



Australian Government
Department of Employment

Submission DR75 - Department of Employment - Transitioning Regional Economies - Commissioned study

Department of Employment
Commission

Table of Contents

1.	Introduction	3
2.	Labour market context and labour market outcomes across Australia's regions.....	4
	Labour market overview	4
	State and territory labour markets.....	4
	Regional vs capital city labour markets	4
3.	Department of Employment policies and programs	8
	Regionally tailored and targeted assistance	10
	Labour mobility.....	11
	Seasonal Worker Incentive Trial.....	11
	Regional considerations in the assessment of disadvantage.....	12
	Regional service delivery models	12
	ParentsNext.....	12
	Support for retrenched workers.....	13
	Department of Employment retrenchment to re-employment response.....	13
	Structural adjustment programs	13
	Employment Facilitators	14
	Evaluation of employment assistance to automotive manufacturing industry workers.....	15
	Best practice approaches to work transitions.....	15
4.	Information, data and analysis on regional labour markets	17
	Labour Market Information Portal	17
	Small Area Labour Markets	17
	Survey of Employers' Recruitment Experiences.....	17
	Job Outlook and Australian Jobs	18
	Skill shortage research	18
	What's Next.....	19
	Job Jumpstart	19
5.	Index of regional adaptive capacity.....	20
	Interpretation of the index and regional ranking.....	20
	Suggestions for alternative sources of data	23
6.	International models of interest.....	26
	OECD frameworks to measure regional inequalities.....	26
	Finland.....	26
	Sweden.....	27
	Canada	28

1. Introduction

The Department of Employment (the Department) welcomes the opportunity to provide information in order to support the Productivity Commission (the Commission) in finalising its study into the transition of regional economies following the resources boom. The Department's submission addresses the content summarised below.

- Chapter 2 provides an overview of Australia's labour market and labour market outcomes.
- Chapter 3 provides an overview of the Department's policies and programs.
- Chapter 4 outlines the information, data and analysis from the Department on regional labour markets.
- Chapter 5 provides feedback on the methodology and variables used to construct the index of adaptive capacity.
- Chapter 6 contains information about other international models, which may assist further developing the metric and policy around structural change.

The effects of globalisation and ongoing economic and structural change will continue to affect Australia's regions in varied ways. The Department has a range of policies and programs, such as jobactive, that assist individuals to be competitive in the labour market and to adapt to changing economic circumstances in their region. The Department also delivers a number of programs that are focussed on assisting vulnerable cohorts, including Youth Jobs PaTH, Empowering YOUTH Initiatives and ParentsNext. In addition to these programs, the Department maintains a footprint in regional Australia and works closely with state governments and local councils to coordinate efforts to drive growth and employment.

The Department provides labour market structural adjustment programs (SAPs), on a case-by-case basis in exceptional circumstances, to assist retrenched workers to find new employment as quickly as possible. These programs have been set up in response to large scale retrenchments and to provide retrenched workers with tailored assistance and access to intensive employment services. The Department also contracts employment facilitators in affected regions to provide a local point of contact and, in collaboration with jobactive providers, connect retrenched workers with training, job opportunities and other support.

Seasonal employment is important to a number of industries, including the agricultural industry. The Department also has a range of seasonal worker programs to help businesses find workers where there is not a sufficient supply of locally qualified job seekers. This includes the Seasonal Worker Programme, Harvest Labour Services and the National Harvest Information Service and the recently announced Seasonal Work Incentives Trial.

2. Labour market context and labour market outcomes across Australia's regions

Labour market overview

Labour market conditions in Australia have been reasonably soft since the end of the mining boom, with employment increasing at an annual average rate of just 1.4 per cent over the five years to May 2017, below the decade average rate, of 1.6 per cent. Over the same period, full-time employment has grown sluggishly, at an annual average rate of just 0.7 per cent, while part-time employment increased at a robust annual average rate, of 2.7 per cent.

Over the year to May 2017, however, the Australian labour market has strengthened, with the level of employment increasing by 232,800 (or 2.0 per cent) to stand at 12,152,600. Full-time employment has increased by 148,000 (or 1.8 per cent) over the period, to 8,287,400 in May 2017, while part-time employment has risen by 84,800 (or 2.2 per cent), to 3,865,200.

Notwithstanding the recent pick-up in full-time employment, the continued strong increase in part-time employment can be explained, in large part, by the ongoing transitioning that is currently underway in the Australian economy, away from the traditionally full-time dominated mining and related industries and the manufacturing industry, towards the services sector, where there are considerably more part-time job opportunities.

While some uncertainty continues to surround the outlook for the Australian labour market, a number of forward indicators point to employment expanding further in the period ahead. Economic activity is also expected to strengthen, gradually, as the drag from the fall in mining investment (and the spill-over effects of this on non-mining investment and activity) comes to an end, and the ramp-up in resource exports continues.

State and territory labour markets

The benefits of the improvement in the Australian labour market have varied across the country. Resource-rich states, such as Western Australia and Queensland, have experienced weaker labour market conditions, while states that did not experience the effects of the downturn in mining (to the same extent), such as Victoria and New South Wales, have recorded much stronger labour market outcomes.

Against the backdrop of weaker mining investment activity, labour market conditions in Western Australia have been soft although there are clearly signs of improvement. The level of employment in the state has increased by just 12,200 (or 0.9 per cent) over the year, to stand at 1,359,400 in May 2017, well below the decade average rate, of 2.0 per cent. While the state's unemployment rate has declined over the period, from 6.0 per cent in May 2016 to 5.5 per cent in May 2017 (equivalent to the national rate), the participation rate in Western Australia has also fallen over the year, from 68.0 per cent in May 2016, to 67.6 per cent in May 2017, above the national average (of 64.9 per cent).

By contrast, labour market conditions in Victoria have strengthened over the last year, on the back of strong population growth, a lower Australian dollar and low interest rates, which has generated strong jobs growth in the housing sector. Employment in the state has risen by 118,800 (or 3.9 per cent) to 3,139,600 in May 2017. While the state's unemployment rate has increased over the period, from 5.8 per cent in May 2016 to 6.0 per cent in May 2017, this has occurred in conjunction with a robust 1.2 percentage point rise in the state's participation rate, to 66.1 per cent.

Regional vs capital city labour markets

While it is difficult to accurately gauge the strength of a labour market at the regional level, due to the considerable volatility inherent in the data, it is worth noting that, in general, with respect to

labour market performance, 'rest of state' or regional areas tend to perform more poorly than their capital city counterparts¹.

For instance, employment has risen by 124,700 (1.5 per cent) over the year to May 2017 in capital cities, compared with a weak increase of just 30,400 (or 0.8 per cent) for rest of state areas. While the unemployment rate in rest of state areas has declined by 0.5 percentage points over the last 12 months, to 5.8 per cent in May 2017, it remains above the 5.7 per cent recorded for capital cities. Moreover, the participation rate in capital cities has decreased only marginally, by 0.1 percentage points over the year, to 66.3 per cent in May 2017, while in the rest of state areas it has fallen significantly, by 0.6 percentage points, to 61.5 per cent.

In general, the differences in regional labour market performance can be ascribed to a number of factors, including a region's industry base, its population's access to and participation in higher education, transport networks and infrastructure, its degree of natural amenity, population size and growth, accessibility to more dynamic labour markets and the skill level of its labour force.

While labour markets in capital cities generally perform better than their regional counterparts, it is important to note that there are concentrations of people experiencing severe and entrenched disadvantage across both inner and outer metropolitan areas, as well as in regional Australia. While individuals living close to capital cities or major employment centres are in closer proximity to employment opportunities (compared with people residing in more regional areas), no matter how close they reside to these opportunities, they can still encounter significant difficulty accessing jobs if they lack the requisite skills; have limited work experience; possess low levels of educational attainment; have poor English proficiency; lack social networks and have other characteristics that can predispose them to labour market disadvantage. Evidence also indicates that the displacement risk is relatively high for less educated Australian workers.²

Case Study 1: Northern Adelaide

The Local Government Area (LGA) of Playford in Adelaide has a history of entrenched labour market disadvantage and continues to perform poorly. For instance, while the unemployment rate in the region decreased over the year, from 15.5 per cent in the March quarter 2016 to 14.1 per cent in the March quarter 2017, it remains well above the national rate and has remained above 10 per cent since the December quarter 2010 (earliest available comparable data).

A number of factors are likely to have contributed to Playford's persistent labour market disadvantage. Notably, the working age (15-64 years) population in the region has a low level of educational attainment, with only 36.9 per cent having finished year 12 or equivalent (compared with 59.0 per cent for Australia) and just 6.3 per cent having attained a bachelor degree or above (compared with 24.4 per cent for Australia). Moreover, the proportion of the working age population on income support in Playford stood at 29.8 per cent in March 2017 (latest publicly available data), well above the 12.3 per cent recorded for Australia. Playford also has a significant reliance on the manufacturing industry (accounting for 17.5 per cent of total employment, compared with 9.2 per cent nationally), which has been affected by the impending closure of the GM Holden factory located within the LGA.

