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Rethinking employment assistance to strengthen social and economic participation

**A Paper presented by Michael Horn, Senior Manager, Research & Policy,
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At the end of December last year, the new Minister for Employment Participation, Brendan O'Connor, invited submissions on Australia's employment assistance system from contracted service providers and other interested stakeholders. The contracts for the Job Network and related specialist programs expire in mid 2009. Time is therefore short for the new Government to design and implement possible changes to the current system.

The Brotherhood believes there is a clear economic imperative for significant reform to ensure that the new model of assistance is both appropriate and effective for the emerging labour market. Despite the current downturn in the United States, we still have a unique opportunity to invest in building the skills and capabilities of the unemployed and underemployed to enable them to take up job opportunities, meet employer needs and contribute to a more productive society.

Contrary to the opinions of a few commentators, the Brotherhood's experience tells us that increasing the emphasis on human capital development, that includes training and educating those with low skills, will not be a waste of resources. Claims that the pool of unemployed are too dumb to train for the jobs on offer do not stand up to scrutiny and are morally hollow.

The purpose of this paper is to set out a case for substantive reform of the current system, to propose core principles for strengthening employment assistance so that it is based on evidence of what works best, rather than on ideology, and finally to outline approaches for integrating employment assistance into a social inclusion framework.

The Job Network was created by the Howard Government in the 1997 as the key plank to providing more effective and efficient employment services to job seekers through the competitive contracting out of service delivery to the private sector. When the Job Network was conceived in 1996, there were 825,000 unemployed job seekers on Newstart or Youth Allowances compared with just under 500,000 a decade later in August 2007.¹ The Job Network has played a significant role through this period in assisting those who are 'job ready' to re-enter the workforce. However, the model was designed for labour market conditions that no longer exist. It was also based on the 'work first' philosophy that emphasises a strong activation approach to motivate the unemployed to take up any job that will get them off benefits.

The strength of the economy over the past 15 years has gradually absorbed those unemployed with prior work experience and reasonably competitive skills into jobs. Despite economists assuming that 5% unemployment would equal *full* employment, the overall unemployment rate is now hovering at 4%.² This has been a good news story.

However, there are still about 450,000 unemployed Australians at present.² Just as important, a larger number of *underemployed* workers (544,000 in September 2006) are seeking more work, while another 93,000 people are discouraged job seekers who are marginally attached to the workforce. There are therefore still over 1 million Australians of working age who are either unemployed or are seeking more work. The *underutilisation* rate is about 10 per cent -

double the official unemployment rate in any given month. Further, the *underemployment* rate has remained at about 5% throughout the period of sustained economic growth.³

These figures indicate the extent of the untapped potential to improve our economic productivity - if policy reforms are better targeted to build on job seeker aspirations. And these statistics do not include a substantial number of people with disabilities or on parenting payments who could be gainfully employed if given the right support.

Yet business groups and employers have become increasingly concerned about growing labour shortages resulting from the economic boom and longer-term demographic change. This has led to calls for new approaches to increase the basic skills and job readiness of the unemployed, thereby increasing the aggregate workforce participation rate.⁴

The fundamental changes to our labour market, with increased reliance on service industries and a growing knowledge-based economy, require far higher qualifications and technical skills. Those job seekers with poor education, low competencies and minimal work experience rely on low-skilled entry-level job opportunities.⁵ Demand for low-skilled labour has declined both in Australia and overseas - nearly three-quarters of new jobs in the period 1990–2003 were taken up by university graduates. Only one in eight of the jobs went to job seekers without post-school qualifications.⁶

The pool of longer term unemployed have little or no work experience, poor education and weak vocational skills. Nearly one quarter (22%) of the 760,000 clients in the Job Network have been on benefits for over 3 years.⁷ Over half (55%) of Work for the Dole participants (93,000 commencements annually) have been on income support for over 2 years, with over one in five commencements having less than Year 10 education. In the case of the Personal Support Program (PSP), nearly one third of participants have less than Year 10 education.⁸

The majority of disadvantaged job seekers face multiple barriers to obtaining work. Long-running factors such as family conflict and breakdown, homelessness, poor health and other personal barriers have often prevented them from completing school or training. An evaluation of the national Reconnect program found that a third of young teenagers assisted by services had been suspended from school, with 9% having been expelled from one or more schools.⁹

