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Australian
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Budget Priority Statement 2011-12

Recommendations for the Federal Budget 2011-12

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Overview

In this submission, ACOSS outlines policy recommendations for consideration by the Federal Government in its 2011-12 Budget. The submission is made against the backdrop of the Government's fiscal commitments to restore the Budget to surplus and the need to fund the restoration of essential infrastructure following the disastrous floods in Queensland, Victoria and Northern New South Wales.

The submission proposes modest increases of \$3,980 million in 2011-12 (\$5,148 million in 2012-13) in expenditures to meet pressing social needs in areas such as affordable housing, dental health, and income support and employment assistance for unemployed people. These are offset by expenditure savings of \$1,720 in 2011-12 (\$1,605 in 2012-13), and by proposals to strengthen the income tax revenue base by closing off tax avoidance opportunities to raise an additional \$1,500 million in 2011-12 (\$2,900 million in 2012-13).

ACOSS supports a tight fiscal approach being taken to the 2011-12 Budget aiming to strengthen the budget bottom line whilst the economy grows, whilst recognising that the impact of the national flood crisis may require flexibility in this regard. At the same time, the Government should use the Budget invest in essential programs for reducing poverty and inequality in Australia which should be a core goal of every national Budget.

It is vital that the Federal Government invests in measures now to reduce long term unemployment, improve housing affordability and resolve health inequities. Whilst Australia was not as affected by the global financial crisis as other wealthy countries, and has a relatively low unemployment rate of around 5% compared to an average for wealthy nations of 9%, the economic downturn is casting a long shadow. About one in 10 people in Australia continue to live in poverty. Young people and sole parents are particularly hard hit, competing for jobs in the face of unemployment rates of 14% and 10% respectively. As was the case after previous recessions, the level of long term unemployment is now rising. Over half of the 600,000 people on the Newstart Allowance (the unemployment payment) have received that payment for longer than a year. Reducing long term unemployment is one of the most important things governments can do to prevent social exclusion.

ACOSS expresses its deep concern that the rates of income support for people who are unemployed and for single parents are now so low – for example \$235 per week for a single unemployed adult - that it is virtually impossible for these households to meet their reasonable essential costs and live with dignity. Increasing these income support payment levels is now an urgent national priority.

ACOSS had warmly welcomed the major initiatives of the Rudd Government to improve housing affordability and reduce homelessness in the first term of the Labor Government. However, this agenda requires ongoing investment with a long term vision. Australia's housing costs, particularly rental costs, are some of the most expensive in the developed world.

In order to meet these economic and social needs and restore the Budget to surplus in a reasonable time-frame, bold action must be taken to curb poorly targeted expenditures and wasteful programs and to close tax loopholes which disproportionately benefit higher income earners. Over much of the past decade, a substantial part of the fiscal proceeds of the mining boom was devoted to poorly targeted direct spending and tax expenditures instead of improving our essential social and economic infrastructure and the lives of people who are the most disadvantaged.

Poorly targeted programs established or expanded at this time included 'rebates' for expenses such as health insurance, child care, school costs, and tax concessions based on people's age rather than ability to pay. These programs failed to tackle the underlying causes of increases in the cost of living including inflation in house prices, and the declining quality of basic education, health and aged care services. Indeed, some of the new 'rebates' contributed to the problem by inflating the costs of essential services. At the same time, Governments have failed to close off long standing tax loopholes and shelters which allow people on higher incomes to pay less tax than they equitably should.

The imbalances between the generous funding of poorly targeted schemes and the simultaneous decline in essential services and supports, and between the generosity of tax concessions for people in the top income tax brackets and the parsimony of support for people who are most disadvantaged, should be redressed.

This submission is a balanced combination of carefully targeted expenditure priorities to ease poverty and disadvantage and revenue measures and expenditure savings to help restore the budget bottom line.

Proposed new expenditures are estimated to be \$3,980 million in 2011-12 (\$5,748 million in 2012-13), offset by expenditure savings of \$1,720 million in 2011-12 (\$1,605 in 2012-13). They include the following proposals, among others outlined in this submission:

- Introduce a paid work experience program to improve the job prospects of long term unemployed people receiving Job Services Australia services (\$200 million in 2012-13)
- Establish an Affordable Housing Growth Fund to expand the stock of affordable housing, with a down-payment of \$1000 million in the first year and increased and sustained long-term ongoing funding
- Raise the level of payments for Newstart Allowance, Youth Allowance and other Allowance payments for single adults and young people living independently of their parents by \$50 per week, and raise the level of Parenting Payment Single to this new single Allowance rate (\$550 million);
- Increase the maximum rate of Commonwealth Rent Assistance by 30% to assist people on low incomes to meet rising rental costs (\$225 million);

- Index community services funding (\$310 million); and
- Develop a national population-based oral health program (\$720 million).