Playford falls within the broader ABS Statistical Area Level 4 (SA4) of Adelaide – North. Labour market conditions in the Adelaide – North SA4 have been mixed over the year although conditions remain subdued. For instance, employment increased sluggishly, by 1,100 (or 0.6 per cent) over the

¹ Capital cities include Greater Sydney, Greater Melbourne, Greater Brisbane, Greater Adelaide, Greater Perth, Greater Hobart, Darwin and the Australian Capital Territory. Within each state and territory, the area not defined as being part of the greater capital city is represented by 'rest of state' regions.

² OECD (2016), Back to Work: Australia: Improving the Re-employment Prospects of Displaced Workers, OECD Publishing, Paris.

year, to 194,600 in May 2017. The region's unemployment rate decreased over the year, from 9.1 per cent in May 2016, to 8.2 per cent in May 2017 but remains well above 5.5 per cent recorded for Australia. The decline in the unemployment rate in Adelaide – North also occurred in conjunction with a 0.9 percentage point fall in the region's participation rate, to 61.4 per cent in May 2017, well below the national rate, of 64.9 per cent.

Furthermore, in areas of concentrated disadvantage, these issues become amplified for people residing in those regions. Research indicates that communities in disadvantaged areas can be more vulnerable to being disproportionately impacted negatively by labour market downturns or shocks³ and, accordingly, are unlikely to be as resilient or able to effectively adapt to change. Children's chances of success are in-part tied to the socio-economic status of their parents, with international evidence suggesting that the neighbourhood in which an individual grows up can have a long lasting impact on outcomes, which further highlights the importance of assisting communities on an as needs basis to transition from economic shocks effectively.⁴

The Department notes the Commission's initial findings that inadequate human capital (including skills, education and experience) is a key factor contributing to low adaptive capacity in Australia's regions, particularly in outer suburban metropolitan areas. The Commission's interim report also states that the metropolitan areas of Sydney, Melbourne and Adelaide consist of more than half of the people residing in the least adaptive regions, and that metropolitan regions comprise a significant proportion of the least adaptive regions.

It is also worth noting that some outer metropolitan areas may, for instance, have poor transport services (including access to public transport)⁵ and may be far from centres of employment and services, which can hamper individuals accessing employment opportunities outside their local area, despite being considered part of the broader metropolitan labour market. It is important to also note that some outer metropolitan areas remain disadvantaged even when transport services are readily available – see Case Study 2, below.

Case Study 2: Fairfield in Sydney

The LGA of Fairfield in Sydney continues to experience ongoing labour market disadvantage despite those residing in the region having access to the broader Sydney labour market, with the unemployment rate in the region increasing by 0.7 percentage points over the year, to stand at 9.2 per cent in the March quarter 2017, well above the national rate.

Similar to Northern Adelaide, Fairfield displays a number of characteristics which predispose those residing in the region to disadvantage. Notably, 19.4 per cent of the working age population in the region were in receipt of income support as at March 2017, compared with 12.3 per cent recorded for Australia. In addition, the population in Fairfield has a below-average level of educational attainment, with only 54.9 per cent having finished year 12 or equivalent (compared with 59.0 per cent for Australia) and just 12.3 per cent having attained a bachelor degree or above (compared with 24.4 per cent for Australia). Fairfield also has a high reliance on manufacturing, accounting for 18.7 per cent of total employment (compared with 9.2 per cent nationally), an industry which is continuing to be affected negatively by ongoing structural change.

The majority of the Fairfield LGA falls within the broader SA4 of Sydney – South West. Labour market conditions the Sydney – South West SA4 have improved slightly over the year although the region remains disadvantaged. For instance, employment in the region has increased by 5,400 (or

³ Baum, S., & Mitchell, W. (2009). Red alert suburbs: An employment vulnerability index for Australia's major urban regions. Newcastle: Centre of Full Employment and Equity, University of Newcastle and Urban Research Program, Griffith University.

⁴ OECD (2016), Making Cities Work for All: Data and Actions for Inclusive Growth, OECD Publishing, Paris.

⁵ Infrastructure Australia (2016), Australian Infrastructure Plan: Priorities and reforms for our nation's future.

3.1 per cent) to 177,500 in May 2017. While the unemployment rate in Sydney – South West also rose, by 0.3 percentage points, to 6.7 per cent in May 2017, this occurred in conjunction with a 0.9 percentage point increase in the region's participation rate, to 58.7 per cent in May 2017, although it remains well below the national rate (of 64.9 per cent).

Regional areas can face unique challenges in adapting to economic change. Some regional locations experience entrenched disadvantage and can lack access to employment opportunities and services. In addition, regional areas generally have less industrial diversity compared with capital cities and have a less broadly-skilled workforce.

3. Department of Employment policies and programs

Public employment services are an important policy to support inclusive employment growth, assist those affected by structural unemployment and job seekers more generally. In addition to financial impacts, unemployment can have a deep impact on individuals personally, leading to feelings of social isolation, demoralisation and frustration. Unemployment can have long-term impacts on health, the future outcomes of dependent children, the community, as well impacting on social welfare budgets.

The Australian Government has a wide range of policies and programs which assist job seekers and the labour market more broadly, to adjust to changing economic circumstances. Within the Employment portfolio, there is job matching, job search assistance and training through employment services, labour activation strategies, incentives to support labour market transitions for disadvantaged job seekers, allowances to assist eligible job seekers to relocate and take up a job, and initiatives to foster entrepreneurship. The Department maintains a footprint in regional Australia and works closely with state governments and local councils to coordinate efforts to assist disadvantaged job seekers and promote employment growth.

The Employment portfolio also works to ensure that employers and employees are supported with flexible and modern workplace arrangements that benefit Australian workplaces and the economy. The Department has responsibility for the national workplace relations system, promoting safety, flexibility and productivity in the workplace and maintaining clear and enforceable minimum national employment standards.

The Australian Government's largest employment program is jobactive, which assists job seekers to find and keep a job and ensures employers are provided with job seekers who meet their business needs. jobactive broadly consists of the following services:

- Job seeker assistance – helping job seekers look for work, write résumés, prepare for interviews, and facilitating job referrals and targeted training that is suited to the needs of local employers;
- Work for the Dole – this program places job seekers in activities where they can gain skills and experience. Work for the Dole aims to assist job seekers to develop the skills that employers want, assist them to meet new people, make contacts who can be a referee and help them to get involved in their local community;
- New Enterprise Incentives Scheme (NEIS) – assists eligible job seekers to start and run their own small business;
- Harvest Labour Services and National Harvest Labour Information Services – supports the labour requirements of growers in the horticulture industry;
- Relocation Assistance to Take Up a Job – provides financial assistance for eligible job seekers to relocate for work; and
- Wage subsidies – provides financial incentives of up to \$10,000 (GST inclusive) to employers who hire eligible job seekers.

The jobactive model (introduced in 2015) provides stronger incentives for jobactive providers to deliver high-quality services and achieve sustained employment outcomes for job seekers. The jobactive model sets clear expectations for active participation by job seekers and includes incentives where employers hire, train and retain job seekers. It significantly reduces the level of prescription, complexity and red tape for providers and rewards sustained performance. Payments to providers are also structured to promote stronger performance and emphasise the achievement of employment outcomes.

Box 1 – jobactive Performance Framework

The jobactive Performance Framework specifies how providers will be assessed against the principles of efficiency, effectiveness, quality and assurance. The central tool for assessing employment services providers is the Star Ratings model, which compares the performance of providers against each other resulting in each jobactive site receiving a rating from 1 to 5 Stars. Ratings are published on the Department's website and www.jobactive.gov.au to give job seekers and employers easily understood information about the performance of providers in their local area.

As the ability of providers to help job seekers find work can be affected by labour market conditions and other aspects of regional disadvantage, the variation in these factors across Australia is taken into account by the model. This ensures that Star Ratings are nationally comparable, whether they relate to a large metropolitan site or a small provider operating in an outer regional area.

The jobactive model and previous employment services models have been evaluated from implementation to drive continuous improvement by providing evidence to inform future policy development and program design. The Department's strong focus on evaluation allows measurement of the effectiveness and efficiency of the program and represents the Australian Government's commitment to transparency and accountability in public spending.

Early evaluation evidence suggests that jobactive has improved job seekers' engagement in services as measured by time taken from registration to commencement in services, attendance at appointments and re-connection to services after missing an appointment. The evidence also suggests that for more disadvantaged job seekers (e.g. longer-term unemployed, or streams B and C job seekers) jobactive is more effective in helping them achieve labour market outcomes than its predecessor, Job Services Australia. Further analysis will be undertaken as more data become available.

