



Summary and Recommendations

ACOSS Submission into the Review of Australia's Welfare System

‘The system should have adequate payments based on need that encourage people to prepare for and seek work where it is reasonable to do so. It should support people who are unable to work. It should feature fair returns from work, individualised requirements for participating in the workforce, and support services that build individual and family capability.’ Reference Group Interim Report, p6.

Social security for people with little or no private income is a fundamental obligation of Government. The social security system sits at the centre of a network of support services that are essential for people who need or provide care, and those seeking paid employment. ACOSS called for, and welcomes, a comprehensive review of these support systems.

The Interim Report busts a few myths about reliance on social security. It notes that:

- The proportion of people of working age on income support has fallen by one-third over the last 17 years, from 25% in 1997 to 17% in 2013.
- The proportion of people of working age on the Disability Support Pension remained ‘generally steady over the last decade’¹.
- Expenditure on income support payments for people of working age (including Newstart Allowance, Disability Support Pension, Youth Allowance and Carer Payment) comprises under 40% of all money spent on cash social security payments, most of which is devoted to Age Pension and Family Tax Benefits.

Australia’s social security system is lean by international standards and growth in the cost of working-age payments is far from ‘out of control’. Spending on cash benefits is the second lowest among the 33 OECD countries, and typical payment rates for people who are unemployed are the ninth-lowest ².

¹ Welfare Review Interim Report Appendix G, p163.

² OECD Social expenditure data base and Benefits and wages data base (2013 and 2010 respectively).



Social security payments: inadequate and complex

The Welfare Review is an opportunity for the Government to reset its social security policies from the harsh payment cuts announced in the Federal Budget, and invest in policies that reduce poverty, improve fairness, and promote employment.

The Report identifies the key flaws in the social security system, including the inadequacy of the lower 'allowance' payments such as Newstart Allowance (\$36 a day) and student payments (\$30 a day), the growing gap between these and pension payments, the increasing complexity of the system, barriers to employment, the arbitrary fall in payments for sole parents as their children grow older, and ballooning housing costs for people on low incomes. It acknowledges the widespread calls for an increase in Newstart Allowance, both in previous reviews (The Henry Report and a Senate Inquiry) and from the wider community.

Regrettably, a previous Welfare Review in 2000 identified the same set of problems. At their heart lies the widening payment gap between 'allowances' like Newstart and 'pensions' like Disability Support Pension, which has grown from around \$50 to almost \$166 a week over the last six years.

The historical division of social security payments between lower 'allowance' and higher 'pension' payments is out of date, unfair, and discourages participation in the labour market. The system divides people into a group deemed 'able to work' (undertake paid employment) and a group deemed 'unable to work'. Those deemed 'able to work' receive the lower allowances such as Newstart Allowance because they are assumed to need only short term income support. The higher 'pension' payments such as Disability Support Pension or Carer Payment are for people deemed 'unable to work'. While they don't have job search and training requirements like those on allowances, they receive less help to transition to employment.

The idea that people with disabilities or caring roles are 'unable' to do paid work is out of tune with modern thinking about disability, work and care. At the same time, the idea that Newstart Allowance is a short term payment is simply wrong. The average period on income support for recipients of that payment is now over four years.

As the Report acknowledges, the division of payments into pensions and allowances means that people with the same living costs receive vastly different levels of support. It makes common life transitions – including from income support to employment - much harder for people on the lowest incomes. When a person with disability moves from the Disability Support Pension (DSP) payment to employment and then loses the job, they face the prospect of having to apply for a Newstart Allowance that is \$166 a week



lower. When a sole parent's youngest child reaches eight years of age, the family typically loses \$72 per week as the parent transfers to Newstart Allowance. Yet the cost of children rises as they grow older. When a person stops caring for a chronically ill relative and starts searching for a paid job, they move from Carer Payment to Newstart and lose over \$220 a week.

The division of payments into pensions and allowances is the reason that a succession of 'Welfare to Work' policies has led to sharp reductions in income support for many sole parents and people with disabilities. The victims of these policies include over 100,000 people on Newstart Allowance are assessed as having a 'partial work capacity' and at least 100,000 sole parents. If there was no difference in payment levels for those who are required to seek employment and those who are not, 'Welfare to Work' policies would not have resulted in payment cuts. Instead of wasting time and energy assessing whether people are 'unable to work' and then shuffling them between payments, these policies could focus on helping people to find paid employment and move off income support.

