

Budget Priorities Statement

2022-2023

Submission to the Treasurer



Who we are

ACOSS is the peak body of the community services and welfare sector, and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia, where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector, and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

First published in 2022 by the Australian Council of Social Service

Locked Bag 4777
Strawberry Hills
NSW, 2012 Australia

Email: info@acoss.org.au

Website: www.acoss.org.au

ISSN: 1326 7124

ISBN: 978-0-85871-095-5

© Australian Council of Social Service

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.

Contents

Executive Summary	4
The big challenges are not behind us	4
A Guarantee to the Nation: jobs, services, safety nets and climate action	4
A responsible budget strategy	5
Major recommendations	6
A note on costings	8
1. A permanent boost to the lowest incomes	9
Increase base rates of income support	10
Provide supplementary payments to meet need	10
Establish a Social Security Commission	12
Abolish mandatory cashless debit and income management	12
Reform unfair waiting periods	13
Reforms to improve the operation of our income support system	14
2. Restoring jobs for people out of paid work	15
A jobs and training guarantee to reduce long-term unemployment	16
Infrastructure to plan for Jobs and Training Guarantees in local communities	18
Put the 'service' back in employment services	19
Remove harsh and onerous elements from the Mutual Obligation framework	19
Career guidance and training to clear a path to decent jobs	20
3. Fair, fast and inclusive climate action	22
Healthy, energy efficient homes	22
Clean, affordable, reliable energy for First Nations' communities	23
Provide emergency energy debt relief	24
Fair and inclusive transition for fossil fuel dependent workers and communities	25
Shift subsidies off energy bills	25
Phase out fossil fuel subsidies	26
4. Thriving climate-resilient communities	27
Empower communities to build their resilience and lead disaster recovery efforts	27
Affordable, accessible, quality insurance	28
Better meet the needs of people affected by natural disasters	29
Strengthen the resilience of community sector organisations	30
5. Make housing affordable for people with low incomes	31
Boost social housing investment	31
Lift Commonwealth Rent Assistance by 50%	32
Create a new affordable rental investment incentive	32

Develop a new First Nations housing strategy	32
Develop a new inter-governmental remote housing agreement	33
6. Improve access and affordability of essential community services	34
Create a Community Sector Continuity of Service Enabling Fund	34
Apply fair and uniform indexation to all grants and contracts for community sector organisations	35
Improve access to preschool	35
Improve the affordability of early childhood education and care	36
Ensure equality for Aboriginal and Torres Strait Islander children in their early years	37
Establish an Evaluator-General to oversee the evaluation and monitoring of policy, programs and initiatives.....	38
Conduct a service needs analysis to inform investment decisions in services.....	38
Increase funding to peaks and advocacy organisations to ensure marginalised voices are heard in public and policy debates	39
7. Strengthen preventive health care and public health services	40
Shift investment to health promotion and prevention.....	40
Invest in community-led health promotion for COVID-19 vaccination rollout.....	41
Strengthen the oral health safety net	42
Abolish the Private Health Insurance Rebate.....	42
Abolish the Extended Medicare Safety Net.....	43
8. First Nations communities.....	44
9. Decent retirement incomes and services.....	45
Compulsory superannuation that's fit for purpose.....	45
A levy on superannuation fund income post-retirement to help pay for aged care	48
10. A fairer tax system that supports services, safety nets and economic development	51
Cancel the tax cuts.....	52
Tax investment income more fairly and consistently	53
Curb personal tax avoidance using private trusts and companies	54
Curb international business tax avoidance	57
Remove fossil fuel subsidies	57

Executive Summary

The big challenges are not behind us

The COVID19 Pandemic and the 'Black Summer' Bushfires exposed the weaknesses of our most basic social, economic and environmental supports. However, these crises also demonstrated the power of governments to protect and advance our incomes, jobs and health.

In the initial response to COVID19:

- Poverty was halved when the COVID supplement was available.
- Over 700,000 jobs were saved.
- Childcare was affordable; and
- People sleeping on the streets were housed.

We are among the wealthiest nations in the world. However, major weaknesses remain in our economic, social and environmental protections:

- Income support payments of \$45 a day, well below the poverty line
- A growing number of people cannot afford housing
- Long waits for care services that are often of poor quality
- Pressure to reduce funding for the National Disability Insurance Scheme
- Neglect of dental and mental health care
- Employment services that have failed to reduce entrenched, long-term unemployment
- The decline of our public and community education and training infrastructure
- Failure to 'close the gap' with community-controlled Aboriginal and Torres Strait Islander services
- Inadequate public investment in the transition to a clean economy, disaster resilience and help for people to adapt to global warming.

A Guarantee to the Nation: jobs, services, safety nets and climate action

This Budget should continue to support community resilience and recovery as we navigate our way through, and hopefully beyond, the COVID pandemic.

In our community sector [statement on budget policy](#), we are calling on the parties to guarantee that the next government will give priority to the most pressing challenges we face including persistent poverty and inequality, services for an ageing population, unaffordable housing, mental health and domestic violence, and the catastrophic threat of climate change.¹

We have an historic opportunity to achieve full employment, where the vast majority of people seeking paid employment can readily find a job. The government has committed to maintain fiscal stimulus and the Reserve Bank has committed not to lift interest rates until unemployment is low enough to trigger sustained increases in real wages of around 3% a year. To reach full employment in the 21st century labour market, attention must also be paid to Australia's high levels of underemployment and insecure employment, and over-reliance on temporary migrants to fill entry-level jobs.

