

Assessment and policy options

How are Australian youth faring in the labour market?

The labour market situation of youth in Australian is quite favourable by international standards. Youth employment rates are substantially above the OECD average (66 to 51% in 2015). At the same time, rates of educational enrolment are high as many youth combine education and work, a characteristic typically associated with smoother school-to-work transitions. The youth unemployment rate in Australia is below the OECD average (10.2 vs. 11.6% in 2015).

The situation is not as positive, however, as before the Great Recession. The current youth unemployment rate is 3 percentage points higher than it was in 2008. The 2015 youth employment rate of is 4 percentage points below the rate attained in 2008.

A more meaningful measure of the labour market performance of young people is the share of all youth who are not in employment, education or training (the “NEET rate”). With a NEET rate of 11.8%, in 2015 Australia does substantially better than OECD countries on average (14.6%), but significantly worse than in 2008 (10.5%). NEET rates in Australia moreover vary substantially across states and territories, reaching nearly 23% in the Northern Territory compared to only 6% in the Australian Capital Territory.

Who are the NEETs, and what are the risk factors?

580 000 young people in Australia aged 15 to 29 years were not in employment, education or training in 2015. Among these NEETs, only one third were actively looking for employment (the *unemployed NEETs*). The remaining two-thirds, i.e. about 400 000 young people, were *inactive*, i.e. not seeking work. Among inactive NEETs, about one-third expressed a desire to work but were not searching for a job various reasons; the remaining two-thirds were unwilling to work.

A number of factors are associated with an increased risk of being NEET:

- Low educational attainment is an important driver of NEET status, in Australia as in other OECD countries. Youth with at-most lower-secondary education (Year 10 Certificate or equivalent) account for more than one out of three NEETs, and their risk of being NEET is three times as high as for those with tertiary education (37% vs 11% in 2013). As a consequence, many NEETs lack foundations skills (numeracy and literacy) and non-cognitive skills, which are important prerequisites for labour market success. Recent research demonstrates, however, that non-cognitive skills, like cognitive skills, remain malleable for young people through special interventions.
- There is a substantial gender gap in NEET rates. The risk of being NEET is 51% higher for women than men and women account for 60% of all NEETs. This gender gap is driven by much higher *inactivity* rates for women, in particular young mothers with a child below the age of 4 years. NEET women consequently tend to spend a significant amount of their time on domestic duties and childcare, while NEET men spend more of their time idle, i.e. engaged in leisure activities and sleeping. Access to, and the affordability of, childcare and the flexibility of working arrangements are important factors for the labour market participation of NEET women.
- NEET rates are substantially higher among Indigenous youth, who represent 3% of the youth population but 10% of all NEETs. For Indigenous youth – unlike for other youth – living in a remote area dramatically raises the risk of NEET status. The overrepresentation of Indigenous youth in remote areas, where labour markets tend to be weaker, makes reaching out to inactive NEETs and promoting successful transitions into employment particularly challenging. In spite of high NEET rates in remote areas, the majority of NEETs live in urban centres.
- Migrants from non-English-speaking countries have higher NEET rates than Australian-born youth and account for 18% of all NEETs in Australia. Young migrants from English-speaking countries and second-generation migrants are by contrast no more likely to be NEET than native Australians.

NEETs tend to exhibit higher rates of psychological stress and lower levels of life satisfaction than non-NEET youth.

Periods of NEET status are relatively common among young people. Nearly 70% of all youth experience a NEET spell between the age of 16 and 24 years, though these spells tend to be short in most cases. Yet, one out of five young people spend more than 12 months as a NEET over the eight-year period between 16 and 24 years. If this pattern continues to hold, this would imply that 58 000 of today's 16-year-olds will go on to become long-term NEETs before they turn 25. The incidence of long NEET spells is higher for low-educated youth, young women (likely again for childcare reasons) and Indigenous youth.