Another outdated distinction is that between unemployment allowances and student payments, which are \$48 a week less for adults aged 24 to 64 years, on the false assumption that students, regardless of their age, are financially supported by their parents.

The problem is not that there are too many payments. It is that the payments are not based on people's financial needs. Instead they are based on increasingly complex and obscure assessments of people's future employment potential – whether they are 'unable' to work and therefore deserving of more support, or 'able to work' and therefore partly at fault. This policy thinking not only clashes with a basic tenet of fairness: that income support should be based on need. It also runs counter to employment participation policies because the closer people get to paid employment, the greater the risk that they will be transferred to a lower payment. This is the fear that stops many people on DSP from seeking employment.

Payment reform: a tune up or a new engine?

The solution to these problems is to remove the distinction between pensions, allowances and student payments and replace them with a common income support payment level that is adequate to cover the cost of life's essentials. People with extra costs, including the costs of a disability, the costs of care, and the extra costs of caring for a child alone, should receive supplementary payments in addition to any entitlement they may have to the common income support payment. This was the model advocated by the previous Welfare Review in 2000, and by a similar Review in New Zealand in 2011. It is being implemented in the United Kingdom where the common payment is called 'Universal Credit'. It is



possible to reform the system in this way so that no current or future social security recipient is financially worse off, and those in the deepest poverty are better off. This undertaking should be given to allay the legitimate fears that many people hold - especially people with disability given recent media reporting – that payment ‘reform’ will leave them worse off.

The Interim Report stops short of this kind of reform. It suggests instead that the present division between pensions and allowances be ‘fine-tuned’ by adding an intermediate ‘tier’ of payments in between pensions and allowances for people currently in the allowance system who have limited ‘work capacity’. The main benefit of this approach is that many people currently receiving the lowest payments (for example, people with a partial work capacity and sole parents on Newstart Allowance) would receive this higher payment instead. A major problem is that many people who would receive pension payments under the present system would instead receive the lower intermediate payment. The Report proposes that the DSP be restricted to a small minority of people with ‘permanent’ incapacity. The other major problem is another group deemed ‘fully able to work’ would languish on the lowest payments. The incentives for future Governments to save money by shifting people from higher to lower payments, by restricting access to either pension payments or the intermediate payment, would remain.

The basic problem with the Interim Report’s ‘tiered payment level’ proposal is that it follows the flawed logic of the present system, that levels of payment should be based on people’s future work prospects instead of their current financial needs. Assessments of ‘ability to work’ would be even more complex and fine grained than they are now because three tiers of income support payments (pensions, allowances and student payments) would be replaced by four (with an additional tier in between pensions and allowances).

The first issue to be resolved in any payment restructure is the level of the base rates of income support payments for single people and couples. The 2008 Harmer Report of pensions argued that they should be high enough to achieve a ‘basic acceptable standard of living’. Setting maximum payment rates to meet this goal is a complex task, which the Harmer Review was unable to properly complete because payment adequacy for unemployed people, sole parents and students was excluded from its terms of reference. Similarly, the present Welfare Review works in the shadow of Budget decisions that would strip unemployment payments from many young people for six months of every year and remove the indexation of pension payments to wage movements.

The assessment of payment adequacy should be distanced from the ‘rough and tumble’ of the political process, without denying the Government of the day and the Parliament the power to make the final decisions over a substantial part of the Federal Budget. We therefore propose that an independent expert



Commission be appointed by the Government to recommend benchmarks for the adequacy of income support payments in a reformed payment system for people of working age, and that it report regularly to the Parliament (at least every five years) on payment adequacy.