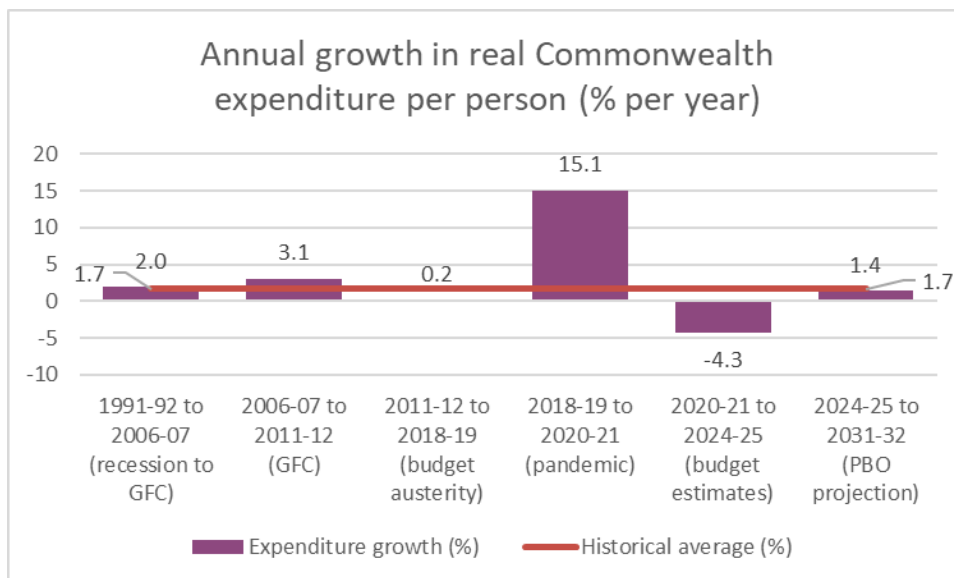
A responsible budget strategy

This submission recommends that the government invests in policies and programs that meet the challenges we face and strengthen public revenue to pay for that investment in a fair and sustainable way.

There is no urgency to reduce the budget deficit and we support the government's strategy to prioritise employment at this time. The government should shore up the revenue base needed to finance essential services and income support and action on climate change.

The present budget settings are not fit for purpose. Historically low growth in public expenditure (falling over the next four years and rising by just 1.4% a year after the big tax cuts begin in 2024) is baked into the budget (Figure 1). Built on the back of harsh spending cuts before the pandemic, these curbs on expenditure on essential services and payments are not sustainable, as pressures on funding for disability and aged care services demonstrate.

Figure 1: Average annual growth in Commonwealth budget expenditures per person, after inflation



Source: Parliamentary Budget Office (2021), [Beyond the Budget - 2021-22: Fiscal outlook and scenarios, Report No 2/2021](#).

This is not the time for more income tax cuts, especially those scheduled for 2024, which cost over \$16 billion a year and mainly go to men with high incomes. Instead of cutting taxes, the government should restructure them so that revenue is raised more fairly and efficiently. High priority should be given to reforms to taxes on investment incomes from property and shares, superannuation, the use of private companies and trusts to avoid tax, curbs on tax avoidance by multi-national companies, and the removal of business tax concessions that are economically and environmentally harmful such as fossil fuel subsidies.

Major recommendations

Social security

- Establish a minimum income floor in our income support system by lifting all income support payments to at least \$69 a day, which is the same level as the pension and pension supplement and indexing them to wages as well as prices.
- Ensure supplementary payments meet specific needs, including lifting Commonwealth Rent Assistance by 50%, providing a Disability and Illness Supplement of at least \$50 a week as well as a Single Parent Supplement that recognises the costs of single parenthood.
- Abolish mandatory cashless debit and income management and put in place an independent Social Security Commission to advise the parliament on income support payment settings ongoing.

Employment

- Introduce a flexible Jobs and Training Guarantee for people unemployed long-term, comprising either subsidised temporary employment, substantial further education or training, or other help to connect them directly to suitable jobs.
- Ease harsh unemployment payment compliance arrangements, including automated payment suspensions, excessive activity requirements, and a lack of discretion for employment service providers and Services Australia to withhold penalties.

Climate action

- Invest up to \$5,000 in energy efficiency improvements per dwelling for 1.8 million low-income homes to cut emissions, energy bills, and create thousands of local jobs.
- Establish a First Nations Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities.
- Provide up to \$1,000 per household in emergency energy debt relief to reduce energy payment difficulties made worse by COVID.
- Establish and adequately fund an Energy Transition Authority to provide a fair and inclusive transition for fossil fuel dependent workers and communities.

Climate resilient communities

- Empower Communities to build their resilience and manage recovery.
- Provide affordable, accessible, and quality insurance.
- Better meet the needs of people and communities impacted by extreme weather events.
- Strengthen the resilience of community sector organisations to better support community resilience, response, and recovery to increasing extreme weather events.

Housing

- A 20,000 dwelling, \$7 billion social housing package should be rolled out over the next 3 years to reduce homelessness and kick-start housing constructions and growth in jobs and incomes.
- Maximum rates of Commonwealth Rent Assistance for private tenants with low incomes should be doubled to ease housing stress (see above).
- A new affordable rental investment incentive scheme should be developed.

Community services

- Create a Community Sector Continuity of Service Enabling Fund.
- Improve access to preschool.
- Improve the affordability of early childhood education and care.

Health

- Lift investment in health promotion and prevention to 5% of total health expenditure by 2025 (well in advance of the current 2030 commitment).
- Strengthen the oral health safety net through increased investment and a multi-year funding agreement.
- Abolish poorly targeted, wasteful health programs, including the Private Health Insurance Rebate and the Extended Medicare Safety Net.

First Nations' Communities

- Implement Uluru Statement from the Heart, including by holding a referendum on a First Nations Voice to Parliament enshrined in the Constitution.
- Abolish discriminatory social security policies including mandatory income management and cashless debit.

Retirement Incomes

- Replace tax concessions for superannuation contributions with a fairer and simpler annual rebate
- A 15% levy on superannuation fund earnings after retirement to guarantee universal access to quality aged care services
- Prevent avoidance of the Medicare Levy to strengthen funding for health services.

Tax

- Do not proceed with scheduled 2024-25 income tax cuts.
- Reduce the general Capital Gains Tax discount for individuals and trusts by half and restrict deductions for personal investment expenses (negative gearing).
- Abolish fuel tax credits for off-road use, except for agriculture.
- Introduce a sugar tax on sweetened drinks and tax drinks consistently on the basis of alcohol content.

These recommendations should be read in conjunction with the additional COVID-response recommendations outlined in ACOSS' letters to National Cabinet dated [12](#) and [27](#) January.¹

¹ The letters are available for download at <https://www.acoss.org.au/wp-content/uploads/2022/01/ACOSS-Letter-to-National-Cabinet-Wed-Jan12-2022.pdf> and <https://www.acoss.org.au/wp-content/uploads/2022/01/270122-Second-Letter-to-National-Cabinet-re-actions-for-Omicron-FOR-MEDIA.pdf>.

A note on costings

Where possible, the budget impact of a proposed recommendation has been estimated. Where the budget impact is 'Not Available', either there are insufficient data available to estimate the costs or the costs will be variable depending on need in any given year, for example in case of natural disasters.