Additionally, jobactive is complemented by a range of other employment services programs and initiatives to assist job seekers, including:

- Empowering YOUTH Initiatives – provides grant funding to eligible not-for-profit, non-government organisations to trial innovative approaches to help vulnerable young people aged 15 to 24 years to find jobs.
- Encouraging Entrepreneurship and Self-Employment Initiative – which includes:
 - Entrepreneurship Facilitators in three areas with high youth unemployment;
 - broadened NEIS eligibility;
 - additional NEIS places;
 - the delivery of Exploring Being My Own Boss Workshops; and
 - the SelfStart online information hub.
- Launch into Work program – this delivers pre-employment projects, across a range of employers and industries, which provide training, work experience and mentoring to job seekers. The purpose of this is to assist job seekers to become work ready by increasing their skills, experience and confidence to enable them to overcome individual barriers to training and employment.
- National Work Experience Programme - this program places job seekers in work experience placements and assists them to gain experience and confidence, while demonstrating skills to potential employers.

- ParentsNext - this program assists parents with a youngest child aged less than six years to plan and prepare for future employment.
- Transition to Work - this service provides intensive, pre-employment assistance to disengaged young people designed to improve their work-readiness and help them into work (including apprenticeships and traineeships) or education.
- Youth Jobs PaTH (Prepare-Trial-Hire) – provides a three element program that helps give young people the employability skills that employers want, opportunities for work experience and the support to move from welfare to work.

In addition, the Department manages the Seasonal Worker Programme. This program contributes to the economic development of specific Pacific Island countries and Timor-Leste by providing access to seasonal work opportunities in Australia. The program offers employers in the agriculture sector and in selected locations in the accommodation and tourism sectors access to a reliable, returning workforce when there is not enough local Australian labour to meet seasonal demand.

Box 2 - The importance of employment services in achieving inclusive growth

At any one point in time, it could be argued that employment services, when assisting job seekers into jobs, do it at the expense of other potential candidates, leaving the total level of unemployment relatively unchanged. The Commission has noted in a previous report that, such ‘churning’, by building up the skills and employability of more disadvantaged job seekers, can increase overall employment⁶. It is also important to highlight that the total number of jobs in the labour market generally expands over time (as the labour force grows), thus employment services plays an important role in promoting inclusive growth and ensuring that job seekers (particularly those that are most disadvantaged) have the skills that employers need, to increase their competitiveness in the labour market and promote their access to the growing pool of jobs.

Regionally tailored and targeted assistance

jobactive services are delivered in over 1,700 locations across Australia in metropolitan, regional and rural areas. There are 51 jobactive administrative regions, called ‘employment regions’, which reflect different labour market conditions and job seeker characteristics across Australia. jobactive providers receive a loading of 25 per cent to their Administration and Outcome Fees where they are situated in an employment region identified by the Department as regional or are servicing people who reside in regional locations. The regional loading fee is applied to recognise that the labour market conditions in regional areas make it more difficult for people to find and keep a job.

jobactive providers are required (when submitting a tender to be selected as a jobactive provider) to demonstrate their strong understanding of local labour markets in their employment region and their strategies to assist job seekers to obtain skills to get work ready, and match them to appropriate jobs that optimise their skills.

The capacity for jobactive providers to develop and deliver flexible servicing arrangements is an essential component of the current employment services model. jobactive providers, when tendering for services were able to propose flexible strategies around their core service offerings for job seekers, their services to employers and their strategies and approaches for collaborating with other stakeholders. These flexible service delivery provisions allow providers to tailor their engagement model with particular job seekers to best suit the individual and the location in which they reside.

Through the jobactive Employment Fund, providers are able to flexibly spend (within set guidelines) on tailored goods and services that support and assist local job seekers to gain the tools, skills and

⁶ Productivity Commission 2002, Independent Review of the Job Network.

experience they need to get and keep a job. Additional support to assist individuals, including those impacted by structural change, includes jobs fairs that facilitate relationships and job opportunities. Job fairs connect job seekers, employers, government agencies, employment providers and the local community to increase outcomes for job seekers.

The Department also currently undertakes employer engagement activities in targeted regions across Australia to increase employers' awareness of the government support available to make employing job seekers easier and to demonstrate how these services can be packaged to address recruitment or job creation challenges and opportunities.

Labour mobility

The ability of workers to move from region to region is an important element of effectively functioning labour markets. However, some of the most important factors in determining a person's ability to move (such as family and other social supports) are those in which government has less ability to influence. As stated by the Commission in their *Inquiry into Geographic Labour Mobility* "even where opportunities for employment are available, and moving for work is financially feasible, low levels of education and skills, fear about losing public housing or a place on the waiting list, poor health and reliance on family networks for support may sometimes limit the capacity of unemployed people to relocate and take advantage of these opportunities."⁷

Relocation Assistance to Take Up a Job program

jobactive providers are required to encourage job seekers to consider job opportunities outside their local area. To encourage job mobility and assist job seekers to relocate for work, the Department delivers the *Relocation Assistance to Take Up a Job* program. The cost of moving to another region can often present a barrier to job seekers relocating to different regions, even when an offer of employment is made.

Under the *Relocation Assistance to Take Up a Job* program, long-term unemployed job seekers who are in receipt of Newstart Allowance, Youth Allowance (other) or Parenting Payment for at least the preceding 12 months and are registered with jobactive or Disability Employment Services can receive payments of up to:

- \$3,000 if relocating to a capital city;
- \$6,000 if relocating to a regional area; and
- an extra \$3,000 if relocating with dependent children.

The new location must be within Australia and at least 90 minutes away from where the job seeker currently lives, based on normally acceptable travel routes. If the move is between capital cities, the new location must have a lower unemployment rate than where the job seeker currently lives.

In addition, jobactive providers are also able to assist job seekers with relocation expenses through the Employment Fund if the job seeker is not eligible for assistance through the *Relocation Assistance to Take Up a Job* program or with other work related expenses such as tools and equipment, transport or work-related licensing.

Seasonal Worker Incentive Trial

The Australian Government introduced the Seasonal Work Incentives on 1 July 2017 to help address the seasonal labour demands of horticultural growers. The two-year trial aims to encourage job seekers to take up short-term work placements of six weeks by providing them with an opportunity to earn additional income, without affecting their income support payment. Job seekers can also receive a Living Away and Travel Allowance if the work is located more than 120 km from their home.

⁷ Productivity Commission 2014, *Geographic Labour Mobility*, Research Report, Canberra.

Regional considerations in the assessment of disadvantage

The Job Seeker Classification Instrument (JSCI) measures a job seeker's relative level of disadvantage in the labour market. It determines if a job seeker is serviced in Stream A or B. The JSCI will also indicate if a job seeker may require further assessment through an employment services assessment (ESAt) that may result in Stream C, which allows jobactive providers to provide greater support and assistance for these Stream C job seekers.

The overall labour market disadvantage of a job seeker is a product of the interaction of all JSCI factors such as demography, work experience, educational and vocational qualifications, as well as other social and economic conditions of the areas where the job seeker lives.

The JSCI recognises that job seekers who are geographically isolated face more difficulty securing employment and that the condition of the local economy has a key influence on the likelihood of a job seeker remaining unemployed, however, all factors must be considered collectively rather than judging any one factor in isolation.

Regional service delivery models

The OECD's *Employment and Skills Strategies in Australia*⁸ report recommended that Australia promote more integrated and coordinated policy responses and better adapt and orient the work of employment services providers to local conditions by adjusting contracts at the local level and developing and strengthening localised partnerships approaches. In line with this recommendation, the Australian Government is currently looking at ways to adapt its mainstream employment services to be more responsive to the needs of discrete Indigenous communities. The Australian Government's 2017-18 Budget includes a \$5 million commitment to develop and test an innovative, community-driven approach in the delivery of jobactive services in Yarrabah, Queensland. Under the pilot, the Government will work with the Yarrabah Aboriginal Shire council to build its capacity to deliver jobactive services for the local community.

ParentsNext

In the 2017-18 Budget, the Australian Government announced a national rollout of ParentsNext from 1 July 2018. The program will be expanded nationally and will also include delivering a more intensive ParentsNext service in 30 areas. These 30 locations include the existing 10 ParentsNext priority locations and an additional 20 locations which are highly disadvantaged or have a high proportion of Parenting Payment recipients who are Indigenous.

Box 3 - Benefits of a bottom-up approach to regional strategies

The interim *Transitioning Regional Economies* report states that strategies for successful adaptation and development are those that focus on supporting people in regional communities to adjust to changing economic circumstances. It also emphasises that strategies to assist regions to adapt are the most successful when they are identified and led by the local community, in partnership with all levels of government, are aligned with the region's relative strengths, are supported by targeted investment in developing the capability of the people in the local community to deal with transition, adaptation, and securing an economic future.