There is no need for further review before the Government implements improvements in payments to ease the worst poverty. These areas of greatest need have already been highlighted by previous expert reviews and the Interim Report. They include:

- An increase in the lowest allowance payments for single people:
Based on the formula developed by the Pension Review and Henry Report, payments increases for single pensioners worth \$50 a week should now extend to single people on allowance payments, including sole parents.
- Increases in Rent Assistance for those paying the highest rents:
We propose in the short term, a 30% increase (\$20 a week) in the maximum rates.
- Increases in payments for sole parent families with school age children to stop their overall income support levels from falling as children grow older:
We propose a \$22 a week increase in Family Tax Benefit Part B for sole parents with school age children.
- Raising payments for adult students to at least the same level as Newstart Allowance. This requires a \$48 a week increase.

Mutual obligation: What should be expected from Government employers and service providers?

The Report rightly argues that Governments, social security recipients, employers and community services share responsibilities to prevent poverty and reduce the need for people to rely on income support.

Governments are responsible not just for providing income support, but also for employment assistance that is relevant to the needs of individuals and the labour market. As the population ages and labour shortages again emerge, we have an opportunity to reduce poverty and grow the economy at the same time by bringing more people off income support and into secure employment. This will not be easy because most people who receive working age social security payments now face considerable barriers to employment including disabilities, caring responsibilities, low skills, and long-term unemployment.

The present employment services system (Job Services Australia and Disability Employment Services) does not provide the individualised help which people who are most disadvantaged in the labour market need. Two-thirds of Newstart Allowance recipients have been out of paid work for over a year. Under the



present system, the level of help available to them falls over time so that after a year's unemployment it is typically limited to an interview every two months and \$500 worth of training or work experience. As a proportion of gross domestic product, the Australian Government spends half as much on employment assistance than the OECD average³. This is false economy.

The proposed new employment services system announced by the Government would not invest more money overall in help for people who are unemployed long term or disadvantaged in the labour market. It shifts resources from vocational training to Work for the Dole, a program which evaluations here and internationally shows has little or no positive impact on people's future employment prospects. Along with proposals to double the number of jobs people must seek from 10 to 20 a fortnight, and remove unemployment payments from 100,000 young people for six months of each year, this is a punitive approach, not an effective strategy to help people find paid work. On the other hand the Government's proposed expansion of wage subsidies for people unemployed long-term is more likely to boost employment because it gives people opportunities to demonstrate their abilities and learn new skills in a 'real' paid work setting.

As the Interim Report argues, employment assistance and related support services are not just an expense. They are an investment which can save Governments money in future benefit costs, help grow the economy, and redress social disadvantage. The greatest fiscal savings and economic and social benefit will come from investment in people who are disadvantaged in the labour market. There are two missing links in the present system of employment and related supports for these people.

The first is partnerships with employers. ACOSS, together with the Business Council of Australia and Australian Council of Trade Unions recently proposed the employment services system could be reformed to encourage enduring partnerships between employers and job service providers to prepare, train and recruit people from groups they might not ordinarily employ – including long-term unemployed people, people with disabilities and Aboriginal and Torres Strait Islander peoples. Rather than establish a parallel system of recruitment supports for employers, the employment services system should be redesigned to perform that role more effectively.

Secondly, employment services, health and social support services, and schools and training providers lack the resources and incentives to provide intensive case management and employment support to people facing complex and multiple disadvantage, including many homeless people, people with mental

³ 0.3% of GDP compared with 0.6%. OECD Social expenditure data base (2010).



illness, and people living in deeply disadvantaged communities. All too often, these services find that their role is limited to crisis management rather than prevention and advancement, or that funding contracts encourage them to assist those who are easiest to help. Restrictive funding contracts and limited resources also limit their ability to work together to help people in disadvantaged circumstances to find a pathway out of poverty. Often the same individuals are assisted by many agencies yet there is little interaction between them.

Mutual obligation: What should be expected from people receiving income support?

ACOSS supports reasonable 'economic participation' requirements for people in receipt of income support: to search for jobs, undertake training and take other steps that directly improve their employment prospects, to the extent that they are able. The common income support payment we advocate for people of working age would still need categories such as disability, caring and parenting, to take account of the effects of disabilities and caring roles on the economic activities people can reasonably be expected to undertake, even though the *level* of this payment would be the same among these groups. At the same time the new payment structure we propose would allow for greater flexibility in activity requirements and supports for people with barriers to paid employment because people would no longer be artificially divided into a group that is 'pensioned off' and another that faces the full gamut of activity requirements.