Fiscal costs are expressed as negative values and savings, or revenue increases as positive values. Negative figures are expenditure increases; positive figures in italics are savings measures. Estimates are rounded up or down to nearest whole number, and to nearest \$10 million where impact is over \$100 million, and the nearest \$100 million where impact is over \$1,000 million.

1. A permanent boost to the lowest incomes

In 2020, Australia saw what can be achieved if income support payments are set at a level above the poverty line. People receiving these payments were able to eat three meals a day, keep a roof over their head and buy warm clothes for winter. In 2021, despite the ongoing economic crises caused by the pandemic, the Federal Government returned JobSeeker and related income supports almost back to what they were pre-pandemic, at \$45 a day. As such, Australia continues to inadequately support people on the lowest incomes by keeping unemployment, student, and family payments at poverty levels. The \$25 per week increase delivered in April 2021 barely scratched the surface of the minimum required to ensure the now 1.67 million people receiving these payments can cover basic costs.

Rent payments are impossible to meet on JobSeeker and Rent Assistance, the maximum of which totals \$390 per week for a single person. People skip meals, including single parents determined to ensure their children can eat. The level of utility bill debt is on the rise, in part because it is not possible to cover utilities and everything else on income support payments. People lose their homes and end up sleeping in their car because they just don't have enough money. In a wealthy country like Australia, we can and must do better. At a bare minimum, everyone should have enough money, whatever their circumstances, to keep a roof over their head and put food on the table.

In addition to addressing payment inadequacy, work must be done to improve access to our income support system, and paternalistic policies that have no place in our safety net should be abolished. The following recommendations are focused on creating a fairer Australia where people are properly supported, and no one is left behind.

Major recommendations:

- **Establish a minimum income floor in our income support system by lifting all income support payments to at least \$69 a day, which is the same level as the pension and pension supplement, and index payments to wages as well as prices.**
- **Ensure there are supplementary payments that meet specific needs, including lifting Commonwealth Rent Assistance by 50%, providing a Disability and Illness Supplement of at least \$50 a week as well as a Single Parent Supplement that recognises the costs of single parenthood.**
- **Abolish mandatory cashless debit and income management and put in place an independent Social Security Commission to advise the parliament on income support payment settings ongoing.**

Increase base rates of income support, index payments to wages and extend to people currently missing out

ACOSS urges the Federal Government to lift unemployment, student, and parenting payments² to a minimum of \$69 per day so that everyone, no matter their circumstances, has a minimum level of income to cover food, housing, utilities, and healthcare. In addition, there must be sufficient supplementary payments to meet specific needs, like disability or illness, single parenthood, and the ever-growing cost of private rent. Finally, payments (including family payments) must be lifted in line with wage as well as price growth, and a social security commission should be established to provide ongoing advice to the Parliament on payment settings including adequacy. ACOSS also recommends that eligibility criteria be extended to temporary visa holders and international students if they are otherwise eligible, for the duration of the pandemic.

Recommendation 1: Permanently increase JobSeeker, Youth Allowance, Parenting Payment and related income support to the same level as the pension plus Pension Supplement and index these payments (as well as family payments) to wages as well as prices. For the duration of the pandemic, temporary visa holders and international students should also be able to get these payments if they otherwise meet the eligibility criteria.

Budget impact: Not Available

Provide supplementary payments to meet need

Commonwealth Rent Assistance

Rather than an arbitrary one-off increase, we propose that maximum rates of CRA be benchmarked to minimum rents, for dwellings of appropriate size, available in the formal rental market in Sydney, Melbourne, and Brisbane. In recognition that many other parts of Australia have high median rents, the higher maximum rates would not be restricted to residents in those cities. Rather, rents in those three cities (which together comprise most rental dwellings across the country) would be used for benchmarking purposes.

This benchmarking exercise shows that a 52% increase to the maximum rates is the minimum required to bring CRA up to a more acceptable level (see table below).

² Payments to be increased include JobSeeker Payment, Austudy, Abstudy, Youth Allowance (student and jobseeker), Special Benefit, Parenting Payment, Widow Allowance and Crisis Payment.

Table 1. Proposed increases in CRA maximum rent thresholds and resulting increases in maximum rates (September 2021 - \$pw)

Household size	Dwelling size	Weekly rent* (2016) (\$pw)	Weekly rent* (2021) (\$pw)	Current upper rent threshold for CRA # (\$pw)	Proposed increase in upper rent threshold ^ (%)	Proposed increase in maximum rate of CRA^ (\$pw)
Single, no children	1brm unit	\$223	\$255	\$159	60%	\$74
Couple no children, Sole parent 1 child, Couple 1child	2brm unit	\$297	\$340	\$193/\$196	75%	\$70/\$87
Sole parent 2 children, Couple 2 children,	3brm house	\$340	\$389	\$196/\$236	80%	\$87
Overall average increase (%)			14.5%		70%	52%

Source: Saunders et al (2017) 'Healthy living budgets for unemployed and low paid workers', Social Policy Research Centre UNSW Sydney.

Note: * Lowest quartile, average values for outer Syd/Melb/Bris. Indexed to September 2021 by movements in median rents across the three cities 14.5%).

Current maximum rent thresholds shown here are for single parents/couples.

^ Overall average increase is 70%, which is equivalent to a 52% increase in maximum rates of CRA, since the maximum rate is 75% of the difference between rent paid (up to the upper rent thresholds) and the minimum rent threshold. Proposed uniform increase in maximum rates = 75% of 70% = 52%.

Disability and Illness Supplement

We propose that people with a disability or illness receive a supplement that recognises the additional costs they face because of that disability or illness. It has been well-established that disability and illness incur additional costs, including healthcare, equipment, transport, and housing costs.

This supplement should reflect the rates outlined by the 2019 NATSEM report into the cost of disability.³ NATSEM showed that a single person with a disability receiving the Disability Support Pension needs an extra \$50 per week to achieve the same standard of living as someone without a disability receiving a pension.⁴

This supplement should be available to people with disabilities, as well as people with an illness that prevents them from undertaking full-time paid work.

³ Li, J., Brown, L., La. H.N., Miranti, R., and Vidyattama, Y. (2019). 'Inequalities In Standards of Living: Evidence for Improved Income Support for People with Disability'. NATSEM, University of Canberra. Report commissioned by Australian Federation of Disability Organisations. Sept. 2019.

⁴ Note that this figure is likely to be higher now to reflect increases in wages and cost of living since NATSEM modelled the gap in living standards.