Local areas are increasingly competing in a global marketplace for skills and jobs and are becoming more vulnerable to not only local and national economic shocks, but also global shocks. At the local level, resilience is particularly relevant and communities across the OECD are increasingly using this lens to develop local communities and economies that are less vulnerable to economic shocks and that are more adaptable to long-term economic changes.

⁸ OECD (2014), *Employment and Skills Strategies in Australia*, OECD Reviews on Local Job Creation, OECD Publishing.

There is a currently a strong policy focus, both internationally and domestically on designing policies that are adaptable to local conditions and enable sustainable, locally driven growth. Analysis conducted by the OECD has highlighted that the most successful government programs are those that are flexible and adaptable to local conditions, allowing communities to create local solutions to their own distinct needs and hence maximising employment opportunities. As the OECD notes “the local level is where program delivery actually happens, trade-offs and complementarities become most evident, and actions can be joined-up to deliver effective results.”⁹

The 2017 OECD Prague Action Statement outlines the need for policy makers to work collaboratively with local stakeholders and that “boosting job creation, productivity and inclusion will not be achieved without taking into account local and regional characteristics.” It also states that “policies should help communities anticipate shocks associated with structural change and develop responses that capitalise on their local assets with the aim of building more resilient local economies.”¹⁰

Support for retrenched workers

The Department provides a range of assistance, in addition to standard jobactive services, to support retrenched workers to move into employment as quickly as possible.

Department of Employment retrenchment to re-employment response

Once notified of redundancies via Centrelink, the Department’s relevant state office requests contact with the affected employers. The level of assistance consists of three stages:

Stage 1: The Department’s state office will contact the affected employer to discuss their needs and provide information and resources on support for their workers. These resources can include information on the Department’s What’s Next website, the Job Outlook website, the Australian Jobs publication and factsheets that help workers to create and update their résumé, prepare for interviews and steps on how to find work.

Stage 2: The state office, alongside the relevant state government and in collaboration with Centrelink and local stakeholders (including local jobactive providers), provides on-site information sessions where requested. These in-person sessions provide information about the types of support available including assistance to find a new job, financial support, eligibility for income support payments and eligibility for training support.

Stage 3: If the impact of a company’s retrenchment on the local economy or community is severe, the Australian Government may implement a targeted structural adjustment program to help workers gain new employment as quickly as possible.

Structural adjustment programs

Structural adjustment programs provide eligible participants with immediate access to intensive employment services through jobactive. The jobactive providers have access to extra funds for spending on licenses, tickets, training and other costs to help eligible participants find a new job. In some instances support has been extended to workers in the supply chain and to partners of retrenched workers.

Structural adjustment programs are currently or have recently been in place for workers in the automotive manufacturing industry, and workers who have lost their job from Queensland Nickel in North Queensland, BlueScope Steel in the Illawarra, Caterpillar Underground mining in North-West Tasmania, Arrium in Whyalla, Hazelwood mine and power station in the Latrobe Valley and Alinta Energy in South Australia.

⁹ OECD (2016), Job Creation and Local Economic Development 2016, OECD Publishing, Paris.

¹⁰ The Prague Action Statement was agreed at the 2017 OECD Co-operative Action Programme on Local Economic and Employment Development (LEED) Forum on Partnerships and Local Development.

Department of Employment data¹¹ shows that around 7,800 people have accessed employment services through recent or current structural adjustment programs. Across the structural adjustment programs the placement rate of participants into new jobs varies between 60 per cent and 76 per cent. The difference in job placement rates may reflect a combination of the local labour market conditions; varying skill compositions of retrenched workers and skills in demand; and the level of additional support which may be available to retrenched workers. As at May 2017, the cost of the Department's structural adjustment programs is approximately \$6,000 per placement, which includes expenditure on training or other assistance to help participants gain and keep employment.¹²

Structural adjustment programs are intended to assist workers to maintain their connection with the labour market and re-enter employment early. This, in-turn, supports local aggregate demand and mitigates flow on impacts to the local economy. Structural adjustment programs provide assistance to individuals who might otherwise be excluded from accessing government employment services. Retrenched workers that become long-term unemployed can cost society between \$50,000 and \$150,000¹³ depending on their age, salary level and family circumstances (Boston Consulting Group 2000). These figures would have increased significantly since this date.

The Back to Work: Australia report produced by the OECD in 2016 found that almost 70 per cent of displaced workers were re-employed within one year after displacement, and just below 80 per cent within two years.¹⁴ This is partly explained by the higher education level and the longer work experience of the typical displaced worker, compared with other unemployed people. Re-employment rates are higher in Australia than in most other OECD countries for which comparable data is available.

- Retrenched workers vary in their profile. Many are higher skilled, are competitive in the labour market and are able to secure re-employment without accessing employment services. It is important to note that the data mentioned in the Back to Work report refers to a significantly different cohort compared with those accessing structural adjustment programs. Many job seekers accessing structural adjustment programs are located in regions with relatively weak labour markets, often are from lower skilled occupations, and they generally face greater difficulty securing re-employment.

Employment Facilitators

The Australian Government has also appointed Employment Facilitators to provide a local, on the ground presence, in regions in transition. The Employment Facilitators work directly with impacted workers to connect them with employment services, job opportunities, training and a range of other support services. The Employment Facilitators work together with a range of stakeholders and service providers across Australian, state and local government to ensure a co-ordinated approach to service delivery.

Employment Facilitators are located in North/North-West Tasmania, Illawarra, North Queensland, Geelong, Adelaide, Gippsland and the Whyalla/Port Augusta region. An Employment Facilitator has been announced for Mandurah and will be appointed later in 2017.

¹¹ Data as at 31 May 2017.

¹² This includes costs from the Employment Fund (for costs such as retraining, work equipment and licenses) and fees to jobactive providers for delivering the service (Administration and Outcome fees).

¹³ For example, based on forgone income, forgone taxation revenue, income support payments and government programs and services, the cost of an average duration stint in unemployment (3.2 years) for a 50-year-old single white collar worker previously earning \$42,000 would be \$125,800.

¹⁴ OECD (2016), Back to Work: Australia: Improving the Re-employment Prospects of Displaced Workers, OECD Publishing, Paris.

Box 4: Geelong Employment Facilitator

The manufacturing sector in the Geelong region is a major employer. However, in recent years there have been a number of large scale business closures in the area including the Ford Motor Company of Australia and Alcoa. The proportion of Geelong's workforce employed in manufacturing has fallen from 16.2 per cent in February 2002 to just 7.6 per cent in February 2017.

The Australian Government put in place a Geelong Employment Facilitator to work with stakeholders including government, employers, employment services, training providers and the community sector to identify and fund local projects or activities to generate employment opportunities and assist retrenched workers in Geelong.

The Geelong Employment Facilitator has access to a funding pool which assists the Facilitator to drive regional responses to local labour market problems and boost participation in these areas. Examples of activities recently run by the Geelong Employment Facilitator include:

- working with employers to assist them to support disadvantaged employees and increase retention of long-term employees;
- the Start Up Programme which supported people in the region to begin their own businesses;
- support for the Pivot Summit 2016 which brought Australian and international thought leaders together to Geelong to share insights on the future of digitalisation and its impact on how we work, live and think; and
- establishing a Digital Marketing Social Enterprise in Whittington, that provides online services and advice to business and community groups, including website development, social media management, online marketing and app development.

Local feedback indicates that the on the ground support provided by the Geelong Employment Facilitator and the projects have benefited the local community by creating local job opportunities.

Evaluation of employment assistance to automotive manufacturing industry workers

The Department is funding an independent review of the services provided to retrenched workers in the automotive manufacturing industry. The first stage of the review was completed in 2016 and provides an assessment of the attitudes and perceptions of workers, service providers and other stakeholders of the support services available. The first stage highlighted that dedicated case managers have been successful in providing career advice and preparing workers for future employment. The next stage of the review will capture the assistance provided to date and the employment outcomes of workers up to 12 months after retrenchment. The findings of the review will inform evidence based policies for future large scale firm and industry closures.

Best practice approaches to work transitions

The Commission's interim report stated that people-related factors (including education, skills and employment) strongly shape adaptive capacity, particularly for communities in urban areas. The Australian Government has funded two recent pieces of work which are available publically which highlight the best practice around assisting workers and provide a framework to address the impacts of structural adjustment events.

The National Centre for Vocational Education Research (NCVER) was funded by the Department of Education and Training to produce a good practice guide¹⁵ in relation to helping older displaced

¹⁵ Callan, V & Bowman, K 2015, Industry restructuring and job loss: helping older workers get back into employment, NCVER, Adelaide

workers back into employment. This guide indicates that older workers displaced through industry restructuring are best assisted through the following practices:

- engaging in early intervention: intervention needs to occur well before the workers reach their retrenchment dates, with ongoing monitoring after they are retrenched;
- providing holistic programs: these interventions cover the full range of displaced workers' needs and are tailored to their backgrounds and requirements; and
- seeking regional responses: many retrenched older workers want to stay in their region to maintain local ties and family commitments. There is a need for regional job-creation initiatives to assist them to find new jobs locally, together with initiatives focused on displaced workers to assist them to secure these jobs.