Revenue recommendations to help meet the cost of these expenditure proposals are estimated to raise \$1,500 million in 2011-12 (\$2,900 million in 2012-13). They include the following proposals, among others outlined in this submission:

- Reform of the tax treatment of private companies and trusts to stem their use to avoid personal income tax obligations (\$1,400 million in 2012-13);
- Fairer and more consistent tax treatment of lump sum termination payments such as 'golden handshakes' (\$500 million);
- Removal of recently introduced additional tax concessions for capital gains on the sale of small business assets (\$1000 million).

Community Services

Community services provide vital support for the health and welfare of all Australians. Their services span disability and aged care, child care, family relationships, homelessness and emergency accommodation, mental health and drug and alcohol, domestic violence, sexual assault, legal, emergency relief, financial counselling and child protection. Yet these services face a major challenge to their effectiveness, as they are routinely underfunded. The Productivity Commission found that governments themselves tend to fund only 70% of the costs of the services that they contract community organisations to provide. Moreover, government contracts have grossly undervalued inflation and so have driven a decline in funding in real terms, even as demand for services in many areas has increased.

In the context of the fiscal restraint anticipated for the coming Budget, ACOSS recommends starting a process that will enable the Federal Government to redress its own role in this chronic underfunding in a long-term and sustainable way. The Commonwealth does not have a consistent or adequate approach to indexation of funding to community organisations. Preliminary data from the 2009-10 financial year indicate that it is possible that more than half of organisations surveyed may have received no indexation on their Commonwealth funding¹. The average indexation rate was 1.2% during this period². At the same time CPI for electricity and property rates and charges rose 6.0% and 6.2% respectively, which directly affect service costs.³ Meanwhile the wages in the sector have continued to decline significantly in real terms, compared with a 3.6% increase in the trend index for all employee jobs in Australia over the previous year.⁴ The pay disparity in the community sector also continues to be a major barrier to the efficiency and effectiveness of services, particularly given its implications for workforce attraction and retention issues (see subsequent chapter on Sector Development).

ACOSS again proposes that the Wage Price Index, when greater than the Consumer Price Index for the same period, be used as the primary index for annual funding adjustments as it more accurately measures cost inflation faced by organisations. In recognition of past inadequate indexation, it is recommended that the Government provide an initial increase of this amount across its funded programs, including to the states and territories, via Specific Purpose Payments.

The current system of child care payments is complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. The Child Care Rebate (CCR) is inherently regressive as it covers part of the gap fee between income-tested Child Care Benefit (CCB) and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care.

¹ Data from the 2011 ACOSS Community Sector Survey, unpublished.

² Data from the 2011 ACOSS Community Sector Survey, unpublished.

³ Australian Bureau of Statistics (2010a), '6401.0 - Consumer Price Index, Australia, Sep 2010', <http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/6401.0?opendocument#from-banner=LN>.

⁴ Australian Bureau of Statistics (2010b) '6345.0 - Labour Price Index, Australia, Sep 2010', <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0>.

Recommendation 1: That the Government ensure that funding for the delivery of community services includes adequate price indexation.

A standard rate of indexation applied to Commonwealth contracts with the not-for-profit social service sector will go towards the consistent and adequate funding of community services.

Cost: \$310 million in 2011-12⁵ (\$324 million in 2012-2013)

Recommendation 2: That the Government abolish the Child Care Rebate and increase the maximum rate of Child Care Benefit

The Child Care Rebate should be abolished and replaced with a minimum rate of Child Care Benefit (possibly paid universally for child care services). The maximum rate Child Care Benefit should be increased to better reflect the actual costs of providing quality care.

Cost: Revenue neutral⁶

TOTAL COST: \$310 million (\$324 million 2012-2013)

⁵ This figure is based on data from several key cost areas: the Child Care Benefit, the Child Care Tax Rebate, DoHA Residential Care funding, DEEWR Job Network and other employment program funding, and the Disability and HACC SPPs

⁶ Savings from abolishing the Child Care Rebate should be re-directed towards establishing a minimum rate of Child Care Benefit and increasing the maximum rate.

Employment, Education and Training

The level of unemployment has declined and is close to its pre-GFC lows but the majority of those receiving unemployment payments are now long-term unemployed and disadvantaged in the labour market. Prolonged joblessness is socially corrosive, leading to severe health problems, family breakdown and the entrenchment of social exclusion in the worst affected communities.

The new Job Services Australia (JSA) employment services system significantly improves on the previous Job Network arrangements. Instead of prescribing a fixed sequence of employment assistance for all, it gives providers more flexibility to respond to individual needs. The major weakness of the new system is that after 12 months of unemployment, most people will be offered a very low level of assistance because the Work Experience phase of the new system is seriously under-resourced. Each unemployed person entering work experience attracts just \$500 in Employment Pathway Funds to purchase work experience, together with funding for an interview every two months. This will not be adequate to overcome their barriers to work. While employment services such as JSA are not the only solution to long term unemployment, and many deeply disadvantaged jobseekers will need help from a range of other sources (including vocational training, health and housing assistance), JSA is a key link in interventions to improve their job prospects. We propose that fees for the 'work experience phase' be increased as a first step to rectifying this problem.