Single Parent Supplement

Out of all family types, single parent households are at greatest risk of living in poverty, with 35% of single parents living below the poverty line.⁵ Almost 50% of children in single parent households live in poverty (44.5%).⁶

To ensure the added costs of single parenthood are adequately recognised in our income support system, we propose a supplement of at least \$200pw week for a single parent with two children to replace Family Tax Benefit Part B. This supplement should increase as children get older, recognising that the cost of children increases as they age.

Recommendation 2: Provide supplementary payments that reflect specific costs faced, including:

- 1) **Increase Commonwealth Rent Assistance by 50%**
Budget impact: -\$2,700 million in 2022-23 (-\$2,700 million in 2023-24)
- 2) **\$50 per week Disability and Illness Supplement**
Budget impact: -\$3,200 million in 2022-23 (-\$3,200 million in 2023-24)
- 3) **A Single Parent Supplement that recognises the additional costs of single parenthood. The Supplement should increase as children get older.**

Budget Impact: Not Available

Establish a Social Security Commission

Setting of social security policy has largely been driven by political processes rather than an evidence base. To ensure payment rates and settings reflect the evidence, ACOSS calls for an independent body to advise the parliament on payment adequacy and other settings. This would enable a fairer approach to social security design, with rates set by reference to household need. It would also guard against payments falling behind community living standards over time. This recommendation does not negate the need to immediately implement the payment increases outlined above.

Recommendation 3: Establish a Social Security Commission to provide ongoing advice to the Federal Parliament on the adequacy of income support payments and other settings.

Budget impact: -\$4 million in 2022-23 (-\$4 million in 2023-24)

Abolish mandatory cashless debit and income management

For almost 15 years, Australia has imposed income quarantining on people receiving income support living in selected communities. In that time, there has been no conclusive evidence produced that mandatory income quarantining (either income management or cashless debit) improves outcomes for individuals or their communities. There is no evidence that it addresses poverty, addiction, or other issues that communities may face. Instead, this policy discriminates against First Nations Peoples who are grossly overrepresented among people subjected to it.

⁵ ACOSS (2020) '[Poverty in Australia 2020, Part 2: Who is affected?](#)' p.24

⁶ ACOSS, Ibid. p.23.

Income quarantining is expensive and ineffective, and we strongly urge the government to abandon this policy and redirect the savings into community-led programs that deliver positive outcomes.

Recommendation 4: Compulsory income quarantining should cease. People should be given the option to continue cashless debit or income management on a voluntary basis or leave the schemes.

Budget impact: \$0⁷

Reform unfair waiting periods

People should be able to receive income support when they need it. The Liquid Assets Waiting Period (LAWP) is an anomaly in our social security system, denying people unemployment payments if they have cash assets of \$5,000 or more for up to 13 weeks. The result is that people eat into their modest savings to put food on the table while they wait for income support. Considering most people receiving JobSeeker have done so for 12 months or more, denying people a critical cash buffer leads to deprivation and destitution that may have been avoided if they did not have to serve the LAWP. A much fairer approach would be to replace the LAWP with a comprehensive means test so that people are not forced to whittle down modest savings just to access our social safety net.

ACOSS also calls for reform of the Newly Arrived Residents Waiting Period (NARWP) so that people are not forced to wait for up to four years to receive income support. The NAWRP applies to people who have attained permanent residency, and denies payment of JobSeeker Payment, Parenting Payment and other key supports for up to four years. Many people subjected to the NARWP have already lived and worked in Australia for years on temporary visas before applying for permanent residency. Consequently, people who have substantially contributed to our economy are denied support if they suddenly lose their job or have a child who would otherwise attract Family Tax Benefit. Australia should ensure migrants who are building their lives here are supported to cover the basics should they need that support.

Finally, the Ordinary Waiting Period should be abolished. As with the LAWP, people who are eligible for income support should be able to receive it and not be forced to wait one week before their payment starts.

Recommendation 5: Abolish the Liquid Assets Waiting Period and replace it with a comprehensive means test.

Budget impact: -\$60 million in 2022-23 (-\$60 million in 2023-24)

Recommendation 6: Reduce waiting periods for newly arrived migrants, and abolish the waiting period for Family Tax Benefit, Paid Parental Leave, Special Benefit and Carer Allowance.

Budget impact: -\$620 million in 2022-23 (-\$630 million in 2023-24)

Recommendation 7: Improve access to income support by removing Ordinary Waiting Period

⁷ Savings to be re-invested in community-led programs.

Budget impact: *-\$150 million in 2022-23 (-\$150 million in 2023-24)*

Reforms to improve the operation of our income support system

Special Benefit is the payment of last resort for people who do not qualify for other income support. It is only received by around 9,000 people. It is paid at the same rate as JobSeeker, however it has a dollar-for-dollar income test that includes in-kind goods and services. Consequently, some people hardly receive any financial support because of this archaic income test.

ACOSS recommends that the income test be aligned to that of JobSeeker so that the small number of people receiving the payment are not treated differently to someone who is otherwise in the same position receiving JobSeeker.

ACOSS also recommends that the statute of limitations for debt recovery be returned. In 2017, the 6-year statute was abolished, allowing the Federal Government to seek alleged overpayments without a time limit. ACOSS understands people have been pursued for alleged debts from more than ten years ago, which is near impossible to contest because they no longer have payslips or other records. It is standard practice to have a statute of limitations with respect to debts, and ACOSS calls for it to be returned with respect to Centrelink debts.

Finally, ACOSS recommends that Centrelink be adequately funded to meet demand. During 2020 and 2021, resources were directed to Centrelink to meet increased demand resulting from the pandemic. This additional resourcing reduced call waiting times to record lows and facilitated the rapid administration of payments, ensuring people got support when they were most in need. This should continue to ensure that people can get Centrelink services quickly. It is also crucial that remote Centrelink services be better funded to meet need, and that Centrelink engage more social workers to support people experiencing domestic violence, trauma, poor mental health, and other issues facing people receiving income support.

Recommendation 8: Align the Special Benefit means test, reinstate a statute of limitations on debt recovery and boost Centrelink resources including social workers on staff.