Additionally, the Nous Group¹⁶ was commissioned by the then Department of Industry, Innovation, Science, Research and Tertiary Education to review previous government responses to large firm closures. The resulting report put forward the 'Prevention, Preparation, Response, Recovery' (PPRR) framework for alleviating the impacts of structural adjustment events. The framework comprises of four main measures:

- Prevention: which involves identifying risks and opportunities and focusing on local resilience and capacity building to minimise the impact of large scale retrenchments;
- Preparation: focuses on firms where closures seem likely, the objective of this step is to be well-prepared and informed for an announcement of a closure;
- Response: this phase would initiate measures such as the Department's three stage retrenchment to re-employment response outlined above; and
- Recovery: this is initiated directly after the Response phase and serves as a monitoring and evaluation phase, the principal objective is to ensure programs and services remain agile and responsive to individual needs. This phase also feeds back data and intelligence to the prevention phase for the future, in the event of other firm closures that are likely within the region.

¹⁶ Smith, T & Ride, H 2013, Lessons learnt from large firm closures – main report (volume 1), Nous Group, Canberra

4. Information, data and analysis on regional labour markets

The Department provides labour market data and analysis on Australia's regions. This information can be important in assisting decision makers to have an understanding of skills supply and demand in their local region and for individuals to have access to information to guide their decision making around what to study and where to live and work.

The OECD note that the availability of information and data is a key issue which is holding back local policy makers from taking a proactive approach to tackling skills issues at the local level and that building a knowledge base and regularly collecting local labour market information can also play a crucial role in identifying emerging employment sectors and training needs.¹⁷

Labour market information provided by the Department is outlined below.

Labour Market Information Portal

The Labour Market Information Portal brings together data from a range of official sources to help individuals and other stakeholders to understand local labour markets. Information on the labour market information portal includes:

- data on jobactive (employment services) caseloads by Employment Region (Employment Regions are the administrative boundaries used for jobactive);
- data on Disability Employment Services (DES) caseloads by Employment Service Area boundaries;
- regional labour force survey data (down to the Statistical Area 4 (SA4) level), including key labour market indicators and employment by industry and occupation;
- projections of employment growth over the next five years by region (SA4), industry, occupation and skill level; and
- the Department's Internet Vacancy Index (IVI) which is a measure of job advertisements newly lodged on SEEK, CareerOne and Australian JobSearch during the month, including for around 350 occupations (at all skill levels), as well as for all states/territories and 37 IVI regions.

Small Area Labour Markets

The Department's Small Area Labour Markets Australia quarterly publication presents regional estimates of unemployment and the unemployment rate at two small area levels:

- for approximately 2,100 ABS SA2s, on a state/territory and metropolitan/non-metropolitan basis. For the states, estimates for the capital city and the rest of the state area are also provided; and
- for each of Australia's approximately 550 local government areas.

This is the only source of up-to-date small area unemployment rates.

Survey of Employers' Recruitment Experiences

In order to effectively develop regional strategies, or to foster investment in the development of a region's skills base, information is needed on the local labour market, particularly on labour market trends, employer workforce needs and skills that employers have difficulty recruiting for. There is

¹⁷ Giguere, S & Froy, F (2010), Putting in Place Jobs that Last, LEED and OECD publishing

often very limited up-to-date information of this nature available at the regional level and local stakeholders can lack the resources to obtain this information themselves or to undertake meaningful analysis.

To assist local stakeholders with this, the Department monitors and analyses recruitment conditions using the Survey of Employers' Recruitment Experiences. Each year, more than 12,000 employers provide information about their local jobs market, including competition for vacancies. The survey results also identify practical information about the skills and attributes employers are looking for in applicants and how job seekers can better connect with employment opportunities. The survey also contains flexible modules that allow local stakeholders to focus on particular topics of interest in the local region, if required.

The survey is run continuously throughout the year on a regional basis which provides national coverage annually. Selected findings from the survey are published on the labour market information portal (LMIP), while regional analysis is published on the Department's website.

The Department also undertakes a series of labour market presentations to assist jobactive providers and other local stakeholders to understand the information collected and its applicability to assisting job seekers into employment. The presentations generally highlight occupations for which employers have difficulty recruiting, industries and occupations that are growing strongly in the region and cohorts whose employment outcomes are deteriorating, or are particularly vulnerable in the local labour market.

Job Outlook and Australian Jobs

It can be difficult for job seekers and prospective students to choose courses of study and to access critical information around employment outcomes for courses of study and projected future jobs growth by occupation and industry. The Department produces two key products – Job Outlook (an online resource) and Australian Jobs (a hard copy publication and online), which are aimed at providing prospective students and job seekers with information on issues related to employment and training which need consideration, in an easily understandable format.

- The Job Outlook website contains detailed career information, including occupational requirements and future job prospects, for more than 350 different occupations. Job Outlook is currently being redeveloped to offer enhanced features and navigation options.
- Australian Jobs is an accessible guide to the Australian labour market. It includes information about industries and occupations as well as states, territories and regions. The report highlights the relationship between qualifications and labour market outcomes, noting that higher levels of qualifications generally result in higher levels of participation, lower unemployment and higher earnings.

Skill shortage research

The Department carries out research to identify skill shortages in the Australian labour market. This information, however, is only available at a state, territory and/or national level and is not available at a detailed regional level. Some information is available at the metropolitan and non-metropolitan level. It shows that employers outside capital cities usually attract fewer applicants and suitable applicants for their skilled vacancies, but the gap between their ability to recruit skilled workers and that of metropolitan employers has narrowed over recent years.

What's Next

The Department's 'What's Next' website¹⁸ is a self-help resource for retrenched workers. It provides a range of information on careers, training opportunities, help with résumés and practical tips on finding a new job. It also directs people to information about financial advice, health and well-being support and retirement.

The 'Changing Lanes' webpage tailors information to workers exiting the automotive manufacturing industry to help them navigate the support services available across government and from the automotive companies.

Job Jumpstart

The Job Jumpstart website¹⁹ is a one-stop-shop for young people seeking employment planning and job search information. The website brings together a range of relevant Government information as well as recruitment insights from Australian employers to help young people better understand their employment goals and how to achieve them.

¹⁸ www.whatsnext.employment.gov.au

¹⁹ www.jobjumpstart.employment.gov.au

5. Index of regional adaptive capacity

Interpretation of the index and regional ranking

The interim report states that the metric (i.e. index) “is not suited to guiding policy decisions, including the allocation of funding to specific regions”. As outlined by the Commission, the metric is a measure of relative, not absolute, adaptive capacity, meaning that a “highly adaptive” region simply indicates that a region has a higher adaptive capacity relative to other areas, not that the region in and of itself is highly adaptive to an economic shock. Use of the metric, by itself, to determine policy responses has the potential to result in regions that are deemed (through use of the index) to be “highly adaptive” being misrepresented, irrespective of the fact that the region itself may need support to respond to a particular economic challenge or shock. That said, when considering an individual region’s need for assistance, the metric could provide another useful tool to be considered holistically with a range of other data and intelligence to guide policy responses.

In reviewing the results of the metric, some of the rankings assigned to regions do not appear to be consistent with an individualised assessment of more recent labour market intelligence. This is likely to be due to a number of factors, including: the Commission having to rely on 2011 Census data for the vast majority of its indicators (when clearly there had been a resurgence in mining activity after the Global Financial Crisis); the choice of indicators incorporated into the index; the nested principal component analysis (PCA) used to construct the index and; the method of weighting employed. Each of these factors impact (either positivity or negatively) on the index’s usefulness in assessing a region’s ability to adapt to change.

- For example, the Commission’s interim report found that many mining regions have a relatively high adaptive capacity (i.e. an ability to adapt to changes in economic circumstances). However, more up-to-date data suggest that labour market conditions, at least, in a number of areas have deteriorated significantly since the end of the mining boom in 2012 (despite continued strong export growth).
 - To illustrate, results from the Department’s *Survey of Employers’ Recruitment Experiences* in the Pilbara region show that recruitment conditions have eased considerably over recent years, with the number of job applicants increasing from an average of just 7 applicants per advertised vacancy in 2010, to an average of 13 in 2016. In addition, the incidence of employers in the Pilbara with recruitment difficulty has halved since 2010, and fewer vacancies are being left unfilled.