Benefit receipt and the incidence of poverty

Social benefits for working-age persons in Australia are not insurance-based like in most other OECD countries but financed through general taxation. The principal benefit programmes for NEETs are the *Youth Allowance (other)*, which is payable to unemployed youth up to the age of 22 years and the more generous *Newstart Allowance*, payable to unemployed persons aged 22 years and above. Both benefits are means-tested and can in principle be received for an unlimited duration as long as the claimant satisfies their *mutual obligations* activity requirements. Additional categorical social benefits exist including for NEETs with reduced work capacity and for young parents.

The Great Recession led to an increase in benefit receipt among youth, and receipt rates have not declined again since. The share of youth who receive unemployment-related benefits [*Youth Allowance (other)* or *Newstart Allowance*] increased by one-fifth (from 10.1% to 12.2% of youth between 2008 and 2013). Australia also saw a 14% increase in the receipt rate of disability-related payments (mainly *Disability Support Pension* and *Carers Payment*) from 2.4% to 2.8% of youth between 2008 and 2013. Australia was among the OECD countries with the highest rate of disability benefit receipt among youth in 2013. The gatekeeping of these benefits should be monitored.

In spite of rising receipt rates, young recipients spend relatively short time on benefits. For unemployment-related benefits, a majority of young jobseekers receive payments for less than six months. Benefit receipt durations moreover tend to be shorter for youth than for prime-age recipients. Receipt of disability-related benefits tends to last substantially longer, with 70% of spells among youth being longer than one year.

Benefits for youth are strongly targeted, with receipt rates being about twice as high for NEETs than for youth in general. *Inactive* NEETs are more systematically covered than *unemployed* NEETs. This reflects primarily high receipt rates of disability-related benefits and family allowances.

There remains a concern, however, about adequacy of benefit levels. The *net replacement rate* in the initial phase of unemployment, i.e. the ratio between benefit payments to previous earnings, is the lowest in Australia across OECD countries, both for persons below and above the age of 22 years. The net replacement rate is substantially below the OECD average also for the long-term unemployed.

This low benefit generosity is reflected in a relatively high incidence of poverty among NEETs. While the youth poverty rate in Australia is among the lowest across OECD countries (13% compared to 19% in the OECD in 2013), it is nearly three times as high for NEET youth (33%). This is one of the largest NEET / non-NEET gaps in poverty rates across OECD countries.

Raising school completion rates and providing high-quality professional training

The Australian education system performs well overall: completion rates are high and rising, and the share of young adults with below upper-secondary education is now below the OECD average: 13% of all young Australians aged 25 to 34 years, compared to 17% on the OECD average. Disadvantaged students do not do as well, however: youth from low socioeconomic backgrounds, youth living in remote areas and Indigenous youth perform substantially worse in standardised tests. Students from these disadvantaged groups are also less likely to complete Year 12.

Schools have a lot of leeway to adapt their education and training programmes to the needs of low-achievers or disadvantaged students. In recent years, a number of national programmes moreover supported local initiatives to improve schooling outcomes for students from disadvantaged backgrounds. Given the schools' flexibility in allocating their funding, more consolidated information is needed on the special resources that schools dedicate to at-risk youth.

Student performance, including attendance and test scores, is tightly monitored and made publicly available through the *MySchool* website. More could be done, however, to identify and monitor youth at risk of dropping out, and to connect them with external services where necessary. Specifically, information on the attendance of individual students is not systematically shared with external services which could help youth who are disengaging. This is important as reported incidence of students being late for school or absent is comparatively high in Australia.

The VET system is an important educational and training pathway for youth in Australia. The VET system is very flexible and accessible for youth, and it provides a wide range of courses and qualifications. But

completion rates are relatively low (although increasing). Private providers have been allowed to enter the market incrementally, and in 2012, a “student entitlement” system was introduced allowing students to choose a private or public provider using a government voucher. This reform reached the goal of increasing the number of VET participants: enrolment in publicly funded VET increased by 15% between 2008 and 2011. But the reform also created concerns about the quality of VET courses offered by private providers, and possible mismatch between the courses chosen by students and those demanded by employers. The diverse system of degree levels and providers can be difficult to navigate, especially for disadvantaged students. These challenges have been recognised. For instance, information on individual training programme performances will soon be available online on the *MySkills* website; new apprenticeship centres will provide not only advice to employers but also counselling and follow up for youth to improve completion rates.