We do not support the Interim Report's proposals to extend activity requirements beyond economic participation to social requirements and to control the spending of income support. The Report suggests that young people who are unemployed should have their finances managed by Centrelink (assuming that they don't budget properly) and that parents should lose income support if their children fail to attend school (assuming that they are not good parents).

There are three problems with these proposals. First, they needlessly stigmatise people because false assumptions are made about them merely because they receive social security. Second, they are discriminatory. *All* parents should care for their children and ensure they attend school, and everyone who needs it should have access to financial counselling. Additional social requirements should not be imposed on people merely because they receive certain payments, or because of their race. Both these approaches have been imposed on people living in Aboriginal communities in the Northern Territory.

The third problem with these attempts at 'social engineering' through income support is that they are futile and wasteful. Over \$1 billion has been spent on compulsory 'Income Management' with little to show for it. Evidence presented in the Interim Report in favour of these approaches is weak and selective.



The only credible evaluation of income management reported that the automatic extension of controls over how people in Northern Territory Aboriginal communities spent their social security payments had no measureable impact on child and family wellbeing or budgeting skills, and that people felt stigmatised⁴. A more effective strategy to combat complex social problems such as child neglect and addictions in impoverished communities is a combination of ‘case management’, reducing access to harmful substances and activities where appropriate, and improving access to incomes and employment opportunities. These strategies should be negotiated with individuals and communities, not imposed from Canberra.

The Welfare Review Panel has a big task ahead of it and too little time (less than two months) remaining to complete it. The problems it identified have existed at least since the last major review in 2000, and some have worsened. It is vital that the Panel is given time to get the policy settings right. To do so it needs to engage with experts in the field, including independent advocates for people on income support, direct service providers, and social security recipients themselves.

It is also vital that the Government steps back from Budget proposals that would seriously weaken the safety net and the coherence and feasibility of welfare reform. We call on the Government to take this opportunity to reset its social policy from Budget proposals that *shrink* the safety net towards a coherent plan to *reform* it.

Recommendations

Conduct of the Review

1. The social security and related support systems for people of working age should be reformed in partnership with people receiving income support, and relevant peak and community organisations. To achieve this, the Government and Review Panel should:
 - (1) extend the discussion period for the Review to at least three months before recommendations are finalised;
 - (2) hold national meetings with relevant peak and consumer bodies and independent experts;

⁴ Centre for Aboriginal Economic Studies, Social Policy Research Centre and Institute for Family Studies (2103), ‘Evaluation of New Income Management in the Northern Territory.’



(3) undertake facilitated consultations with people receiving relevant social security payments, ensuring that these meetings and information on the Review are accessible to people with disabilities as well as people with limited literacy skills;

(4) undertake discussion with stakeholders of detailed options for reform informed by modelling of their likely impacts, which is made publicly available.

(5) withdraw or suspend Federal Budget proposals that pre-empt the Review's recommendations and undermine the coherence and feasibility of welfare reform, including six month waiting periods for unemployment payments for young people, indexation of pensions to the Consumer price Index (CPI) only, and changes to Family Tax Benefit Part B.

2. The Government should promptly publish the Panel's Final Report, its responses to the recommendations, and the next steps it proposes to take.

3. Throughout the Review, the Government should:

(1) ensure that people relying on income support, including people with disabilities, sole parents, carers, and people who are unemployed, are treated respectfully in its public commentary and media management strategies;

[see the attached deeply troubling media headlines]

(2) undertake a public education effort to inform people of the facts about the social security system and those who rely on it, and to challenge prejudice and stigmatisation of social security recipients.

Future directions for reform of social security for people of working age

It is too early in the process for us to advocate a detailed blueprint for reform. However a reformed social security system for people of working age should have the following features.

Payment structure:

1. The system of social security payments for people of working age should have two components: a common income support payment and supplements, both of which are based on financial need rather than work capacity or future employment prospects.



Adequacy:

2. (1) The maximum rates of income support payments for singles and couples should be adequate to achieve a basic acceptable standard of living; that is, to prevent poverty.