Methodological issues and data concerns

In terms of the methods used to construct the index, it may be better to define the various indicators at the outset, so that they are likely to have a positive effect on regional adaptive capacity in the first place, before conducting any quantitative analysis, rather than conducting the analysis first and then flipping the signs (as stated on page 6 of the technical supplement) when deemed necessary. This approach would involve, to cite one example, using the proportion of the population without disability, instead of the proportion of the population with disability, in the human capital domain.

The Department supports the use of an ABS derived geographical structure to define regions in the index, as this is uniformly applied across Australia, has at its basis concepts of functional areas and a degree of consistency in population size. In addition, as most of the data used in the index are sourced from the ABS, it is similarly logical to adopt their geographical structure. There is some question, though, about the appropriate level of regional disaggregation. While the SA2 regions have the advantage of being highly localised, they are restricted by the infrequent availability of reliable data, apart from the Census. If there is a demand for the index to be updated on a more frequent

basis, SA4 regions may be more appropriate, although for some areas of Australia these are very large and are of limited use.

The Department appreciates the challenges associated with obtaining reliable and consistent data at a disaggregated regional level like SA2s and the constraints this has placed on the Commission's ability to find appropriate data for each capital domain. Limited data has led to marked disparity in the number of indicators available (as well as questions about the appropriateness of these indicators) to construct each domain. That said, there may be some data that are not currently part of the index which, were they to be included, may improve the value of the index as a measure of a region's adaptive capacity.

Concerns and alternative suggestions around some of the indicators

The index currently includes an **employment to labour force ratio**, a measure which among other things does not account for the demographic mix of a region. This indicator may not always be a reliable measure of the strength of a regional labour market, as a region can have a high share of employed people when calculated as a proportion of the *labour force* but, due to low labour force participation, have a low **employment rate** when this is calculated as a proportion of the **civilian population** (those aged 15 years and over).

This is particularly important, as the discouraged worker effect acts to reduce labour force participation rates in regions with poor labour market conditions. The **employment to population ratio** automatically adjusts for this effect, but the **employment to labour force ratio** (which is the complement of the unemployment rate) does not. Accordingly, the Department recommends either changing this indicator to an employment to civilian population ratio, or including the participation rate to factor in the demographic influence.

- For example, in the SA2 of Queenscliff, in Victoria, employment comprises 95.8 per cent of the labour force (compared with 94.4 per cent nationally). However, the region's employment to population ratio (for all persons aged 15 years and over) stood at 48.0 per cent, compared with 61.4 per cent nationally.²⁰

The index also includes a 'skilled indicator', which is the proportion of employment in skill level 1 occupations. Assuming that these skill levels are based on the ABS standard definitions, skill level 1 includes professional and manager occupations and is, therefore, "white collar" in its focus. Importantly, it does not include the skilled trade occupations in skill level 3, which are an important supply of skills for both the mining and construction industries. Furthermore, the Department's research indicates that skill shortages are more prevalent for trade occupations than for professional occupations and that these shortages are more likely to be longstanding. Accordingly, the Department recommends that the Commission broadens its scope of 'high skill' to include skill levels 1 to 3.

The index also includes an indicator 'year12', which is the proportion of the working-age population (15 to 64 years) who have completed at *least* Year 12. This is a very broad indicator and ABS data show that labour market outcomes vary across different levels of educational attainment. To illustrate, for people whose highest level of educational attainment is Year 12, their unemployment rate stood at 7.2 per cent in 2016. This compares with 3.2 per cent for those whose highest educational attainment level is a bachelor degree or higher qualification.²¹ It may be more appropriate to break this indicator into smaller components to ascertain whether particular levels of educational attainment influence a region's ability to adapt.

The Department supports the retention of a measure of 'industry diversity' in the index, as having a broad industry base within a region is generally associated with a region developing greater

²⁰ ABS, *Census of Population and Housing*, 2011

²¹ ABS, *Survey of Education and Work*, 2016

economic resilience, by insulating the region, to some extent, from the impact of industry-specific shocks.

Previous work undertaken by the RBA and other researchers in the Department supports this view.²² While a region with a narrow industry base may indeed experience short-term growth, the purpose of the index is to measure a region's adaptability and level of resilience, rather than its short-term income generating potential (something generally borne out at the regional level during swings in mining, construction and tourism activity). This is particularly the case if the adaptive capacity in question is that of the region's population, rather than the businesses operating in that region.

In addition to the above comments, suggested additional or alternative data sources and indicators for the Commission to consider as part of the index of regional adaptive capacity are provided in the Suggestions for Alternative Sources of Data section on the following page.

Concerns with the 'nested' PCA and equal weighting approach

Given the challenge of sourcing consistent, robust and relevant data for each individual capital domain, the nested PCA approach used to construct the index may not be the most robust methodology. In addition, the nested approach could overlook potential correlations between indicators across capital domains.

- For example, there may well be a correlation between the proportion of people earning high incomes (financial capital domain) and the proportion of employed people working in high skilled occupations (human capital domain).

In light of the lack of data to fully examine each capital domain, the equal weighting of each capital domain may result in the index being overly influenced by a particular form of capital, skewing the results. It is worth noting that weighting each capital domain equally is an arbitrary system of weighting and the available evidence, while limited, on the relative impact of the various factors in the index suggests that some kind of weighting that is dependent on the relative importance of a particular capital group, may be more appropriate.

- For example, looking at social capital, the only indicator included is the proportion of the population who volunteered, while the human capital domain is based on six indicators. The lack of alternative measures for social capital means that the proportion of the population who volunteered will have significantly more influence on the index than any indicator within the human capital domain. Yet it is more likely that any one of the individual indicators in the human capital domain will contribute more to a region's adaptive capacity than the rate of volunteering. Accordingly, it may be more appropriate to adopt an alternative weighting methodology.
 - To illustrate, it is highly likely that the proportion of people who have completed at least Year 12 is more important to a region's adaptive capacity than the proportion of the population who volunteers (RBA and Departmental research suggests that educational attainment impacts strongly on regional employment). However, because the proportion who have completed at least Year 12 is part of the main five indicators that form PC1 (skills and employment) within the human capital domain, its overall contribution to the adaptive capacity is less than that of the rate of volunteering (with this being the only indicator in the social capital domain).

Unless a more robust list of indicators can be included for each capital domain, the Department supports a non-nested approach to the principal component analysis underpinning the index. However, if the Commission continues with the nested approach, the Department suggest that the

²² RBA, *Labour Market Adjustment in Regional Australia, 2002-2004*

results of the non-nested PCA should determine which weights are allocated to each capital domain, particularly for those that have limited indicators, like social capital.

Suggestions for alternative sources of data

Below are the suggested additional or alternative data sources and indicators for the Commission to consider as part of the index of regional adaptive capacity. These have been separated into each capital domain, for ease of reference.

Human capital

In its initial report, the Commission comments on population movements, yet these data have not actually been incorporated into the index. Accordingly, inter-regional migration, as well as international migration, may provide an indicator of a region's ability to respond to a shock. Migration data are available from the Census of Population and Housing (which collects data on place of residence one year and five years prior to Census night). In addition, more up-to-date data on net changes in population levels, which also give some indication of the level of in or out-migration, are available at the SA2 level on an annual basis from the ABS *Population by Age and Sex, Regions of Australia* (cat. no. 3235.0).

The Department also suggests including an explicit demographic structure element to the index, which may also be a factor impacting on a region's adaptive capacity (for example, whether a region has a relatively small proportion of working age persons and particularly those aged 25 to 54 years, limiting the supply of labour). These data are also available in *Population by Age and Sex, Regions of Australia* (cat. no. 3235.0). This is particularly important, given that the index currently includes an employment to labour force ratio, which does not take account of the demographic mix of a region.

As outlined earlier, the Department recommends that the employment to labour force ratio is either replaced with an employment to civilian population ratio, or a participation rate is included in the index. It may also be worth repeating this, based on the working-age (15 to 64 years old) population and whether this participation rate and/or employment rate is a more useful indicator than one for persons aged 15 and over.

As also outlined earlier, the Department recommends that the current indicator of skilled employment be broadened to include skill level 1 to 3 so to capture skilled trades workers, as the current indicator (assuming it is based on ABS standard definitions), only includes professional and manager occupations and could be considered "white collar" in its focus.

While the human capital domain contains the indicator 'youth engagement in work and study', this indicator refers to teenagers (aged 15 to 19 years), whereas 'youth' is usually defined by the ABS as persons aged 15 to 24 years. The Department suggests using 15 to 24 year olds in its youth measures, to capture better the circumstances prevailing within this age cohort.

The Department suggests that the Commission changes its indicator for *disability* to the proportion of the population receiving a Disability Support Pension (DSP), including part payments. This provides a broader measure than the one derived from the Census, which has a narrower definition. While the number of people on DSP in a region is still likely to be less than the actual number of people with disability in a region, it is likely to be a significantly lower undercount than the Census figure (in August 2011, there were 377,492 persons with a core activity need for assistance in the Census, compared with 818,850 DSP recipients aged 16 to 64²³ and 1.5 million persons with a disability-related employment restriction aged 15 to 64, and living in households, in 2012²⁴).