A further weakness of the JSA model is that, although in theory providers have more flexibility to meet individual needs and jobseekers have more options to choose their provider, Centrelink and JSA administrative systems are still bogged down in 'red tape' so that many jobseekers are 'processed' rather than 'engaged'. The early stages of contact with Centrelink and JSA services are particularly important because they give jobseekers their first impressions of the system and their first opportunity to choose and engage with a provider. These processes are too rushed, too perfunctory, and important interactions such as JSCI interviews are often conducted by phone. The system does not encourage Centrelink and providers to share information so that jobseekers do not have to explain their story in detail twice at this early stage, and so that vital information on barriers to work is passed on. The outcomes of current administrative arrangements include inaccurate assessments, lack of genuine jobseeker choice, and demotivation for the jobseekers. There is also much wastage of provider resources on administration, especially online reporting requirements.

A period of paid work experience in regular employment can significantly improve the job prospects of long term unemployed people. It can do so by reassuring employers that the jobseekers is capable of undertaking the work, and in the case of more disadvantaged jobseekers, by boosting their confidence, essential on-the-job skills and job search networks. One problem with previous programs of this kind is that they emphasised the filling of program quotas rather than employment outcomes. A further difficulty is that insufficient attention was paid to the transition from subsidised

to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term unemployed people; and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work. International examples include 'transitional jobs' schemes in the UK and US; the former Supported Work Demonstration Program in the US; and the Danish work training scheme that combines paid work experience and training.

Paid work experience is a key missing element in labour market assistance for unemployed people today. We recommend that the Government establish a program to which JSA providers can refer job seekers during the 'work experience phase' of assistance, which normally commences at about 12 months' unemployment. Since the needs of these job seekers vary, we propose that the program be split into two components; a partial wage subsidy scheme for those who are ready for open employment; and a fully subsidised scheme to develop work skills for those who are not ready at this stage. The partially subsidised scheme would target long term unemployed people who are able to perform the work but due to the duration of their unemployment are unlikely to be given a chance to demonstrate this by the employer. The fully subsidised scheme would be targeted towards long term unemployed people who are not yet able to work productively and need substantial experience in a regular work setting to boost their skills, confidence and work habits. This would be a cost effective and well-targeted way to support the development of a network of social enterprises focussed on improving the job prospects of deeply disadvantaged unemployed people.

Recommendation 3: Improve employment assistance for long term unemployed people

The resources provided to employment service providers in the new employment services system to assist long term unemployed people in the Work Experience phase should be enhanced by:

- (i) Increasing annual service fees to the levels that apply to Stream 2 job seekers in the first year of unemployment (currently \$885 per job seeker).
- (ii) Increasing Employment Pathway Fund credits to the level for 'transitional' job seekers in Work Experience (currently \$750 per job seeker) and crediting this amount on an annual basis for each year of Work Experience.

Cost: \$100 million (\$150 million in 2012-2013)

Recommendation 4: Establish paid work experience for long term unemployed people

A paid work experience program that provides temporary paid employment in regular jobs should be established as an option for employment service providers to refer suitable long term unemployed people during the work experience phase of employment assistance.

The program to have sufficient capacity to assist approximately one in three job seekers required to undertake an activity during the work experience phase in 2011-12 (approximately 20,000 job seekers).⁷

Contractors for appropriate Government funded services or infrastructure programs could be required to engage long term unemployed people under this program and State and Local Governments could be encouraged to follow suit.

The program should be costed by taking into account direct savings in benefit payments and increases in income tax revenue that arise during participation in the program.

The program would have two components.

The 'Job Opportunities' component would:

- (i) Be targeted towards recipients of social security payments required to undertake an activity during the work experience phase within Job Services Australia services, whom the provider considers are ready for open employment but are unlikely to obtain a job without participating in this program.
- (ii) Offer employers in the private, public and community sectors a 50% wage subsidy to employ them for 3-6 months at the minimum wage (or National Training Wage where appropriate) in a regular job working for 3 days a week, subject to strict rules to prevent displacement of employees and exploitation of the jobseekers.
- (iii) Require job seekers to participate in the program but give them a reasonable choice of places (including the option of shorter and more flexible working hours for parents and people with a partial work capacity), and require them to continue to search for employment on a part time basis.
- (iv) Be administered either by JSA providers (who would be required to continue to assist them with job search and support through the placement), or employment brokers to whom the providers refer suitable candidates.
- (v) Be linked, where appropriate, to vocational training funded through the Productivity Places Program, so that work experience and training can be combined.
- (vi) Be funded by earmarked deposits into the provider's Employment Pathway Account, together with appropriate incentives for providers to achieve unsubsidised employment outcomes after the placement.

Cost: \$50 million in 2012-2013

⁷ As indicated, savings in benefit payments while people participate in subsidised employment should be taken into account in costing the program; however this was not attempted here.