The Commonwealth-funded *Youth Connections* programme, introduced in 2009, granted substantial resources to states and territories for the support of youth at risk of dropping out to help them remain in school or re-engage in alternative education programmes. These services were delivered by a large network of social service providers, which typically offered individual case management, a first psychological assessment, and training in interpersonal skills, basic life skills, literacy and numeracy. There is evidence that the initiative helped improve educational attainment for youth at risk of dropping out of school. It also made it easier for youth to identify useful providers under a single banner, and facilitated co-ordination among providers. Following the phasing out of the programme in 2014, the necessary funding for some of these activities, notably case management and counselling, is unsecured.

Improve the identification and follow-up of drop-outs and those at risk of disengaging

- *Use already available information on school attendance to identify drop-outs and those at risk of dropping out of school.* The national school authority ACARA collects information on school attendance and publishes school-level results, but this information is currently not used to combat school drop-out on an individual basis. Data on school attendance for youth aged 15-18 should be shared with the Department of Human Services (DHS)/the *Centrelink* benefit administration and local service administrations whenever needed. They should contact youth and their families to identify any obstacles to school attendance, and offer them counselling or alternative learning options.

- *Local service providers should be required to follow-up on youth.* Once youth agree to participate in programmes, local service providers should be required to inform Centrelink and local service administrations on the programme *participation* and progress of these youth on a regular basis.

Improve the governance of publicly funded VET to increase completion rates

- *Improve the provision of information regarding the quality of training.* There are concerns about the quality of training courses offered in an expanding market of private providers. Information on completion rates and (adjusted) employment and earning outcomes should be published on the provider and course level.
- *Step up counselling within the student-voucher system.* Especially disadvantaged students need help to navigate the complex Australian VET system. Counsellors should use outcome-based information on courses and providers to steer youth towards high-quality courses that match labour market demand.

Secure the provision of social services for youth

- *Systematically collect information on services provided at the school level.* Schools have a lot of leeway in the allocation of their resources, and national programmes may support local activities that cater to at-risk youth. These activities should be systematically recorded to identify gaps in local service provision.
- *Secure the provision of social services for at-risk youth and the continued evaluation of programmes.* Youth Connections funded valuable support for at-risk youth, notably counselling and case management, featuring common guidelines for service provision. It is important that youth continue to have access to appropriate support services, and that the impact of these services on educational outcomes be evaluated on a regular basis.

Guaranteeing employment or training options for NEETs in Australia

Employment and social services for NEETs in Australia are provided through a market-based system, in which a large number of for-profit and not-for-profit organisations, chosen through regular tender procedures, deliver services in well-specified geographical areas. This provider-based support system is highly flexible in adjusting to local differences in labour market conditions and the young clients' needs. It can, however, also be

quite complex and at times difficult to navigate, both for clients and providers. Provider compensation is strongly performance-based consisting of relatively moderate per-client administrative fees and more significant outcome payments for moving jobseekers into employment or training. Payment structures provide strong incentives to service more disadvantaged jobseekers (as classified by the benefit administration DHS/Centrelink), and to promote transitions into sustainable employment.

Social services for NEETs were until late 2014 primarily provided through the Youth Connections programme, which also played a central role in outreach to disengaged youth. The DHS/Centrelink benefit administration engages only little in active outreach, and its accessibility to young people could be strengthened. A new Youth Employment Strategy (YES) introduced by the Australian Government in 2016 improves outreach and provides intensive support services for early school leavers. While responsibility for (re-)engaging school-age youth in education is the responsibility of state and territory governments, the YES seems suited to fill some of the gap left through the expiry of Youth Connections. The YES focuses, however, primarily – though not exclusively – on promoting employment rather than education outcomes.