Budget impact: *-\$160 million in 2022-23 (-\$160 million in 2023-24)*

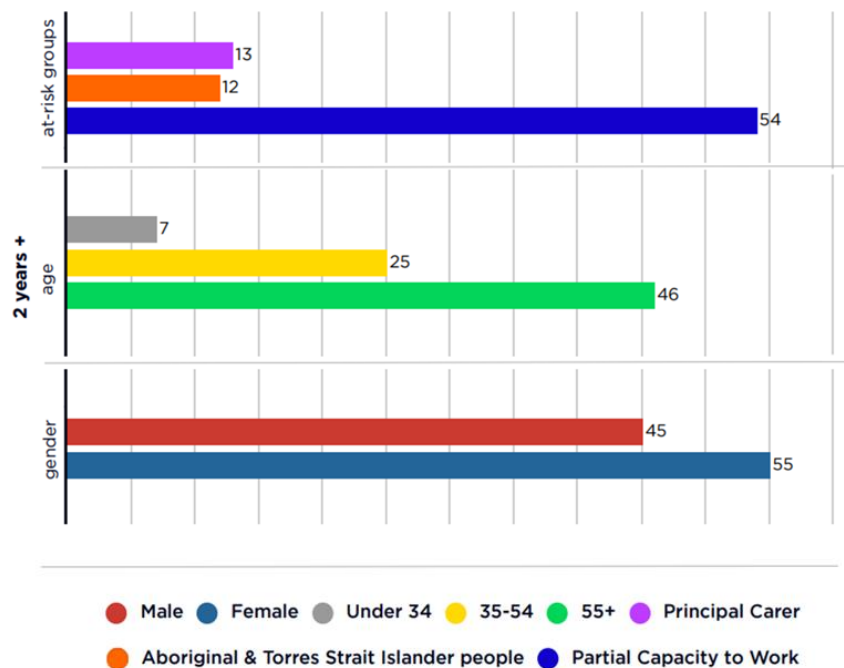
2. Restoring jobs for people out of paid work

We have an historic opportunity to achieve full employment, where the vast majority of people seeking paid employment can readily find a job. The government has committed to maintain fiscal stimulus and the Reserve Bank has committed not to lift interest rates until unemployment is low enough to trigger sustained increases in real wages of around 3% a year. To reach full employment in the 21st century labour market, attention must also be paid to Australia's high levels of underemployment and insecure employment, and over-reliance on temporary migrants to fill entry-level jobs.

Job vacancies have increased as employers reopen for business after the easing of the latest COVID19 lockdowns. Even if there were enough jobs for all applicants, however, many people would still be excluded from employment without a concerted effort to lift the skills and capabilities of people who are unemployed and fix mismatches in the labour market.

In September 2021, there were 882,000 people on unemployment payments for more than a year (over 80% of all on those payments), of whom 557,000 received them for over two years. A profile of people on those payment for over two years revealed that 54% had a disability, 46% were 55 years or older, and 13% were the main carers of dependent children (mainly single mothers).² Most had high school qualifications or less. Due to a combination of discrimination and unsuitability for the jobs available (for example, jobs requiring degrees or diplomas or a high level of physical fitness), they are being left behind (Figure 2).

Figure 2: Profile of people on unemployment payments for more than two years (per cent of total in April 2021)



Source: ACOSS (2021) *Faces of unemployment*.

At the same time, entry level jobs are diminishing, a long-standing trend exacerbated by the recession. From August 2019 to August 2021, lower-paid positions such as labouring, sales and many jobs in care services declined by 148,000, middle-paid jobs (trades and administrative jobs) declined by 69,000, while higher paid positions (managers and professionals) rose by 405,000.³

Employers in industries such as hospitality, retail and horticulture increasingly depend on temporary migrant workers to fill entry-level jobs. Together with weak regulation of visa conditions and workplace relations in those sectors, this has led to widespread underpayment and abuse of temporary migrant workers who depend on the employer to maintain their visas. These regulatory weaknesses should be fixed before large scale employment of temporary migrant workers in entry level jobs resumes. Australia should restore migration policies that prioritise skilled, permanent migration (along with support for family reunion and refugees), and people who work here temporarily should receive decent incomes in return and reasonable opportunities to transition to permanent residency.

Major recommendations:

- **The government should introduce a flexible Jobs and Training Guarantee for people unemployed long-term, comprising either subsidised temporary employment, substantial further education or training, or other help to connect them directly to suitable jobs.**
- **Harsh unemployment payment compliance arrangements, including automated payment suspensions, excessive activity requirements, and a lack of discretion for employment service providers and Services Australia to withhold penalties, should be replaced with a strengths-based approach.**

A jobs and training guarantee to reduce long-term unemployment

To ensure that people unemployed long-term can take advantage of the jobs available as we move towards full employment, we propose a flexible, community and employer-driven Jobs and Training Guarantee. This proposal draws on our observations that short term 'work experience' and internship models are not as effective as job starts with wage subsidies, and that many participants in employment services are severely restricted in the range of jobs they can apply for by a lack of post-secondary qualifications. Further, wage subsidies in the JobMaker program were not effective because the subsidies were inadequate, they were not promoted as part of a wider scheme to reduce long-term unemployment and did not take account of employer's real hiring practices and the needs of local labour markets.

To partially fund the guarantee, ACOSS recommends abolition of the Work for the Dole program and the Youth Jobs Path program. ACOSS also recommends the government not proceed with the proposed expansion of the Employability Skills Training program (EST) and National Work Experience Program (NWE) in the New Employment Services model (NESM).

Work for the Dole is a punitive program that makes next to no difference to people's employment prospects because they do not receive work experience in regular employment. Similarly, short periods of unpaid work experience available in the NWE (up to a month) are unlikely to significantly improve the employment prospects of large

numbers of people who are unemployed long-term. Short EST courses are unlikely to have much impact unless connected with actual experience in regular employment. The resources devoted to these programs would be better spent to support more substantial forms of work experience and training through the jobs and training guarantee.

For this purpose, a dedicated wage subsidy program for people unemployed long-term should be established by combining existing schemes. This should meet the actual cost of the subsidy.⁸ Training places could largely be provided through the Jobtrainer and Skills for Education and Employment programs.

Other forms of assistance under the guarantee would connect people directly to job opportunities and be financed at the provider's discretion drawing on the Employment Fund. The Fund should be redesigned for this purpose, since credits to the existing Fund are limited to a one-off amount of \$1,600 for each unemployed person regardless of their duration of unemployment, and experience suggests shows that providers are likely to underspend the funds available.⁷ Employment Fund credits should be topped up annually so that people unemployed long-term are not 'parked' in the system.

Recommendation 9: Introduce a Jobs and Training Guarantee for people unemployed long-term.