(2) People facing broadly similar living costs should receive the same levels of payment, and people whose living costs remain the same (or increase) should not be moved from higher to lower payments.

3. The maximum rates of income support payments for singles and couples should be benchmarked to broader community living standards by linking them to a common measure of wages:
 - (1) A measure of gross (before tax) fulltime median wages would be appropriate for this purpose.

 - (2) The development of this benchmark should be informed by a public inquiry into minimum socially acceptable living costs conducted by an independent Commission of experts appointed by Government for that purpose. The Commission should take into account measures of the living standards of social security recipients (including poverty, deprivation and budget standards) relative to broader community standards and also between different groups of social security recipients.

 - (3) Once the benchmark is set, base rates of payment should be indexed every six months to movements in the benchmark wage as well as the ABS Pensioner and Beneficiary Living Costs Index, whichever results in the higher payment.

 - (4) The independent Commission should report to the Parliament on the adequacy of base rates of payment and supplements on a regular basis, at least every five years.

 - (4) Budget proposals to index social security payments to the CPI (only) should be abandoned.

4. Supplements should be paid to income support recipients and others on low to modest incomes to meet specific major non-discretionary costs, including but not limited to:
 - (1) housing rents;

 - (2) costs of disability (as a complement, not a substitute, for the National Disability Insurance Scheme);



- (3) costs of caring for a person with a disability (as a complement, not a substitute, for the National Disability Insurance Scheme);
 - (4) the extra costs of raising a child alone;
 - (5) the costs of job search and training for people out of paid work;
 - (6) retention of a separate system of Family Tax Benefits to assist low and middle-income-families with the costs of children.
5. Comprehensive action should be taken to improve the affordability of housing for people on income support, especially in areas with substantial job vacancies:
- (1) Rent Assistance payments should be adequate to prevent housing stress and indexed to movements in rents;
 - (2) Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.
6. In setting future rates of payment for income support and supplements, the Government should ensure that no group is financially worse off and that those facing the greatest hardship are better off. This includes future applicants for social security.
7. Income support payments and supplements should be available to people when they are needed, for as long as they are needed:
- (1) Any waiting periods should be designed to avoid financial hardship. Budget proposals to increase the current one-week waiting period for young unemployed people should be abandoned.
 - (2) No time limits should apply. Budget proposals to limit payments for young unemployed people to six months at a time should be abandoned.

Targeting to need:



8. Income support payments should be targeted to people in financial need through means tests which:
 - (1) ignore modest levels of private income and assets;
 - (2) ensure a fair return to paid work;
 - (3) supplement part time but not full time employment in cases where people are expected to seek fulltime employment;
 - (4) supplement low paid full time employment as well as part time employment in cases where work capacity is limited by disabilities or caring responsibilities.
9. (1) Supplements should be targeted less strictly than income support payments, in accordance with the purpose of the supplement (for example the costs of disability or housing do not diminish once a person enters employment):
 - (2) Supplements should generally extend at least to low paid full time wage earners and in some cases should also extend to middle-income-earners.
10. (1) Income tests should be simpler and easier to understand and comply with.
 - (2) Income tests should be more flexible in the timing of their application, including through the use of a simple and consistent set of 'income banks', and take account of earnings at the time when people can reasonably expect to receive them.

Mutual obligations of social security recipients, Governments, employers, and service providers

11. (1) Any participation requirements for social security recipients should be balanced by responsibilities of Governments, employers and service providers to ensure that suitable paid work is available, that recruitment practices are fair, and that individualised help is available to people to secure a job (as proposed below).
 - (2) Where suitable jobs and supports are limited or not available, participation requirements should be adjusted accordingly.



12. Any participation requirements should be reasonable, predictable, individually tailored and negotiated, and designed to directly improve each person's paid employment prospects:
 - (1) No requirements should apply for people whose disabilities or caring responsibilities preclude employment for the foreseeable future;
 - (2) Requirements should be adjusted, and appropriate services and supports offered, for people whose disabilities or caring responsibilities limit their employment capacity, so that they can realistically combine care and workforce participation;
 - (3) Compliance systems should be based on re-engagement not punishment and penalties should be designed to avoid placing people in severe financial hardship. The maximum eight-week suspension of income support should be reduced.
13. Participation requirements should not extend beyond activities that directly improve employment prospects, and should not include the regulation of social behaviour, care of children, or requirements to undertake medical treatment.