The 'Job Transitions' component would incorporate the above features, except that:

- (i) The jobseekers targeted for assistance would be assessed by the provider as not yet ready for open employment, but significantly more likely to get a job if they participate in the program⁸.
- (ii) Employers would receive a 100% wage subsidy and the placement would last from 6-12 months (to be reviewed after 5 months), depending on the degree of difficulty in preparing the jobseeker for open employment.
- (iii) Employment service providers or brokers would receive additional payments to mentor and support them through the placement.
- (iv) Job search requirements would only be imposed once the provider considers that the job seeker is ready for open employment.
- (v) These placements would generally only be available within not for profit organisations and in an employment setting that is adapted to the needs of more disadvantaged job seekers (for example social enterprises, or community organisations that partner with relevant support services such as mental health and family support services).

Cost: \$150 million in 2012-2013⁹

Recommendation 5: More cost effective assessment and engagement with jobseekers

Job Services Australia administrative procedures should be streamlined and simplified, and the efficiency and effectiveness of interactions between jobseekers, Centrelink and providers improved (especially in the early stages of contact) by:

- (i) Improving initial Centrelink assessment and information provision for new jobseekers, including through group information sessions to help them understand the system and choose a provider, conducting most JSCI interviews face to face, and the use of joint Centrelink-JSA interviews where appropriate;
- (ii) Regular information sharing between Centrelink and JSA providers on jobseekers' barriers to work and compliance history, subject to privacy protections;
- (iii) Automating provider service fees, simplifying fee structures, and reducing the detailed online documentation requirements for providers.

Cost: cost neutral

TOTAL COST: \$100 million (\$350 million in 2012-2013)

⁸ This implies that they come from Streams 3 or 4 of JSA.

⁹ As indicated, savings in benefit payments while people participate in subsidised employment should be taken into account in costing the program; however this was not attempted here.

Health

If there is a single element of health reform that has the potential to address the iniquitous distribution of health services in Australia, it is the development of a national framework for primary health care. ACOSS is delighted that this is finally receiving national attention from the Federal Government through the development of Medicare Locals. Ensuring their successful implementation must be our top priority in health reform.

Successful implementation of Medicare Locals does not require finding new money for health. It requires redirecting existing resources efficiently and effectively. Medicare Locals should become the platform for integrating existing services and infrastructure within the community sector, including but not limited to specialist health services. The benefit of community services is their capacity to reach whole segments of the population who, because of their inability to afford services or to access them through locational disadvantage, have been left behind in the nation's improving health outcomes.

The integration of community services with local hospital networks would also provide the basis for meeting the unmet needs in the population, starting with those most in need of effective primary care, including people with chronic diseases. Accordingly, ACOSS recommends funding for primary health care that supports a range of multidisciplinary services and enhances the community sector's capacity to address complex and chronic health problems effectively, affordably and sustainably. Estimated expenditure will include coordination and integration costs that will be pooled with resources from aged care and sub-acute health programs. Responsibility for the required adjustments for population disadvantage and promoting equity in geographic and funding models has to be a strong part of national agreements and the new national authorities' charters. An enhanced planning and commissioning role, supported in a nationally consistent way and implemented within a policy of regional and/or local participatory governance, will be supported under this program.

Two key areas of additional priority must be community-based services in oral health and mental health, where poor health outcomes in these areas are simultaneously driven by economic and social disadvantage and in turn entrench such disadvantage. The vast majority of dental funding provided by the Commonwealth Government is spent on the Medicare Chronic Disease Dental Scheme (MCDDS) and the Private Health Insurance rebate. Yet neither program has demonstrated effectiveness in improving oral health outcomes, nor in arresting the growing gaps between the oral health of people on low incomes and others in Australia. While ACOSS welcomes the Government's attempts to abolish the MCDDS, the Teen Dental Program has also been criticised for inefficient expenditure in an area that already has a degree of coverage through existing school-based programs.¹⁰

ACOSS remains committed to a universal system of oral health care, which is vital if Australia is to maintain its policy of universal health care and to arrest the declining oral health of many Australians. The Government has signalled that this is not one of

¹⁰ Bond, S (2010) 'Public dental care and the Teeth First trial: A history of decay', *Brotherhood of St Laurence*, p. 26, http://www.bsl.org.au/pdfs/Bond_Public_dental_care_and_the_Teeth_First_trial_2010.pdf.

its current priorities, yet the integration of oral health within primary health care would entail far more efficient budgetary expenditure, particularly by leveraging existing community services to reach those Australians currently missing out on oral health care. Part of the costs of such a program would include the pooling of funds and their allocation to support multidisciplinary teams at the local level (such as shared data and information management; and navigation support for care planning). It would also provide a structural framework for expanding the capacity of allied oral health professionals, who must be a key component of the health workforce strategy. ACOSS again recommends the abolition of the MCDDS and the Teen Dental Program, redirecting those funds to the provision of effective oral health care and access to services, particularly for those most marginalised from oral health care currently.