- 1) **A flexible jobs and training guarantee should be offered to young people who are on unemployment payments for over 12 months and others on those payments for over 24 months.**
- 2) **The guarantee would comprise subsidised paid work-experience, and/or vocational and foundational education and training and/or other assistance to connect them directly to a suitable job, which is offered in each year of long-term unemployment. It would:**
 - **be negotiated between program participants and skilled employment consultants who have the time and resources to properly assess their needs and assemble a suitable package of support;**
 - **be backed by local planning mechanisms under an enhanced Local Jobs Program that connects the right people with the right jobs and training places;**
 - **include access to jobs generated through public procurement (by setting targets for employment of people unemployed long term in public tenders).**
- 3) **To implement the guarantee, the following programs would be expanded, improved and consolidated:**
 - **Wage subsidies with private employers and community services for 3-6 month placements in regular employment, replacing the Employability Skills Training, Work for the Dole and the Youth Jobs PaTH programs;**
 - **Free vocational training and further education under the Jobtrainer and Skills for Education and Employment schemes; and**
 - **Annual credits to the Employment Fund in respect of people who fall within the above target groups.**

Budget impact: -\$500 million in 2022-23 (-\$1,000 million in 2023-24)

Infrastructure to plan for Jobs and Training Guarantees in local communities

The expansion of the Employment Facilitators and the Local Jobs Program to the 52 employment regions in the 2021 Budget was a positive step towards building the required local partnerships to generate jobs and improve the prospects of those unemployed long-term in the labour market. However, ACOSS has previously argued that partnerships led by government rather than local communities and services are unlikely to work effectively.⁹ We believe that local collaboration should be deepened because the Facilitators and Task Forces alone are insufficient to establish enduring community-driven workforce planning systems.¹⁰

Planning must be undertaken at a community level to adjust existing employment programs and the proposed Jobs and Training Guarantee to local needs. For example, a community-driven Jobs and Training Guarantee could include jobs in a range of roles related to building climate resilience, retrofitting low-income housing, building social housing, care services and services to support the community during disasters and recovery. To really stimulate demand for Jobs and Training guarantee places it may be necessary to implement targets in communities by engaging employers in commitments to these schemes through local Chambers of Commerce and Farming Associations, and engaging TAFE and community colleges in local plans to reduce long-term unemployment.

Recommendation 10: Strengthen partnerships to undertake community-driven jobs planning linked to broader economic regeneration plans by:

- 1) broadening the membership of Local Jobs and Skills Taskforces to include agencies with local workforce planning knowledge and appointing independent chairs drawn from the community;**
- 2) extending the Facilitator role so that jobs strategies for regions are developed in partnership with existing economic generation plans and local workforce planning initiatives;**
- 3) establishing a national body to connect Local Taskforces with national policies and priorities and share best practice;**
- 4) establishing Jobs and Training Guarantee place targets for each community;**
- 5) aligning social procurement strategies with the allocation of Jobs and Training Guarantee places.**

Budget impact: -\$1m 2022-23 (-\$3m 2023-24)

Put the 'service' back in employment services

As we look to recover from COVID-related economic shocks for a second time, we must ensure that the major reforms underway in employment services lead to the outcomes anticipated by the Employment Services Expert Advisory Panel. The upcoming transition to the New Employment Services Model (NESM) will need to be monitored closely so that people living in the most disadvantaged regions and communities who are at greater risk of unemployment than before receive the support they need.

The 2021-2022 budget included a saving of \$860m in employment services expenditure over four years. ACOSS is concerned this saving will undermine the Expert Panel's recommendations to improve the quality of the Enhanced Service stream of NESM. For the jobactive system to undergo genuine reform it is important the initial panel license is offered to agencies genuinely committed to reforming their corporate cultures and structures. Bias in the system towards larger, for-profit providers should be removed to facilitate the entry of specialist and local community agencies into the new program.¹¹

Further, there is more to do to ensure the licensing system is independent of purchasing and administers a new set of performance standards. Transition arrangements should minimise disruption and ensure that people who use digital employment services have access to the real support they need.

Recommendation 11: Ensuring New Employment Services transition to become genuinely supportive services by:

- 1) introducing an independent statutory licensing body that determines whether providers can enter the employment services system, and (where minimum standards are breached) whether they must leave. The licensing body would have oversight of a new set of minimum and higher-level service standards (including qualifications of front-line staff and responsiveness to the needs of service users).**
- 2) recalibrating the New Employment Services Model fee structure so that it provides more funding in advance, greatly reduces consultant caseloads, and assists people with direct costs of job search and barriers to employment through an enhanced Employment Fund.**

Budget impact: Not available

Remove harsh, automated and onerous elements from the compliance system

As COVID restrictions have been eased, the previous harsh compliance system has returned. Requirements have not been modified to take account of people's fear of COVID infection and diminished employment opportunities, especially in regions with few vacancies. This had led to the re-emergence of wide-spread payment suspensions, even after a two-day delay for suspensions was introduced in December 2020. Payment suspensions cause distress and are counterproductive while people are looking for paid work.

The 2021-2022 budget also outlined a \$197 million saving over four years by introducing payment delays for digital job seekers, to which ACOSS strenuously objected in the parliamentary inquiry into the Streamlining Participation Requirements Bill.¹²

ACOSS is concerned the system of 'Points-based Activation' (PBA) in the NESM is not as flexible as had been envisaged by the Expert Panel. The proposed mandatory activities at pre-determined intervals in the NESM are contrary to the intent of the points-based model. These excessive and inflexible job search and mutual obligation requirements undermine the Expert Panel's vision of personalised employment assistance and agency.

Recommendation 12: Replace harsh unemployment payment compliance arrangements with a strengths-based approach by:

- removing automated payment suspensions;
- restoring default hours for compulsory annual activity requirements (mutual obligation) to 15 hours a week instead of the current 25 hours;
- legislating to ensure that mutual obligation requirements for people with reduced capacity are protected;
- restoring the role of Services Australia in assessing compliance with activity requirements, including the first 5 'demerits';
- restoring discretion for employment services to excuse (not report) activity test breaches, and Services Australia to waive penalties;
- updating the mutual obligation requirements in the NESM so that Points Based activation is not undermined by rigid requirements; and
- removing the \$197m budget saving from delayed first payments for users of digital services.

Budget impact: -\$50 million in 2022-23 (-\$50 million in 2023-24)

Career guidance and training to clear a path to decent jobs

Many people who are unemployed would benefit from career guidance and training. Professional career guidance and training are not widely available through jobactive because providers are not resourced to offer it and have limited financial incentives to place people in training. The missing links in this chain of career information and support are:

- inadequate and uncertain funding for public and community education providers; and
- a lack of robust local networks of professional career advisors.

