathway to participation but the Reference Group also argues the need for sanctions such as suspension or withdrawal of income support as a last resort.

As initial steps towards implementing this framework the Reference Group recommended starting with requirements for mature age jobless people and Parenting Payment recipients and then for people with disabilities, taking account of the outcomes of the Government's Assessment and Contestability Trial mentioned earlier in this paper.

The recommendations in respect of parents have, perhaps, drawn most attention. At present Parenting Payment is a means-tested income support payment available free of any work test or activity requirement to parents with dependent children under the age of 16. Recipients are encouraged to voluntarily participate in the Jobs Education and Training program and lone parents may receive additional assistance in the form of a \$30 per week supplement to pension if they are undertaking an eligible course of study. While the JET program is popular with participants and the community, it tends not to be taken up by parents who are at greatest risk of long term income support recipients and is not particularly well-focussed on costing and tracking outcomes.

Once a Parenting Payee's youngest child turns 16, the parent loses eligibility for this form of support. Unless they are qualified for another non-activity tested payment, the parent is transferred to unemployment payments where they face both a significant reduction in their income support and have to meet an activity test, perhaps after many years out of the labour market

The experience of the Parenting Payment Intervention Pilot informed the Reference Group's decision to recommend that:

- Parents with pre-school age children be regarded as fulfilling their mutual obligation through their parenting role and not required to undertake any additional activity;
- Parents whose children have entered primary school be required to attend an annual face to face interview to discuss their future plans for participation and link them to available assistance on a voluntary basis;
- Parents of secondary school aged children (13 and older) be required both to attend the annual interview and enter into a part-time participation plan to undertake job-search, training, education or other preparation for work activities.

These recommendations are less demanding than survey evidence suggests would be supported in the wider Australian community. Nevertheless, commentary to date from a number of church and welfare organisations has been highly critical of this recommendation and has argued (erroneously) that it will single out lone parents for additional requirements. Many social commentators have perceived it as a reasonable requirement given the patterns of mothers' labour force participation currently now widespread in the community. Some have questioned whether waiting until children are in secondary school provides enough scope for prevention and early intervention for those parents and children at greatest risk of long term welfare dependency.

### **Social partners hips.**

The Reference Group identified social partnerships as an important strategy for building the capacity of communities to solve their own problems and provide greater opportunities for economic and social participation. This was seen as especially important in regions of concentrated disadvantage and joblessness. Four important processes in community capacity building are identified in the final report:

- Community economic development
- Community-business partnerships

- Social entrepreneurship
- Fostering micro-business

The Reference Group's emphasis on social partnerships and the community level domain was influenced by their belief that strong stocks of social capital can counter social and economic exclusion and provide additional resources to disadvantaged communities and individuals. In addition, the Reference Group identified the need to invest both at the community and individual level and the benefits of social participation for building individual's capacities for participation. Social entrepreneurship, community business partnerships and micro-business were all seen as means of increasing the available opportunities for social and economic participation.

These strategies were seen as particularly important for Indigenous communities, young people and those at great risk of marginalisation from the economic and social life of the nation.

### **3.4 The way forward**

The Final Report of the Reference Group on Welfare Reform sets out an agenda for welfare to work policies, rather than a blueprint. It acknowledges the need for more research, modelling and evaluation before full-scale implementation of a participation support system. It also identifies some of the difficult choices government will confront in refining its welfare to work policy approach.

The report has been broadly welcomed by the Government and cautiously supported by the Opposition and minor parties. The welfare sector has also been supportive of the themes and general findings of the Final Report, and has emphasised that it wishes Government to implement a balanced package across the five key features. The welfare reform process in Australia also appears to have galvanised community opinion that the current system is too passive and should seek to activate a return to work earlier among people on welfare rather than leaving the issue of when and whether to participate up to individual recipients.