²³ Statistical Paper No. 10, *Income support customers, a statistical overview 2011*, p. 7.

²⁴ *Disability, Ageing and Carers, Australia, 2012* (ABS cat. no. 4430.0), Table 11.

Financial capital

The Department does not consider a weekly equalised household income of \$1,250 to be ‘high’, particularly in the context of total, rather than disposable, income. According to 2011 Census data, households earning \$1,250 or more accounted for 49 per cent of the available population, while the ABS publication *Household Income and Wealth, Australia, 2013-14* (cat.no. 6523.0) shows that the income for 2011-12 at the top of the 50th percentile was \$1,514.

Accordingly, the Department would suggest changing the name of the indicator to reflect what it actually captures (the proportion of households earning around average income or higher), or to adjust the income measure so that it reflected a smaller proportion of the overall income distribution (for example, in SEIFA 2011 high income is defined in a way that captures around the top 20 per cent of households²⁵).

In addition to the above, the Department notes that more recent data at the SA2 level are available from the ABS publication *Estimates of Personal Income for Small Areas, 2011-2015* (cat. no. 5624.0.55.002),²⁶ which provides an annual estimate of total income. As it is based on ATO data, it removes the high degree of respondent error present in the Census measure. In addition, these data could be used as a proxy for non-housing wealth, as it includes data on investment income.

The Department notes that the assumption that government payment data at the SA3 level reflects the situation for the individual SA2s within that SA3 is not likely to hold in a number of cases, and would recommend using payment data at the SA2 level. These data are available at the SA2 level from data.gov.au, or could be sourced directly from the Department of Social Services. These sources also provide the data at a disaggregated level, allowing the Commission to select sub-groups of payments/allowances, which may be better measures of resilience.

Another measure of financial capital could be the number of businesses registered in a region and whether this has changed over time. These data are available from the ABS publication, *Counts of Australian Businesses, including Entries and Exits* (cat. no. 8165.0) at the SA2 level. These counts are also available by industry from this publication. Alternatively, the Commission may also be able to approach the ATO, who would have data on the number of Australian Business Numbers (ABNs) registered in an area, with these data also likely to be able to provide a measure of flow through the number of ABNs that have been registered or de-registered over the year.

Looking at financial capital from another point of view, the Commission could examine the rate of businesses going into administration or liquidation. The Australian Financial Security Authority has business and non-business personal insolvency statistics, although they are only available at the broader SA3 level.

Natural capital

The Department has concerns with using *employment* in the mining industry as a proxy for land that could be used for mining activity. This creates a number of issues, including employment being defaulted to the head office/main office if based on place of work, while usual place of residence has the issue of the fly-in fly-out workforce. In addition, focusing solely on mining employment may miss those workers who are employed in construction or professional, scientific and technical services industries but work indirectly for the mining industry.

- For example, 72.7 per cent of mining engineers are employed in the mining industry, with a further 18.7 per cent employed in Professional, Scientific and Technical Services. However,

²⁵ *Technical Paper, Socio-Economic Indexes for Areas (SEIFA) 2011*, (ABS cat. no. 2033.0.55.001), p. 12.

²⁶ The ABS measure excludes income from people on Government pensions and allowances, which is included in another indicator within this capital.

given the nature of the work undertaken by this occupation, those employed by Professional, Scientific and Technical Services are still affected by mining-related activity.

An alternative source of data for mining land could be available from Geosciences Australia, who may have geocoded mineral resource data that could be mapped to the SA2 level. While this might take some work to transform so they can be applied to the index, it is likely to be a better indicator of mineral potential than mining-related employment. There are also registers of mining leases although these are State-based, which could present issues of consistency and availability.

Physical capital

The ARIA is a measure of how close a region is to various population centres by road. It doesn't take into account, for example, whether there are significant export ports or rail links. In the context of mining, the closeness to a population centre by road may not be relevant, but access to railways and shipping ports is important. The PSMA's *Transport and Topography* dataset (www.pdma.com.au/products/transport-topography), with a Geographic Information System such as Mapinfo or ArcGIS, could be used to produce a measure of road, rail and airport infrastructure in an SA2. It may also be possible to construct a query of airports or ports within a set number of kilometres from the middle of an SA2, capturing usable airports/ports in nearby SA2s. The dataset also contains some information on water sources that may be of use for natural capital indicators.

The Hugo Centre (who constructed the ARIA) notes that while the ARIA is ideal for non-metropolitan areas, it may not be as suitable for metropolitan regions. Rather, the Metro ARIA (which is a refined version of the ARIA methodology and is adapted to take account of differences in access levels within a metropolitan context) may be more appropriate. Accordingly, if the PCA is flexible enough, the Department suggests using both the ARIA and the Metro ARIA as the indicator for remoteness.

With respect to the *buildings* indicator, the value of non-residential building approvals is a monthly, point-in-time measure that is likely to be highly variable at the SA2 level. While the Department notes that the Commission is using the total value of non-residential approvals (in dollars per capita) for the 2011 calendar year, it may be more informative to examine this indicator over a longer time period (for example, the past 10 years), given the long effective life of buildings, although this approach may need to incorporate an adjustment for depreciation.

Social capital

While the Department has no alternative data sources for this capital, it notes that volunteering rates can vary by age cohort, from 15 per cent for 25 to 34 year olds, to 24 per cent for 65 to 74 year olds.²⁷ Accordingly, an age standardised measure may be a more useful indicator.

²⁷ABS, *Census of Population and Housing*, 2011

6. International models of interest

The following may be of assistance in examining the advantages and disadvantages of different international approaches to structural change.

Please note: the Department is providing this information to the Commission to help inform their views. Additional research and analysis would be required to determine whether they would be suitable for Australia.

OECD frameworks to measure regional inequalities

The OECD's *Regions at a Glance 2016* report outlines their framework for measuring well-being at the regional level. The framework considers a combination of individual characteristics and local conditions. It has been conceived to improve policy coherence and effectiveness by looking at eleven dimensions, those that shape people's material conditions (income, jobs and housing) and their quality of life (health, education, access to services, environment, safety, civic engagement and governance, community, and life satisfaction). "These dimensions are gauged through indicators of 'outcomes', which capture improvements in people's lives."²⁸ The OECD also measures regional disparities by the difference between the maximum and the minimum regional values in a country (regional range), by the Gini index or by the Theil general entropy index, which give an indication of inequality among all regions.

Finland

Finland's Proactive Approach to Structural Change (PASC) project

Finland's PASC project developed a Regional Analysis Model which attempted to measure a region's capacity to adapt and prepare for structural change. The model was based on the academic work of Martin Robson who has undertaken work on assessing a region's capacity to "resist, recover, reorientate and renew in the face of regional economic shocks."²⁹

The Finnish model explored four key factors that work together to generate a resilience score for each region, indicating its vulnerability. These factors are:

- economic structure: measured through an industrial structure indicator and public sector jobs;
- labour force: measured through education and unemployment levels;
- business sector: measured through business size and number of new businesses; and
- innovation: measured through research and development workforce and patent applications.

Finland responses to sudden structural change

The Ministry of Employment and the Economy in Finland has developed a specific response to sudden structural change. If necessary the Finnish Government can designate a locality as an area of sudden structural change and allocate money for special measures aimed at job creation projects over a period of 2-3 years. This can include direct business grants, business environment development aid, loans and guarantees.

The governance structure includes a response group consisting of representatives from different ministries, to coordinate the introduction of measures and report to the government on progress.

²⁸ OECD (2016), *Regions at a Glance 2016*, OECD Publishing, Paris.

²⁹ Hautamaki, J & Vesato, M.(2013), *Proactive Approach to Structural Change*, Lahti University of Applied Sciences

Underneath the response group is a regional working group, organised by the local Centre for Economy, Transport and the Environment, which includes representatives from local authorities, businesses, the Employment and Economic Development Office, regional economic development companies and employee organisations.

The criteria for assessing an eligible region includes: the number of job losses is substantial and impacts on supply chains; the reduction of jobs is at least 1.5 per cent of the total number of jobs in the region; an assessment of the impact on the regional unemployment rate; and an assessment of the jobs that could be created.

Funding for projects have been drawn from appropriations allocated for business investment and development initiatives and through employment based investment appropriations, the reserve component of various structural funds, and the European Globalisation Adjustment Fund.

The National Audit Office of Finland undertook an evaluation of measures to support areas of abrupt structural change. The audit found that while not all jobs lost were replaced, the program had a positive employment effect. The report also found that the measures “can be considered successful and sufficiently swift as a rule.” However, the audit also found evaluation shortcomings mean that it is not possible to draw conclusions as to what would have happened without intervention.³⁰

Sweden

Job Security Councils

In Sweden, re-employment support for displaced workers is entrusted to a system of Job Security Councils (JSCs), which are run in parallel to the public employment service. JSCs are established through collective agreements and are financed by employers. There are currently more than 10 JSCs covering approximately 80 per cent of all Swedish workers.