Integrating community services through primary health care is also vital if we are to implement the worthy objectives of the National Mental Health Strategy (NMHS). While the objectives set out in this strategy are commendable, the failure to implement them has been a consequence of the specialisation of mental health toward acute care and disparate servicing patterns across the states and territories. Despite the critical role of community-based mental health services, funding remains skewed towards hospitals, acute care and fee for service models. Current funding arrangements do not support the NMHS, with expenditure directed toward those already in the mental health system, whereas support for needs-based funding would distribute funds according to population health needs. Other social health and support programs have had significant budgetary tightening due to increased demand, creating further challenges for the development of new and effective programs to meet continuing unmet need.

With a tight fiscal environment and the search for savings to offset the significant spending implications of some much-needed reforms, ACOSS reiterates its previous recommendation for the abolition of the 30% private health insurance rebate to ancillary services. Around \$3.6 billion was spent on the private health insurance rebate in 2007-08¹¹, the latest date for which figures are available. However, changes to the rebate announced in the 2009-10 Budget were expected to save approximately \$1.9 billion between 2010 and 2014.¹² The extension of the rebate to ancillary health care services (as distinct from hospital care) is particularly hard to justify as this subsidy is even less likely to reduce the costs of providing public health care.

It is also unfair that high income earners are subsidised by the PHI rebate arrangements for services such as dental care, when public oral health services for people on low incomes is in such a parlous state. This cost to revenue could be more efficiently spent, and lead to superior health outcomes, if directed to additional capacity in public services where there is the potential for improved dynamic efficiency, by integrating information across the primary care sector, allowing for early detection of a range of preventable conditions.

Recommendation 6: The Government should fund a national, comprehensive, community-based primary health care program.

¹¹ AIHW (2009) Health expenditure Australia 2007–08.

¹² Roxon, Nicola; Swan, Wayne (2009): Media Release, Rebalancing Support for Private Health Insurance, 12 May 2009.

Primary health care funding stream should be used as a way to improve dynamic efficiency by pooling funds and allocating them to support multidisciplinary teams, linking clinical services with allied health and associated community services. Funding should be needs-based, distributing funds according to population health needs

Cost: \$1,000 million in 2011-12 (\$1,052 million in 2011-12¹³)

Recommendation 7: The Government should remove the 30% private health insurance rebate for ancillary cover.

The 30% private health insurance rebate should be removed from ancillary health cover from July 2011 and the revenue redirected to improving public health services and access to those services for patients in the public system, particularly those on low incomes or marginalised from services due to geographic isolation.

Saving: \$1,200 million in 2011-12 (\$1,062 million 2012-2013)

Recommendation 8: The Government should abolish the Medicare Chronic Disease Dental Scheme and Teen Dental Program.

Saving: \$520 million in 2011-12 (\$543 million 2012-2013)

The revenue from these programs should be redirected to the following proposal.

Recommendation 9: The Government should develop a population-based oral health program that improves services and access to them for people on low incomes and in areas that are poorly-served by oral health care.

Cost: \$720 million in 2011-12 (\$662 million in 2012-13)

Subject to the previous recommendation, the Government should build a program to eventually cover the cost of a comprehensive oral health check and a basic course of treatment every two years, with capacity for additional treatment when warranted by particular circumstances.

TOTAL COST: -\$0 million (\$119 million 2012-2013)

¹³ Adjusted for CPI as calculated by ABS at 5.2% increase over previous year for health services.

Housing and Infrastructure

In its first term, the Rudd Labor Government made important - indeed historic - policy and funding commitments to improve the availability of affordable housing and reduce homelessness in Australia.

Substantial additional investment was directed to affordable housing programs under the Nation Building Stimulus Plan (\$5.65 billion) and the National Affordable Housing Agreement (\$400 million). New housing programs were implemented, including the National Rental Affordability Scheme, First Home Saver Accounts, and the Housing Affordability Fund. The Government also made ambitious commitments to reduce homelessness. Its Homelessness White Paper, *the Road Home*, committed the Government to reduce homelessness and offer accommodation to all 'rough sleepers' by 2020. This was supported by a funding commitment of \$800 million over 5 years.

However, the Government had noted itself that the anticipated increase in public and community housing from the stimulus package was only about half of what is needed to meet the 2020 homelessness targets.¹⁴

Australia has amongst the most expensive housing in the world. Rents and mortgages are the biggest source of financial stress in many households. Over the last five years median rents in Sydney have risen by 50% and in Melbourne, rents have risen 63% since 2004. More than a million people on low incomes continue to experience housing stress, with housing costs exceeding 30% of household income.¹⁵ The majority of those in housing stress are in private rentals. Sixty five percent (65%) of people on low incomes who are in private rentals experience housing stress, with many of these households spending over half of their income on rent.