Access to benefits has been restricted and activity requirements further tightened for young jobseekers, who now have to participate in an *approved activity* – typically Work for the Dole (WfD) work experience measures – for six months out of every year. One objective of WfD is for young jobseekers to “give back” to their communities. Also, participation may also reduce income support receipt – partly as young people try to avoid programme participation – and possibly improve non-cognitive skills. There is little robust evidence, however, on its effectiveness for bringing young jobseekers into employment, in particular when compared to alternative measures such as training programmes, though a recent pilot study suggests higher job-finding rates for jobseekers in areas that give greater priority to WfD.

Australia attributes too low a priority to a systematic and rigorous evaluation of the impact of government-funded employment and social programmes.

Strengthen outreach to disengaged youth and those at risk of disengaging

- *Improve accessibility of Centrelink for young people:* Applying for benefits can be a lengthy procedure involving often substantial waiting times. This is likely to discourage vulnerable youth from claiming benefits. While the DHS encourages young people to file

their benefit claims online, specialised youth service desks at DHS/Centrelink offices could improve young people's access to employment services and hence reduce inactivity.

- *Allow for a co-operation between employment services and schools:* DHS/Centrelink and jobactive providers currently do not collaborate with schools and teachers to support students in their final year of high school. Through a greater presence in schools, Centrelink staff or jobactive providers could co-operate with school career guidance counsellors, and provide timely support to students who have troubles making a transition into further education or work.

Secure the provision of social services to youth with multiple barriers

- *Follow up on the recent tightening of eligibility requirements for young people:* Australia's *learn-or-earn* strategy for young jobseekers and the tightened eligibility requirements for income support can encourage active job search. These policies however can also raise hurdles to claiming benefits and receiving employment support for jobseekers who have difficulties coping with these stricter requirements. A strong social support for vulnerable jobseekers is needed to keep them connected with the benefit administration and to reduce the risk of increased inactivity and possibly youth poverty.
- *Ensure sufficient social support for jobseekers with identified barriers:* Employment service providers face strong incentives to serve disadvantaged jobseekers, yet they often lack the capacity to provide case management and intensive support to youth with multiple barriers. To help these young people move into work or training, employment services will need to secure access to social and mental health support for the most vulnerable youth also after the expiry of Youth Connections.

Maintain the focus on training for young jobseekers to improve employment outcomes

- *Promote training participation among young jobseekers:* Young jobseekers' participation in training programmes increased over the last years, but this trend came to a halt with the recent expansion of Work for the Dole. Given strong evidence on positive employment effects of training including for disadvantaged jobseekers, Australia should continue promoting training programme participation as an effective way of moving young jobseekers into stable employment.

- *Guarantee a sufficient offer of foundations training programmes:* Poor numeracy and literacy skills are an important obstacle to employment or training participation among NEET youth. Only few registered young jobseekers however participate in training programmes at lower-secondary level. To give low-skilled young jobseekers a perspective of moving back into education or employment, Australia should expand the availability of high-quality courses in foundations training, including in the form of more comprehensive second-chance programmes that combine training with social support, health care and possibly accommodation.

Establish an impact evaluation system for programmes for at-risk youth

- *Systematically require the rigorous evaluation of Commonwealth-funded programmes:* The choice and compensation of employment providers in Australia is strongly performance-based. By contrast, only very few employment or social programmes for at-risk youth are rigorously evaluated for their impact. The Commonwealth Government should systematically tie the provision of funding to a strict evaluation requirements, earmark a part of the funding for evaluation, and specify methodological minimum standards. Major Commonwealth-funded programmes – notably *Work for the Dole* and *headspace* – should be evaluated using (quasi-)experimental techniques.
- *Facilitate researcher access to administrative data:* Australia has a large network of excellent research institutions and scholars, which could be involved more strongly in the process of systematically evaluating programmes for at-risk youth. Such greater involvement of the academic community could be promoted through a wider sharing of anonymised administrative data for research purposes and the consultation of researchers during programme design processes.



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