The national skills commission and the *Jobtrainer* program are useful initiatives to align training with current and future industry demands.

However, career guidance services for people who are unemployed are fragmented according to the age and family status of participants and are of varying quality. More substantial support is available for young people through the *Transition to Work* program and for older people through the *Career Transition Assistance* scheme, but there is gap in career advice and support for people in middle-age.

In ACROSS's view, ParentsNext is not a beneficial program because compulsory participation by parents of preschool age children in prevocational programs is an unacceptable restriction on the autonomy of people receiving income support. ParentsNext should be redesigned so it can provide more extensive support for those who are most likely to benefit, rather than the current broad-brush approach. The imposition of activity requirements on parents with preschool-age children exacerbates inequities in time-use experienced by parents, and single mothers in particular.

Recommendation 13: Establish a Career guidance service and provide training for those who need it by:

- **funding professional career guidance and support services, linked to education and training places through JobTrainer and other programs;**
- **attaching funds to these programs to purchase further education and training, as agreed between career counsellors and participants;**
- **removing inequities in the support available for different groups;**
- **establishing an Education to Employment Transition Service for young people with Year 12 qualifications or less, at risk in the transition from education to employment, building on the Transition to Work program;**
- **providing a career guidance and support services for parents and carers returning to paid work, replacing the ParentsNext program (voluntary for those whose youngest child is below school age);**
- **providing a career guidance and support service for older workers who need to adjust their careers, building on the Career Transition Assistance program; and**
- **providing a career guidance component of jobactive services for people recently retrenched from their employment.**

Budget Impact: Not available.

3. Fair, fast and inclusive climate action

Climate change threatens people's health and wellbeing, quality of life, employment, livelihoods, homes, and life itself. The impacts are occurring now and accelerating and pose a particular threat to First Nations communities and our young people's futures.

People experiencing financial and social disadvantage are negatively impacted the most by climate change. They are also worst affected by a slow, poorly managed transition to a clean energy economy because they pay disproportionately more for essential services and do not have the finances to access clean energy technologies.

A fast, fair and inclusive plan to address climate change has the ability to improve the lives of people experiencing disadvantage, from the cities to remote Australia. It creates opportunities for more affordable, healthier, and reliable energy, housing and transport suited to a changing environment and creates jobs in the new energy economy.

To avoid more dangerous climate change impacts, we need to reduce emissions this decade. The science tells us that to keep global warming at 1.5 degrees Celsius and avoid more dangerous impacts, Australia must do its fair share and reduce climate pollution by 75% by 2030. Fifty per cent by 2030 is an absolute minimum.

The energy sector should transition first and fastest while improving access to affordable, clean, and dependable energy for all.

Policies should prioritise people with the least resources, affected workers and communities hardest hit by climate change. Cost recovery and incentives should be fair and equitable and there should be target policies and measures that simultaneously cut emissions and provide benefits to people experiencing financial and social disadvantage.

Major recommendations:

- **Invest up to \$5,000 in energy efficiency improvements per dwelling for 1.8 million low-income homes to cut emissions, energy bills, and create thousands of local jobs.**
- **Establish a First Nations Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities.**
- **Provide up to \$1,000 per household in emergency energy debt relief to reduce energy payment difficulties made worse by COVID.**
- **Establish and adequately fund an Energy Transition Authority to provide a fair and inclusive transition for fossil fuel dependent workers and communities.**

Healthy, energy efficient homes

The energy efficiency of Australian homes is so poor that millions of people on low incomes are getting sick or dying because they cannot afford energy bills and are unable to make their home warm in winter and cool in summer.

Research shows that improving energy efficiency and productivity of low-income homes delivers physical and mental health benefits, reduces poverty and emissions, and generates more than 23,800 jobs nationwide, adding \$4.9 billion to our economy. Modelling by Deloitte Access Economics found targeting Australia's most financially

disadvantaged households with energy efficiency measures is projected to deliver a 17% higher economic impact than an equivalent program delivered across a broader base.⁸

ACOSS proposes that the Federal Government work with state and territory governments to invest in improving energy efficiency and/or installing rooftop solar to 1.8 million low-income homes via a National Low-income Energy Productivity Program (NLEPP).⁹ This must include public housing, community housing, low-income homeowners and low-income rental properties.

Recommendation 14: Invest in improving the energy productivity of existing homes for people on low incomes (NLEPP), including:

- 1) **matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for public and Indigenous housing dwellings**
Budget impact: *-\$150 million (-\$230 million in 2023-24).*
- 2) **matching funds with state/territory governments to invest in energy efficiency upgrades and solar PV installations for Community Housing**
Budget impact: *-\$90 million (-\$140 million in 2023-24).*
- 3) **funds, managed by third party, to implement energy efficiency upgrades and solar PV installations worth up to \$5,000 on the properties of low-income homeowners**
Budget impact: *-\$240 million (-\$1,500 million in 2023-24).*
- 4) **funds, managed by third party, to provide free energy audits for rental properties built before 5-star ratings were introduced and up to \$5,000 per dwelling to increase the energy performance of the poorest performing rental properties, prioritising properties with low-income tenants**
Budget impact: *-\$90 million (-\$540 million in 2023-24).*

Budget impact: - \$580 million (- \$2,400 million in 2023-24)

Clean, affordable, reliable energy for First Nations' communities

Regional and remote First Nations' communities must often rely on expensive carbon-intensive diesel and pre-paid meters and live in inefficient homes. The energy available is generally polluting, expensive and unreliable. As a result, these First Nations communities are severely impacted by climate change and a poorly managed transition to clean energy.

⁸ Deloitte Access Economics (2021) The economic impacts of the low-income national energy productivity program. https://www.acoss.org.au/wp-content/uploads/2021/10/DAE-ACOSS_Economic_Impacts_of_NLEPP_Final_Report_211005.pdf

⁹ <https://www.acoss.org.au/wp-content/uploads/2021/08/Brief-Proposal-and-implemентаion-plan-for-National-Low-income-Energy-Productivity-Program-September-2021.pdf>

Investing in First Nations' managed renewable energy and battery storage to replace diesel, as well as home energy efficiency and rooftop solar, would not only reduce carbon emissions, but also energy bills. It would create local jobs, and improve health and wellbeing, contributing to several Close the Gap metrics.