It is estimated that, as at 2007-08, there was a shortage of almost 500 000 affordable private rental dwellings for people living on low incomes.¹⁶ Over the decade from 1995 to 2006, Australia experienced a decline in public housing stock of approximately 25,000 dwellings, offset only in part by some increase in community housing.¹⁷ This has led to lengthy, though tightly targeted, public housing waiting lists (at approximately 175 000 people in 2009).¹⁸ The 2006 Census figures recorded 105,000 people as being homeless on any given night,¹⁹ and crisis accommodation services are turning away 65% of people who seek assistance.

¹⁴ Prime Minister, House of Representatives Hansard, Tuesday 3 February, pg 11-12.

¹⁵ Ryanti Miarant and Binod Nepal, *Housing Stress in Australia 2007*, National Centre for Social and Economic Modelling, University of Canberra, 2008.

¹⁶ National Housing Supply Council (2009) 'State of Supply Report (2010).

¹⁷ Australian Institute of Health and Welfare, *Australia's Welfare 2007*, at 237.

¹⁸ Australian Institute of Health and Welfare, *Housing assistance data development series reports for public rental housing, community housing and state owned and managed Indigenous housing* (cited in National Shelter, 'Housing Australia Fact Sheet', October 2010.

¹⁹ ABS, 'Counting the Homeless 2006'.

Yet, during the Federal Election in 2010, neither of the major political parties announced new policy commitments to address housing affordability or reduce homelessness. And, since the return of the Labor Government, there has continued to be silence about additional commitments beyond those made in its first term.

ACOSS has consistently argued that a long term commitment to the growth of affordable housing stock is needed to meet the high level of housing need in Australia.²⁰ There is a need to establish an Affordable Housing Growth Fund in order to expand the stock of affordable housing, with a long term funding strategy attached to the Fund. The National Rental Affordability Scheme which directly encourages investment in new affordable flats and houses should also be expanded. The Rudd Government had committed to doubling NRAS if the scheme proved to be a success as an important means for expanding low cost rental housing.

Commonwealth Rent Assistance (CRA) is a non-taxable supplementary payment provided by the Australian Government to help with the cost of private rental housing. It is available to private renters, non-profit housing tenants and state/territory owned and managed Indigenous housing tenants in some jurisdictions who pay rents above certain levels. Commonwealth Rent Assistance (CRA) is received by approximately 1 million people.²¹

CRA currently subsidises a small fraction of rents in high rent locations, leaving income support recipients and people on low incomes to pay most of their rent from often inadequate incomes. Indeed, 32% of CRA recipients pay more than 30% of income on rent after CRA. However, without CRA, 59% of these households would pay more than 30% of income on rent. In the current market, CRA remains an important, though inadequate, measure to improve housing affordability.

The extent to which the benefits of increases in CRA shift from tenants to landlords is not known and is likely to vary between different housing markets and different Rent Assistance changes. We therefore propose a housing affordability package that combines an increase in investment in public and non-profit housing to improve the supply of low cost housing over the medium term with a modest increase in CRA to relieve financial hardship among low income households already paying high private rents.

Recommendation 10: Establish a long-term Affordable Housing Growth Fund

An Affordable Housing Growth Fund should be established with a down-payment of \$1000 million in the first year with sustained increased long-term ongoing funding. This funding should be strictly designated for expanding the stock of affordable housing as part of the National Affordable Housing Agreement.

²⁰ See, for e.g. ACOSS, Submission to Senate Economics Committee Inquiry into the Government's economic stimulus initiatives. Available at <http://www.acoss.org.au/Publications.aspx?displayID=4&subjectID=6>. See, also, ACOSS, The Contest for a Fairer Nation, ACOSS Paper 167, July 2010. Available at http://acoss.org.au/images/uploads/ACOSS_Election_Platform_2010.pdf.

²¹ As at 8 June 2007, there were 943 718 income units entitled to receive CRA. See Steering Committee for the Review of Government Service Provision at 16.14.

The fund should support Affordable Housing Programs providing a range of different levels of subsidy to meet the needs of households with different income levels.²² Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: \$1,000 million (\$1,000 million in 2012-2013)

Recommendation 11: Increase the funds for the National Rental Affordability Scheme

The funding to NRAS should be increased in order to help attract private funding for another round of 50,000 affordable rental properties. This funding should be provisioned for the 2013-14 Budget year and should ideally double the original funding commitment.

Recommendation 12: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 January 2012 by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$225 million (\$550 million in 2012-13)

TOTAL COST: \$1,250 million (\$1,550 million 2012-2013)

²² For example, including Band A deeply subsidised housing (e.g. set at a maximum of 30% of income), Band B dwellings attracting a more shallow subsidy (e.g. NRAS dwellings set at about 20% below market rent) and Band C shared equity affordable home purchase schemes.