Of particular importance is the high level of mental health problems amongst the unemployed. Butterworth found that 57% of long-term welfare recipients reported depression, and about 15% suffered from post-traumatic stress disorder. Among the unemployed generally, 34% were suffering from an anxiety, depressive or substance use disorder.¹⁰ More specifically, in the pre-employment program – the Personal Support Program (PSP) – research has found a prevalence rate of nearly 80% having mental health problems.¹¹

The Brotherhood believes that with the right mix of integrated training, work experience and personal support, the majority of disadvantaged job seekers can take up jobs in the emerging labour market.

To be effective, such investment in education and skills building must take into account the social context that influences attendance and commitment to learning for those from such disadvantaged circumstances.

Yet, Australia has lagged behind global best practice in investment in people and communities over the past decade across education, skills building and active labour market programs. For example Australia spends only 0.04% of GDP on vocational training, compared with Denmark which spends 13 times more and New Zealand which spends 4 times more.¹²

Limitations of the current system

The Brotherhood's analysis of the employment assistance system, including the Job Network and specialist pre-employment, mutual obligation and support programs, points to substantial weaknesses and inefficiencies:

- Service providers have become burdened with ever-increasing regulation and contractual obligations.
- Disadvantaged and marginalised job seekers are overwhelmed by compliance obligations and penalties.
- Clients with greatest need do not receive higher levels of resources.
- The service system has become increasingly fragmented, complex and inefficient.
- The complex payments structure has led to skewed incentives and perverse outcomes.
- The competitive quasi-market model has limited collaboration and partnership, stifling innovation.

As a consequence of the above limitations, outcomes for disadvantaged job seekers fall well short of what should be achieved.

Analysis by DEEWR of selected performance indicators has indicated that the Job Network achieves comparable outcomes to previous forms of assistance (for example under Working Nation), that it has improved its performance over time, and that these results have been achieved at lower unit cost per job outcome.¹³

The employment outcomes (3 months post-exit) achieved by selected programs of the current system are summarised in Table 1. Focusing on those job seekers with significant barriers to employment assisted by the Job Network, the performance measured by placement in full time work, for example, is relatively poor: 18% of Intensive Support customised assistance 1 (ISca1) clients in the Job Network and 12% for ISca 2 clients. Less than half of all Job Network ISca participants achieve an employment outcome, including part-time work.¹⁴

Whilst the primary objective of Work for the Dole is to 'develop the work habits of participants', 59% remain unemployed and despite the obvious low level of education and skills of this group, only one in ten take up training places. The Personal Support Programme (PSP) was originally created as a 'pre-employment' program for those not ready to engage in Job Network assistance: only 17% of participants gain employment. Of greater concern is the low level of participation in education or training considering the period of time in PSP is typically 2 years.

Table 1: Labour market assistance outcomes*, 12 months to March 2007

Labour market program	Employed full time %	Employed part-time %	Unemployed %	Education and training %	Job seeker exits
ISca 1	18.4	28.0	39.6	13.3	186,436
ISca 2	11.9	28.8	48.8	11.5	81,652
WfD	13.5	17.2	59.2	10.8	95,368
PSP	6.3	10.7	39.4	7.3	28,150

* Outcomes are measured 3 months after exit from program.¹⁵

The sequential nature of assistance renders it difficult to assess the real effectiveness of the overall system, as we cannot account for multiple spells spent in the various programs over time, often interspersed with periods of medical incapacity or short-term/casual work.

It is of concern that effectiveness measurement to date has relied on a narrow definition of outcomes, especially in relation to vulnerable and marginalised job seekers. A successful pathway to *sustainable* employment requires a range of social and work-focused gains to be accrued for this population. A narrow focus on a 3-month job outcome ignores the prospect of a return to income support when the job ends. The underlying aim to reduce the number of income support recipients ('off-benefit outcomes') through robust active participation requirements and penalties, on the assumption of significant levels of dependency, can produce a perverse outcome in the increasing disengagement and marginalisation of vulnerable unemployed people. There is some evidence of this occurring.