Legislative basis, form of payment, and administration:

14. Social security payments should continue to be paid as legislated entitlements, administered by a public body, and subject to a fair, accessible and quick external appeal system.
15. (1) Social security should be paid as cash benefits without restriction on their use, unless the recipient or local community elects to receive social security in a different form (for example, to pool payments to provide employment in a remote community).
 - (2) 'Income Management' should not be compulsory and should not apply automatically to categories of people based on benefit type, location, or race.

Financing:

16. (1) Social security payments should continue to be financed from general Commonwealth revenue and reform should not be arbitrarily constrained by a cost neutrality requirement.



(2) Instead, the future fiscal, economic and social benefits of investment in reform should be assessed and where possible quantified.

Individually-responsive employment services and supports

17. The employment services system should be reformed to:

- (1) give people greater choice and control in their pathway to employment and the services they receive;
- (2) increase and better target resources (including Employment Fund and service fees) to support lower caseloads and individualised investment in training, work experience and other help for people unemployed long-term
- (3) reduce administrative oversight, control and reporting requirements while ensuring that jobseekers receive a quality service.

18. The proposed wage subsidy schemes for people of different ages should be integrated into a single scheme targeting people unemployed long-term. This should be expanded in preference to unpaid 'make work' schemes such as Work for the Dole.

19. Employers and employment services should be actively engaged, supported and expected to partner to support recruitment from groups facing labour market disadvantage, including people unemployed for over two years, people with disabilities and Aboriginal and Torres Strait Islander people who are assessed as facing significant labour market disadvantage, by:

- (1) re-engineering employment services programs and the vocational education and training system so that providers have more resources and incentives to partner with employers to assist them into secure jobs [more detail is provided in our joint statement with the BCA and ACTU on employment partnerships in attachment 5];
- (2) introducing requirements to recruit from these target groups by Governments and their contractors.
- (3) To prevent duplication and bring such employment partnerships up to scale, they should be integrated with employment services rather than funded separately.
- (4) To ensure cost effectiveness, they should be targeted to the most disadvantaged jobseekers



rather than a demographic group as a whole.

20. Funding arrangements for employment, training and community services should provide scope for intensive case management for people facing complex and multiple disadvantage (for example, homeless people and people with severe mental illness, and people living in deeply disadvantaged communities) and for sustained collaboration between these services to develop pathways to secure employment.

More detail is provided in our submission on reform of employment services at:

[http://acoss.org.au/images/uploads/ACOSS Partnerships for Participation Employment Services Submission.pdf](http://acoss.org.au/images/uploads/ACOSS_Partnerships_for_Participation_Employment_Services_Submission.pdf) and as attachment 6.

Immediate priorities for reform of social security for people of working age

21. To reduce the most severe poverty and gaps between pension and allowance payments, maximum single rates of Newstart and other allowance payments, including student payments and payments for young people living independently of their parents, should be increased by \$50 per week, so that they receive the same increases granted to pensioners in 2009.
22. In addition to the increase proposed above, student payments for single adults over 24 years of age (Austudy and Abstudy Payment) should be increased by \$48 per week, to reach the same level as other allowance payments such as Newstart Allowance.
23. Social security payments for sole parents with school age children should be increased to prevent the overall income support package for these families from falling as children grow older:
 - (1) In addition to the above \$50 per week increase in Newstart Allowance for sole parents with school age children, Family Tax Benefit Part B for sole parents with school age children should be increased by \$22 per week, to the same level that applies to those with younger children.



(2) These two measures would restore maximum payment levels for those sole parents affected by recent decisions to transfer them from Parenting Payment to the lower Newstart Allowance.

24. Rent Assistance for those paying the highest rents should be increased by 30% (\$20 per week for a single person living alone) and indexed to national movements in median rents.

25. A Taskforce should be established to undertake a comprehensive simplification review of eligibility requirements for existing income support and supplementary payments over the next 12 months, in consultation with community stakeholders.