The Government has committed itself to a "whole of Government" consideration of the Final Report of the Reference Group on welfare reform with an initial response due by the end of this year. An inter-Departmental Committee chaired by FaCS with representation from the central agencies, the Department of Workplace Relations, Employment and Small Business and the Department of Education, Training and Youth Affairs, is already meeting to refine the policy approaches and suggest responses to the specific recommendations. Dialogue with State Governments, business, service providers in the non-government sector and peak welfare organisations will also be necessary if the vision of the Reference Group is to be achieved.

## Reference Group on Welfare Reform

### Terms of Reference

1. The Government wishes to provide ways of assisting people who are disadvantaged that strike a better balance between its ongoing commitment to maintain a strong safety net and its responsibility to develop policies and strategies allowing all Australians to participate fully in the workforce where they are able. In this context, the Government is concerned that there is an increasing reliance by Australians on welfare, with around 1 in 5 people of workforce age on income support payments.

2. Six principles have been identified in order to guide the reform required in this area:

- Maintaining equity, simplicity, transparency and sustainability;
- Establishing better incentives for people receiving social security payments, so that work, education and training are rewarded;
- Creating greater opportunities for people to increase self-reliance and capacity-building, rather than merely providing a passive safety net;
- Expecting people on income support to help themselves and contribute to society through increased social and economic participation in a framework of Mutual Obligation;
- Providing choices and support for individuals and families with more tailored assistance that focuses on prevention and early intervention; and
- Maintaining the Government's disciplined approach to fiscal policy.

3. To ensure a process of consultation with the community, the Government has established a Reference Group comprised of representatives from the community sector, business, academia and government. The Group will provide advice to enable the Government to develop a comprehensive Green Paper on welfare reform.

4. The Reference Group has the following terms of reference:

- a) Adopting the reform principles established by the Government, provide advice on:
- i. Options for change to income support arrangements aimed at preventing and reducing welfare dependency by those of workforce age; and
  - ii. Other options relating to the provision of associated services, including employment, education and training, that would assist in preventing and reducing welfare dependency.

**b) In providing this advice, the Reference Group will give particular consideration to:**

- i. the broader application of Mutual Obligation;
- ii. demographic changes;
- iii. sustainability of the current system;
- iv. the particular incentive effects associated with the design of social security payments for people of workforce age; and
- v. international best practice.

c) In framing its advice the Reference Group will draw on community input and call for submissions from interest groups and the broader community.

**5. An interim Report from the Reference Group will be provided to the Minister for Family and Community Services early in the year 2000, with the final draft to be provided to the Minister by 30 June 2000.**

**Budget Welfare Reform Pilots**

**Mature Age Participation Pilot**

This initiative will test a new approach to mature aged people without jobs. The project will test the extent to which certain groups of older working age people face barriers to greater economic and social participation, and will also explore the feasibility and effectiveness of a range of approaches to assist these people to be more active in work and community life.

Participants will be interviewed to assess their circumstances and their job readiness, to identify barriers to work and other assistance needs. Participants and their interviewers will jointly develop a participation plan, which will set out an agreed form of activity. A feature of this pilot is to provide early intervention for people not yet eligible for income support (due to a waiting period or redundancy payment) but who are at risk of future welfare reliance.