In summary, the measured outcomes rates are less than optimal when considered in the context of a sustained employment boom and emerging labour shortages.

In the absence of more detailed longitudinal data analysis for disadvantaged job seekers, tracing their spells through the range of sequential assistance in the current system, we can still point to relatively poor outcomes for this category from community based research.

Surveys of welfare agency clients, who are long term unemployed and have multiple barriers to work, indicate poor outcomes and significant dissatisfaction with the Job Network.¹⁶ Considering their marginalised backgrounds, the 2007 Melbourne Citymission finding that over half the job seekers had not participated in any employment or training programs in the previous two years was especially worrying.

Whilst care must be taken in drawing strong conclusions from small-scale, local studies, this evidence supports other findings about the poor responsiveness of the current assistance system to the needs and circumstances of the more marginalised and vulnerable unemployed. This has been due in part to the perverse incentives built into the funding structure that discourages timely and effective investment in 'difficult-to-place' clients in Customised Assistance.¹⁷ It is also related to the proportionately lower investment in this category of job seekers over this period.

Increasingly complex and fragmented service system

The evolution of the current employment assistance system, including Centrelink's key role, has been punctuated by frequent contractual and administrative changes to maintain the viability of the partially privatised model, to address the emergent weaknesses (including perverse payments structure) and respond to the impact of the changing labour market on the flow of unemployed into the Job Network.

The changes may be characterised as radical shifts to both operational and administrative elements of the system, including for example:

- reconfiguration of the assessment and referral processes that lowered the proportion of highly disadvantaged clients in the system
- introduction of tied budget allocations to stimulate investment in training and other assistance (Job Seeker Account)
- iterative strengthening of mutual obligation requirements, including the introduction of Active Participation
- redesign of quality and performance framework, including eventual introduction of the Star Rating system

- replacement of competitive price setting by fixed service fees for Intensive Assistance
- increasing the pool of job seekers in the system through ‘welfare to work’ reforms aimed at those with disabilities, sole parents and mature aged workers
- including specialist or targeted assistance programs (for example PSP) under the ‘work first’ umbrella, with active participation requirements extended to highly disadvantaged categories of unemployed
- upgrading of data collection and reporting systems
- increased prescription and micro-management of service delivery processes.

The changes have substantially increased the fragmentation and complexity of the overall system, undermined the confidence of providers, and increased the expenditure on program monitoring and compliance of both funded providers and Centrelink. This level of control and regulation has led to problems of perverse incentives that ultimately increase inefficiencies (greater proportion of expenditure expended on monitoring contractual performance and micro-management) and distorted outcomes (parking and churning of highly disadvantaged clients).

We would also argue that the partially privatised and heavily administered system has restricted collaboration and sharing of best practice between providers and therefore stifled innovation—for example, through partnerships with employers and training organisations to develop more flexible, responsive and integrated services to match job seekers with emerging local labour shortages.

All parties are being affected by this extreme micro-management and the increasing insecurity of current arrangements. For example, the Chief Executive Officer of Centrelink recently reported to the Ombudsman that over half a million ‘participation failures’ had been reported to Centrelink staff for investigation in the first year of the welfare-to-work provisions (2006–07). This resulted from increased obligations on providers to document and report any non-compliance by job seekers, such as not turning up to an interview with their service provider. The waste of resources must be significant considering the low substantiation rate of less than half of reported failures.¹⁸

Inappropriate obligations placed on disadvantaged job seekers

There is general acceptance of the principle of mutual obligation: those of working age receiving income support payments should be expected to participate in training activities and to actively look for work. However, governments must ensure that any structural barriers to participation are removed, that job seekers have the opportunity to access support to resolve their barriers to employment and to take part in meaningful activities that build job skills.

There is little evidence to support either the strong activation requirements placed on disadvantaged job seekers or the harsh penalties imposed on individuals and families for non-compliance.

The recent Melbourne Citymission survey of its client group, who represent a sample of marginalised and vulnerable job seekers mainly using the Job Network, PSP and JPET, found that:

Over half of all participants had at some stage been breached or had their payments suspended by Centrelink. Of those currently living in insecure housing, 72% had experienced a suspension or breach at some stage. As a result of their breach or suspension, almost half of respondents were unable to pay for necessities such as food and a quarter were unable to pay for accommodation.¹⁹

The survey also found that 13% reported resorting to illegal activities such as petty theft and fare evasion, because of reduced income support payments.