Community Sector Development

Not-for-profit community services play a vital role in sustaining and supporting people on low incomes or who are unable to access basic and essential services that many people take for granted. As governments have increasingly out-sourced the provision of those services to community organisations, the drive for government savings has left the sector under-funded and facing increasing challenges to sustain the support they provide. Key indicators of this trend include the striking pay disparities between social service employees in the not-for-profit sector as compared with similar roles performed in the government and business sectors; and the increasing difficulties faced by the sector in attracting and retaining staff. Not only does this create untenable working conditions for the employees upon whom the delivery of social services depends; it also threatens the ongoing existence of services that people on low incomes and their families depend upon. Governments increasingly talk of funding for outcomes and leaving details like salaries up to their contractors. But there must be a balance struck between this objective and the adequate resourcing of community sector not-for-profit organisations who are motivated above all by a social commitment to the people they are seeking to support through their services. Most importantly, that balance must ensure that the vital services provided by this sector are not undermined by the legitimate objective of decent wages.

Equal remuneration for community workers is currently being sought in a test case brought by the Australian Services Union before Fair Work Australia. The single most important step the Federal government can take in this respect is to ensure that all funding to the community sector covers the costs of decent wages. As a principle that strikes at the heart of the capacity for community services to be effective and efficient, this step should be taken irrespective of the outcome of the current case. The Commonwealth government should ensure that, as a major funder of community services, its funding arrangements include allocation of equal pay for community workers.

As the Federal Government's submission to Fair Work Australia itself demonstrates, it is not possible to cost this recommendation at the current time. What is important in forthcoming Budgets is the availability of a facility for such expenditure. This must include supplementary funding for existing contracts; and support for community sector organisations in the family of industry support.²³

Recommendation 13: That the Government ensure funding of community services includes allocation for pay rates that ensure wage parity for workers in this sector.

Recommendation 14: That the Government provide an industry support package that assists community organisations to identify the implications of higher wages and to prepare for their eventuality.

²³ There are precedents here in the context of the introduction of the GST and, more recently, the industry support packages for the modern award.

Social Security

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, at times of relatively low and falling unemployment such as the present, those who remain on income support are among the most disadvantaged in the labour market. Of the 645,000 Newstart and Youth Allowance recipients in September 2010, 383,000 had received these payments for over 12 months, the majority of them for over than two years. Among these long-term recipients, 60% lack a Year 12 education or above. Among all unemployment payment recipients, around 15% have a disability that prevents them from working fulltime. The average age of job seekers is currently 36 years, and around one third are over 45 years old.

The maximum single rate of Newstart Allowance in December 2010 was just \$235 per week, together with up to \$50 to \$60 in Rent Assistance for those with large private rental costs. The payment for unemployed young people living independently of their parents is \$189 per week. This is not enough to meet the most basic essential costs such as housing, food, clothing and transport costs to search for a job. Research into financial hardship in which ACOSS was involved indicates that unemployed people and sole parents face a much higher risk of hardship than most other groups in the community. For example 57% of Parenting Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all Australians. Over 40% of both groups could not afford dental treatment when needed.²⁴

The real value of these Allowance payments has not increased since the early 1990s, and they were not included in the \$32 per week in pensions announced last year. As a result, Newstart Allowance is \$123 per week less than the pension and Youth Allowance is \$169 less. Aside from the inequity of different levels of payment for people with similar living costs, this gap between pension and allowance payments discourages many people on pensions such as Disability Support Pension from seeking employment, in case they lose the pension and end up on the lower payments.

The Henry Review of the tax-transfer system recommended that the single rate of Allowance payments be benchmarked to two thirds of the partnered rate, as was implemented for single pensioners in last year's pension reform package. BY the end of next financial year, this would require a \$50 per week rise in the single rate of Newstart Allowance, which should also extend to Austudy and Abstudy payments and the Youth Allowance for those living independently of their parents. Payments for sole parents on Newstart Allowance would also increase accordingly.

Following the Welfare to Work policy introduced by the previous Government in 2006, many sole parents and people with disabilities were placed on Newstart and Youth Allowances instead of pension payments and required to seek part time employment. However, the income test for Newstart Allowance is much more stringent than for pension payments, so working part time was not worthwhile for

²⁴ ACOSS 2008, *Missing out, hardship in Australia*, ACOSS Info Paper – see www.acoss.org.au.

many of those affected by this policy. The previous Government announced that parents would not be required to seek a part time job unless they would be at least \$25 per week better off, but this has not been properly implemented on the ground. A better solution to the problem is to ease the Allowance income test for these groups of recipients, so that payments are withdrawn at a rate of 50 cents per dollar earned in a part time job rather than 60 cents as is the case now.

Recommendation 15: Increase Allowance payments for single people by \$50 per week

To ease hardship, reduce the gap between base rates of allowances and pensions for single people, and to raise allowance payments for single people to a similar proportion of the married couple rates as applies to pensioners, single rates of Newstart Allowance and other Allowance payments including Austudy Payment, Abstudy Payment, the away from home rate of Youth Allowance, and Special Benefit should be increased by \$50 per week, and the single Allowance rate for those with a dependent child should also be raised to this level, from 1 January 2012.