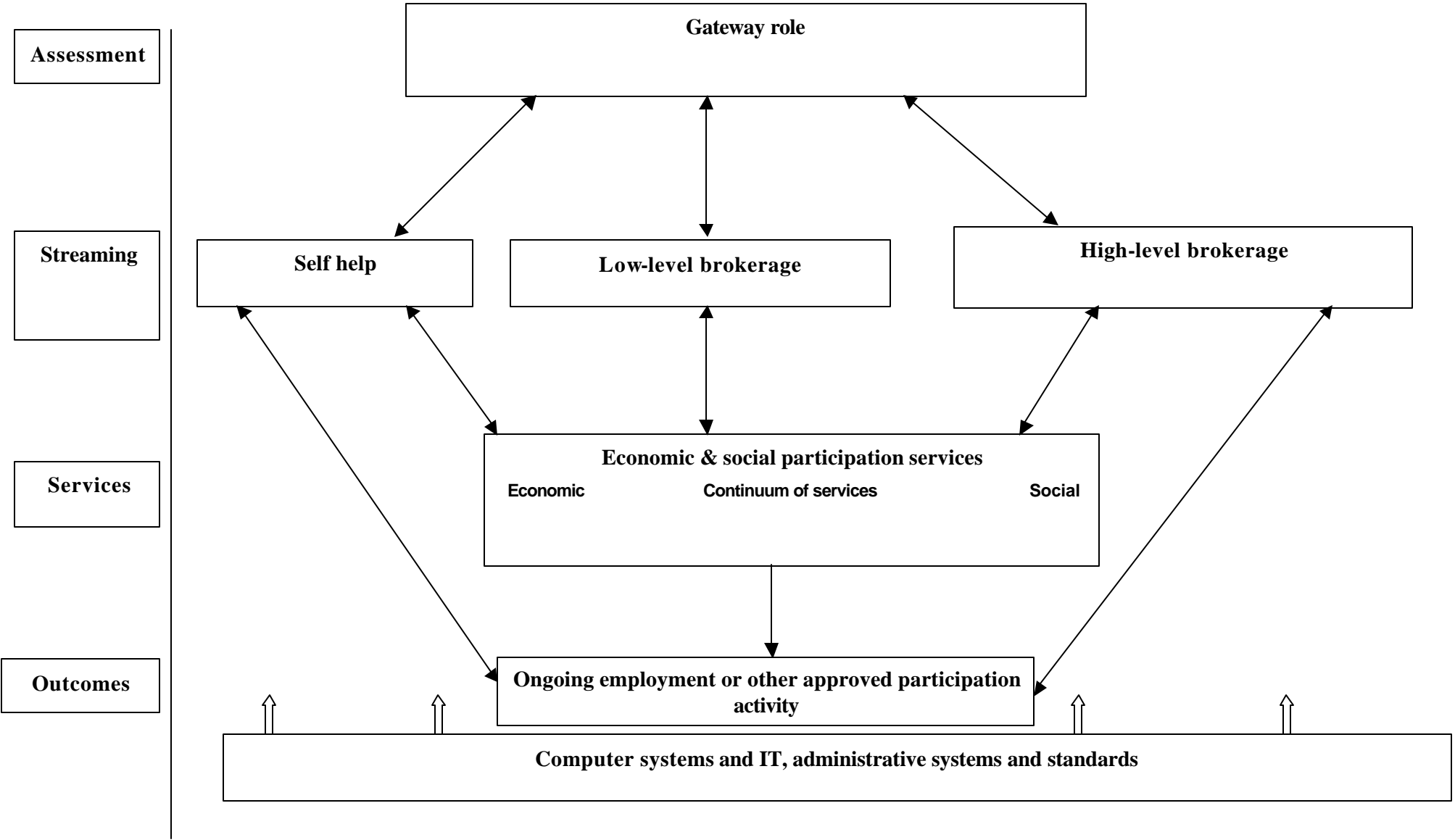
**Workless Families Pilot**

This pilot will test approaches to facilitate economic and social participation amongst workless families with school age children. The pilot has two areas of focus: workless couples and workless people with repeated transitions between single and partnered income support payment types. The pilot will focus on interviews with parents designed to assist identifying barriers, plan participation and help people balance care of children with work.

**Tailored Assistance for the Very Long-Term Unemployed Pilot**

This pilot will test a number of intervention strategies for people on Newstart Allowance with an income support duration of 5 years or more. Pilot sites will be in urban, rural and regional areas with different socio-economic and geographic profiles.

Pilot participants will attend an interview that will offer a personalised, intensive assessment of their current circumstances, their barriers to returning to work, and their goals and aspirations. An important focus will be to facilitate better linkages with a range of existing programs and agencies that can help people in this group.



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