The Howard Government's overly rigorous and punitive approach has been shown to have harmful impacts on those most in need of meaningful engagement and support.²⁰

Following the weight of evidence of the unfairness and inappropriateness of the former breaching regime, the most recent 'welfare to work' reforms (July 2006) softened key aspects of the provisions by creating two categories of non-compliance: 'serious' failures or 'participation' failures. In the latter case, a less critical non-compliance would not incur loss of income as long as the job seeker re-engaged as directed by Centrelink. Three participation failures in 12 months incur an eight-week withdrawal of benefits, as does any 'serious' failure.

In the first year to June 2007 under these new arrangements, a total of 15,109 people had their payments stopped for eight weeks.²¹ The number of participation failures has increased significantly as the new welfare-to-work compliance framework has been invoked—a 21% increase between September and December quarters in 2006—with the main reason for failure reported as not attending appointments with service providers.²² More recently, it has been reported that over 25,000 people have been penalised with 8 weeks' loss of their income support payments in the first 8 months of this financial year.²³

In this time of increasing labour shortages, approaches that rely on coercion and compulsion do little to build individual capabilities and skills leading to economic participation and a more productive economy.

The focus on strong activation requirements has been predicated on the underlying assumption that many unemployed people are reluctant to engage in genuine activities that will lead to work and going off benefits. However, there is strong evidence from Australia and overseas that unemployed people, even when facing severe and multiple barriers, have a strong desire to re-enter the workforce but are prevented by lack of appropriate support.²⁴

In addition to the lack of hard evidence to support the extreme activation strategy, especially in respect of highly disadvantaged job seekers, the present system ignores other disincentives or barriers to taking up work opportunities. These include financial disincentives (marginal tax rates and loss of entitlements), lack of transport and childcare (access or costs) as well as employer resistance to taking on disadvantaged job seekers.

Overseas evidence for policy reform in Australia

Overseas evidence indicates that a mixed approach balancing 'work first' strategies and the human capital development model works best. It is acknowledged that newly unemployed people and those who are job-ready should be encouraged to rejoin the workforce as quickly as possible to avoid loss of skills and minimise risk of dependency on income support. Engagement in real work experience is also important for vulnerable and marginalised job seekers. *But the focus should be on offering positive incentives, meaningful opportunities and continuity of support, with a line of sight to a sustainable employment outcome.*

In the UK, a key plank in the reforms introduced by the Labour Government—the New Deal employment assistance programs—is confronting the same dilemma, in that short-term assistance models based on 'work first' assumptions struggle to be effective for those with multiple barriers. Evidence is pointing to significant churning between spells of assistance and casual or short-term jobs that do not lead to sustainable employment.²⁵

The most recent UK reforms appear to adopt the mixed model of employment assistance. Elements appear to have been borrowed from the Australian approach that tighten access to disability benefits and increase obligations on income support beneficiaries to actively engage in employment programs. While strengthening the obligation on disadvantaged job seekers to actively seek work, it appears that the UK Government is also investing in human capital development approaches through better-resourced individualised and flexible assistance, skills building, together with financial incentives for job seekers to take up job opportunities (work credits).²⁶

Problems have also occurred overseas with disadvantaged job seekers not retaining jobs or advancing to more secure or better paying jobs once placed in work. This has led to the development of employment retention and advancement programs in the US, Canada, UK and Europe. The OECD has now recognised the need for ‘welfare in work’ policies to assist the low-paid in making work pay and to increase retention.²⁷

There are lessons here for Australia in considering the most appropriate balance of policy settings that will deliver sustainable outcomes to meet growing labour shortages and to increase the overall participation rate.

Key elements for a more effective and efficient system

There is therefore a strong imperative for fundamental reform of the current system. This requires a more collaborative approach that brings together contracted providers, Centrelink, employers and training organisations to deliver a model of integrated, flexible and individualised assistance focussed on highly disadvantaged job seekers.