Cost: \$550 million (\$1,100 million in 2012-2013)

Recommendation 16: Ease the income test for Allowance payments for parents and people with disabilities who are required to seek part time employment

To make part time employment worthwhile for parents and people with disabilities on Allowance payments, from 1 January 2012 the taper rate for the personal income test for those payments should be reduced from 60% to 50%.

Cost: \$50 million (\$100 million in 2012-13)

TOTAL COST: \$600 million (\$1,200 million 2011-2012)

Taxation

Australia is the eighth lowest taxing country among the 30 OECD nations.²⁵ Australians are not over-taxed, but they are taxed unfairly and inefficiently. The main problem is an array of tax shelters and loopholes that enable well off people to avoid paying tax at the appropriate marginal rate. This means that most Australians have to pay higher rates of tax than they would otherwise, to raise the same amount of revenue for Government benefits and services. It also undermines the integrity of the tax system and public confidence that everyone is paying a fair share of tax.

Taxpayers can reduce the marginal tax rates on their income by:

- sheltering income in a private company or trust to take advantage of the 30% tax rate applying to companies or the income-splitting opportunities (e.g. with a lower-taxed family member) available through a private trust;
- sacrificing salary for superannuation, which enables a tax-payer on the top marginal rate to reduce their tax rate from 45% to 15%; and
- taking advantage of the concessional tax treatment of large termination payments such as 'golden handshakes', which in many cases are also taxed at the relatively low rate of 15%.
- investing in assets that generate income in the form of capital gains rather than, for example interest, dividends, or other forms of business income. This is due to the lower tax rates that apply to capital gains including the 50% tax discount for personal capital gains, together with recently introduced tax discounts on capital gains for small business owners.

If these tax shelters were limited as proposed below, taxation revenue could be increased by almost \$3 billion in 2012-13.

Further, many tax concessions (tax offsets and deductions) are poorly targeted, benefiting taxpayers who don't need this form of public support. If the Government subjected tax expenditures such as these to the same rigorous Budget scrutiny as its direct expenditures, it could additionally save billions of dollars every year.

Our proposal to reform the tax treatment of superannuation contributions has a different objective and is revenue neutral. It is designed to target tax concessions for contributions more towards low and middle income earners, who are more likely to rely on age pensions in retirement and less likely to save without tax incentives. The present tax treatment of superannuation is highly inequitable and inefficient. Well over one quarter of the value of tax concessions for contributions goes to the top 5% of taxpayers while those on the lowest marginal tax rate derive little or no benefit from them. The main change proposed is to replace the flat 15% tax on employer contributions with an annual capped Government co-contribution.

Recommendation 17: The Government should replace existing tax concessions for superannuation with a fairer and simpler annual co-contribution

²⁵ OECD 2009, Revenue Statistics.

From 1 July 2012 a two-tier co-contribution, paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions and co-contributions for superannuation contributions. The co-contribution should:

- (i) Apply to the sum total of all contributions (whether compulsory or voluntary);
- (ii) Be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (to boost superannuation savings for people on low incomes), plus 20% to 30% for additional contributions up to a higher flat annual ceiling (sufficient to encourage a modest level of saving beyond superannuation guarantee contributions by an employee on an average full-time wage).

Employer superannuation contributions should be taxed at source through the PAYG system at the relevant marginal income tax rate.

Revenue neutral

Recommendation 18: The Government should curb use of trusts and companies as tax shelters

From 1 July 2012, opportunities to shelter personal income from tax using discretionary trusts and private companies should be removed by:

- (i) Introducing a tax on undistributed profits of private companies, subject to a retention allowance for active business income that takes account of the reinvestment needs of companies with substantial assets. The rate of this tax should be equal to the difference between the corporate tax rate and highest marginal rate of personal income tax plus Medicare Levy.

Revenue: \$700 million in 2012-13

- (ii) Either taxing private trusts in like manner to private companies (as above), or by attributing income back to the person or persons who control the trust, as is the case in social security income tests.

Revenue: \$700 million in 2012-13

Recommendation 19: The Government should tax lump sum termination payments more fairly and consistently

From 1 July 2011 the special 'tax free thresholds' that currently apply to redundancy payments should extend to other termination payments such as 'golden handshakes' (apart from superannuation and invalidity payments) and payments for unused leave, and any income above these thresholds should be taxed at the employee's marginal tax rate instead of a flat rate of 15% or 30%.²⁶

Revenue: \$500 million (\$500 million in 2012-13)

²⁶ An extra tax free threshold will benefit many people on low incomes who lose their jobs, but high income earners with large termination payments would pay more tax because this threshold is lower than in the tax arrangements for these payments introduced last year.

Recommendation 20: Recently introduced special Capital Gains Tax concessions for small business should be abolished.

The following tax concessions for capital gains from the sale of small business assets should be abolished from 1 July 2011:

- The additional 50% discount for these capital gains;
- The exemption for gains on assets held for over 15 years;
- The exemption for gains used for retirement purposes.

Revenue: \$1,000 million (\$1,000 million in 2012-13)

TOTAL REVENUE: \$1,500 million (\$2,900 million 2012-2013)