Swedish employers are required to give 6 month advance notification of dismissal to JSCs, which allows for early intervention and improves the ability to transition workers into other employment opportunities without a period of unemployment.

Once notified of a pending dismissal, JSCs provide information and advice to employers and trade unions on ways to manage the transition. This can include seminars and training, by a professional development team, to the executive, line managers and HR professionals on how to manage voluntary and compulsory redundancies, as well as providing information on how to conduct difficult conversations on dismissal.

JSCs provide a range of services directly to workers such as counselling and coaching, activity plans and competence development activities to strengthen workers’ employability. After these initial activities, other measures such as training, personal development and/or help establishing a new business can be provided. There are different approaches taken by different JSCs. For example, the JSC for blue collar workers operates through a network of more than 100 suppliers. Employers can freely choose the supplier and order specific tailor made restructuring programs to be implemented in the workplace.

JSCs are seen as successful in finding new jobs for workers who receive a dismissal notification. On average, 80 to 90 per cent find new jobs within 7-8 months without using any public employment services. However, there are challenges with workers having different experiences depending on the

³⁰ National Audit Office of Finland (2012), Supporting areas of abrupt structural change, Performance audit report.

JSC they fall under, and a very significant and increasing share of workers are not covered by a JSC, including casual workers.³¹

Canada

General overview

Similar to Australia, Canada is strongly influenced by spatial dynamics. In addition, Canada shares a broadly similar institutional, social and economic setup to Australia. These similarities provide a rich background for comparative analysis in the context of regional development policies.

The principle of ‘regional equality’, documented in the Canadian constitution, obligates the federal government to provide ‘equalisation’ transfers and regional development assistance to provinces and territories that are lagging economically. Similar to other commodity producers, Canada has been exposed to the recent downturn which impacted on its regional economies. “In recent years, the significant drop in oil prices has led to a weaker Canadian dollar and reduced economic activity in regions that are linked to the energy sector, notably Alberta, Newfoundland and Labrador and Saskatchewan. Alberta, Newfoundland and Labrador have been hit particularly hard by this shock, however Saskatchewan has been more resilient due to a diversified economy.”³² During this time the Saskatchewan province also implemented Rapid Response Teams to offer one-stop, targeted service solutions for Saskatchewan workers and employers affected by production slowdowns or layoffs. Each team was assembled to address the particular needs of the employer and affected workers, including:

- a description of the Employment Insurance process;
- advice about re-training and advancing along career paths;
- rights and obligations under the Labour Standards Act;
- career and employment services available in the area; and
- resumé and job search assistance.

Labour market assistance in Canada

Canada has a similarly large and diverse labour market to Australia, with wide variations in regional performance across its provinces and comparable industrial trends. Labour market assistance programs and services are generally available for unemployed people, along with programs targeted at a particular cohort of people, such as recently displaced workers.

Box 5: The Ontario Re-Employment and Training Service (RRTS)³³

The RRTS is a three tiered response designed to be activated within an hour of the Ministry of Employment being notified of a layoff of 50 or more workers.

Tier One: If local re-employment services have sufficient capacity to assist the affected workers then the RRTS is limited to delivering information sessions and raising awareness of the different employment services available to displaced workers.

Tier Two: If the local re-employment services do not have sufficient capacity to meet demand, additional services are arranged. This typically includes short term training, supplemental employment services, and establishment of an Action centre. Through an Action centre displaced workers can access job search assistance, financial and personal counselling, individual and group

³¹ OECD (2015), Back to Work Sweden: Improving the Re-Employment Prospects of Displaced Workers, OECD Publishing, Paris

³² OECD (2016), Employment and Skills Strategies in Saskatchewan and the Yukon, Canada, OECD Reviews on Local Job Creation, OECD Publishing, Paris

needs assessments, vocational and educational counselling and referral to other employment programs.

Tier Three: When adjustment situations have an adverse impact on the local economy or community, a larger and boarder inter-ministry approach is taken. A local committee and a Rapid Response team are established and a plan is aimed at being developed within 30 days of the initial response.

Responsibilities for different types of labour market assistance are spread across several levels of government. National-level Employment Insurance and the Connecting Canadians With Available Jobs initiative provide temporary financial assistance to eligible people conditional on active job search or skills training.

The provinces and territories are responsible for the delivery of public employment services, which has led to differences in the design, delivery and management of training and employment programs between provinces, with financial support provided by the Federal Government through Labour Market Development Agreements and Job Fund Agreements.³⁴ The delivery of employment services tends to be flexible by international standards, and can be tailored to local circumstances. For instance, in Quebec individual employment centres have considerable autonomy to target employment and training programs to local client needs, drawing on a flexible funding pool. After the global crisis, the federal and provincial governments were able to scale up active labour market programs with a strong regional level focus.

Box 6: Canadian Indigenous employment initiatives³⁵

Economic development and job creation for Indigenous people is an important priority in Canada. Under Canada's Constitution the Federal Government has primary responsibility for Indigenous peoples. Most of its programs, representing a majority of its spending – are delivered through partnerships with Indigenous communities and federal provincial or federal-territorial agreements.

At the federal level, Employment and Social Development Canada (ESDC) funds Indigenous labour market programs to increase workforce participation and to help Indigenous people prepare for, find, and keep jobs. Indigenous agreement holders deliver these programs across Canada.

ESDC's Skills and Partnership Fund provides a demand-driven, partnership-based contributions program that funds short-term projects contributing to the skills development and training of Aboriginal peoples. This fund helps Indigenous organisations partner with government, business, and local community organisations to improve skills training and create job opportunities. Projects focus largely, though not exclusively, on training for specific job vacancies in high demand sectors (e.g. trades, mining and energy).

An example of a project that was funded under the Skills and Partnership Fund is the Gabriel Dumont Institute (GDI) Aboriginal Apprenticeship Initiative in Saskatchewan. Under the project, entry-level Aboriginal workers were matched with employers willing to train them as apprentices. Between April 2011 and March 2014, the program placed 220 Aboriginal clients, entered into 264 partnerships with employers in 17 different industries; and 157 Aboriginal apprentices had been indentured with the Saskatchewan Apprenticeship and Trades Certification Commission (SATCC).

³³ OECD (2015), Back to Work: Canada: Improving the Re-employment Prospects of Displaced Workers, OECD Publishing, Paris.

³⁴ Please note that the 2017 Canadian budget has proposed to create new Workforce Development Agreements, which will consolidate a number of agreements, including the Canada Job Fund Agreements.

³⁵ OECD (2016), Employment and Skills Strategies in Saskatchewan and the Yukon, Canada, OECD Reviews on Local Job Creation, OECD Publishing, Paris; and Gabriel Dumont Training and Employment, GDI Aboriginal Apprenticeship Initiative, Final Project Evaluation Report, April 1, 2011 - March 31, 2014

The Aboriginal Skills and Employment Training Strategy also provides a suite of skills development and training from essential skills acquisition (e.g. literacy and numeracy) to more advanced training-to-employment programming for Indigenous people across the country.

In 2016, the OECD reported that funding was provided to a network of 84 Indigenous organisations to design and deliver programs and services through over 600 points of service across the country.

Box 7: CanNor³⁶

The Canadian Northern Economic Development Agency (CanNor) has a mandate to advance economic development in Canada's northern territories and serve as the federal hub for these efforts. It delivers a suite of economic development programs, aligning the efforts of partners and stakeholders, particularly among federal organisations, and by developing policy and conducting research. As a key element in Canada's "Northern Strategy", CanNor helps strengthen and diversify the economies in Nunavut, the Northwest Territories and Yukon. CanNor's programs include:

- strategic investments in Northern Economic Development;
- annual funding under the Northern Aboriginal Economic Opportunities Program; and
- the Northern Adult Basic Education Program.

Additionally, the agency coordinates and serves as the regional delivery agent for certain national economic initiatives. CanNor's Northern Project Management Office (NPMO) supports responsible northern resource development by providing guidance to industry and communities; coordinating federal efforts related to the regulatory review of major northern projects, and tracking the progress of projects. NPMO supports a more stable and attractive investment climate in the territories by improving the transparency, timeliness and predictability of the environmental assessment and permitting process. Since its creation in 2009, CanNor has invested in more than 918 projects in all three territories in key sectors, including mining, geoscience, tourism, fishing, cultural industries, skills development, broadband, power generation and infrastructure.

³⁶ OECD (2016), Employment and Skills Strategies in Saskatchewan and the Yukon, Canada, OECD Reviews on Local Job Creation, OECD Publishing, Paris