We suggest 5 key principles for strengthening employment assistance for the next decade:

1. *Full assessment with effective engagement*
2. *Integrated support model of meaningful work experience, training and personal support*
3. *Emphasis on sustainable outcomes through in-work support (retention and advancement strategies)*
4. *Effective ‘work pays’ incentives for job seekers*
5. *Integration with a social inclusion framework*

The Brotherhood’s recent submission to the Minister proposes a reconfigured service system simplified into two main components:

- (1) short-term assistance to those unemployed who are job-ready or have minimal barriers to job sustainability
- (2) an intensive support program for those with significant or multiple barriers to taking up open employment.²⁸

The objective of short-term assistance is to provide new and recently unemployed with skills and support to obtain and sustain jobs—one of the core components of the Job Network. However, there is scope for improvement through a stronger engagement with employers to match job seekers to work opportunities and to ensure vocational training relates to aspirations and builds on existing skills relevant to their job search plan.

The second component of a simplified system would merge the range of pre-employment, support and mutual obligation programs (WfD, Green Corps, PSP, JPET and DEN) with Customised Assistance (JN) into a single intensive support program for highly disadvantaged

job seekers. Allocation of dollars to contracted providers would be based on a full assessment of individual barriers - including skills gaps.

The transaction-based performance framework should be replaced with a simplified contract arrangement that ensures minimum quality standards with a continuous improvement strategy. The heavy burden of regulation and contractual obligations on providers must be reduced to refocus resources and effort on direct service delivery. An increased proportion of resources should be invested in those most distant from sustainable employment.

A stronger emphasis should be placed on *sustainable* outcomes acknowledging the importance of post-placement support, through reconfiguration of program design, payments system and performance framework. A rethink is required on the array of active participation obligations and associated penalties on disadvantaged job seekers so as to encourage reengagement and participation, rather than exclusion and punishment.

The level of choice for job seekers needs to be increased through multiple entry points, flexible referral and easy access to services without long waiting periods. Intensive support providers should be resourced to be able to implement shared case management models such as Individualised Placement and Support (IPS) that better integrate employment assistance with mental health support.²⁹

We believe that an integrated model of assistance to disadvantaged job seekers requires a much stronger focus on skills assessment and development. Further, the approach to skills building must be based on applied learning techniques shown to work best with disengaged and poorly educated job seekers.

One approach that the Brotherhood has successfully trialled with disadvantaged job seekers is the Intermediate Labour Market (ILM) model that provides a clear pathway to the labour market through a sustained investment in work experience and skills for up to a 12-month period. UK research suggests that this approach delivers better outcomes for the long-term unemployed and a platform to sustain employment once they are there.³⁰ Greater emphasis on job retention and advancement is proving to be a key factor for sustainable social and economic participation.³¹ Recent cost benefit modelling of the ILM model has indicated a potential \$14 return for every \$1 invested in these programs.³²

Integration with a social inclusion framework

The Rudd Government's commitment to prioritise social inclusion and skills development is to be applauded. This offers a vital opportunity to complement much needed reform of mainstream employment assistance with targeted approaches to resolve structural barriers to employment and support job opportunities through infrastructure and capacity building at regional or neighbourhood levels.

Already at a local level, collaboration is being developed between employers, not-for-profit support agencies and training organisations to better match the long term unemployed to real jobs. We need to build on these isolated examples of innovation through a framework of regional employment boards that can develop agreed local priorities, for example the lack of public transport, child care or vocational training options.

Our experience shows that the human capital development approach will not, by itself, engage disadvantaged communities and individuals. A closer alignment of employment assistance and skills building with community strengthening and neighbourhood renewal strategies is required. This requires effective co-operation between the three levels of government.

Access to meaningful work can be a life-changing experience for disadvantaged people, improving their well-being, opening up personal choices and creating opportunities for their families and children through better health and education outcomes.

The Brotherhood believes that additional investment is warranted at this time to support human capital development, as employers will continue to require low skilled and semi-skilled labour in the future. Spending in this area is non-inflationary and Australia lags considerably behind international best practice in skills building and employment assistance expenditure. Increased investment to maximise social and economic participation will pay long-term dividends by way of a more inclusive and productive society, with consequent reduced demand placed on health, welfare and justice services.

Endnotes

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