The Federal Government has previously jointly funded a \$55 million program with the Northern Territory Government to provide 10 megawatts of solar and battery to 28 different remote communities to reduce diesel-use by 15%. In consultation and collaboration with First Nations' communities, this type of program needs to be expanded to include housing level energy efficiency and access to rooftop solar, and then scaled up to reach more communities.

Recommendation 15: Establish a First Nations' Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities.

Budget impact: *-\$500 million (-\$500 million in 2023-24)*

Provide emergency energy debt relief

A combination of people experiencing financial stress and spending more time at home because of the pandemic has resulted in increasing energy bill debt.

Data from the Australian Energy Regulator released in December 2021¹⁰ show average household energy debt for gas and electricity rose by 12% from \$897 in 2019–20 to \$1,000 in 2020–21. The average electricity debt for a customer upon entry into their retailer's hardship program grew 21% over the same period from \$1,304 to \$1,584.

People who are locked out of paid work living on \$45 a day in inefficient homes have little hope of repaying a \$1,500 energy debt. They will struggle to afford their next energy bill, let alone be able to cool their home during summer heatwaves.

People on low incomes are already depriving themselves of energy by not cooling homes, not cooking or using hot water, and going without food or medicines to afford their energy bills, which is seriously affecting their health and wellbeing.

Direct assistance by government is needed before debt spirals out of control and becomes more unmanageable.

To immediately reduce debt, we are calling on the Federal Government provide additional short-term (up to 12 months) financial support of up to \$1,000 per person experiencing payment difficulties and energy debt.

Recommendation 16: Provide additional short-term (up to 12 months) financial support (in recognition of additional hardship bought on by COVID-19), via an emergency payment allowance to customers in hardship arrangements.

Budget impact: *-\$230 million*

¹⁰ AER (2021) Annual retail markets report 2020-21 <https://www.aer.gov.au/retail-markets/performance-reporting/annual-retail-markets-report-2020%E2%80%9321>

Fair and inclusive transition for fossil fuel dependent workers and communities

Some workers and communities could experience negative effects from our response to climate change, such as people who depend heavily on burning or extracting fossil fuels. However, if we have a planned and well managed transition co-designed with workers and the local community, we can appropriately support affected workers, create thousands of new jobs, and revive and transform regional towns.

Creating jobs will not be enough to ensure that all affected workers and communities are benefitting from the transition. A broader energy transition plan is needed, which should be overseen by a dedicated authority.

Recommendation 17: Support a just transition for workers and communities, including by establishing:

1) an Energy Transition Authority to manage, in consultation with workers and local communities, the effects of the energy transition including coal closures, overseeing worker support, and coordinating plans for regional economic diversity.

2) an industry-wide, multi-employer pooling and redeployment scheme that provides retrenched workers with the opportunity to transfer to roles with renewable or low emission generators as well as remaining fossil fuel generators.

Budget impact: *-\$2 million (-\$4 million in 2023-24)*¹¹

Shift subsidies off energy bills

The Small-scale Renewable Energy Scheme (SRES), which is in place until 2030, subsidises the costs of installing small-scale renewable energy sources such as rooftop solar and hot water heat pumps to households which can afford them. The cost is currently recouped through business and household electricity bills, with GST being charged on top.

The ACCC was critical of the equity impacts of the SRES because people on low-incomes pay disproportionately more towards the scheme and do not receive the same benefits, and recommended the scheme be abolished.¹² ACOSS is advocating for the cost of recouping the SRES subsidy to be directly and fully funded by the Federal Government as part of the Climate Solutions Fund, with eligibility limited to people on low incomes to access rooftop solar and hot water heat pumps.

Recommendation 18: The Federal Government should fund the Small-scale Renewable Energy Scheme.

Budget impact: *-\$1,500 million (-\$1,500 million in 2022-23)*¹³

¹¹ Based on analysis of budget proposals of ALP and Greens, ACOSS proposes \$15 million over 4 years, assuming less costs in first year of establishing the Just Transition Authority and programs.

¹² Australian Consumer and Competition Commission (2018) https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%e2%80%944Final%20Report%20June%202018_Exec%20summary.pdf recommendation 24.

¹³ Calculations based on small-scale technology certificate (STC) forecast modelling produced for the Clean Energy Regulator by Jacobs <http://www.cleanenergyregulator.gov.au/DocumentAssets/Documents/STC%20modelling%20report%20by%20Jacobs%20-%20January%202021.pdf> The number of forecasts certificates were

Phase out fossil fuel subsidies

In Chapter 10 (taxation) we advocate removal of fuel tax credits for off-road use except agriculture (Recommendation 50). These tax credits subsidise carbon pollution – the very thing governments are spending public funds in other parts of the economy to mitigate. The subsidy also distorts the need for energy efficiency, fuel switching, or investment in other forms of renewable energy or transport. Revenue raised from removing fossil fuel subsidies could fund ACOSS proposals to provide a just transition for workers and communities, assist low-income households to access affordable clean energy, and support climate resilience and adaptation measures for vulnerable people.

multiplied by STC spot price of \$38.95 (the 2021 STC spot price averaged around \$38.95 and is projected to stay this same in 2022 <https://www.demandmanager.com.au/certificate-prices/>)

4. Thriving, climate-resilient communities

Policies are needed to build resilience of community sector organisations and people experiencing poverty and disadvantage to the effects of climate change. Measures are needed to support and empower people and communities to build their resilience and lead recovery efforts on their terms. Genuine community partnership, including with Aboriginal and Torres Strait Islander people, communities and organisations, is essential to improve the nation's preparedness, responsiveness and recovery efforts. Without appropriate policies to support resilience, response and recovery, it is likely we will entrench and drive greater poverty and inequality in Australia.

Major recommendations:

- **Empower communities to build their resilience and manage recovery**
- **Provide affordable, accessible, and quality insurance**
- **Better meet the needs of people and communities impacted by extreme weather events**
- **Strengthen the resilience of community sector organisations to better support community resilience, response, and recovery in the face of increasing extreme weather events**

Empower communities to build their resilience and lead disaster recovery efforts

The unprecedented 2019/20 bushfires had significant economic, health and social impacts on thousands of people. In 2021, communities have been affected by flooding events. Recovery will take years for most and some people may never fully recover.

Scientists tell us we can expect more frequent and severe extreme weather events fueled by climate change, which will present significant challenges for many communities. Going forward, the needs and strengths of communities must be at the heart of extreme weather preparedness, response, and recovery. All government initiatives must support and empower communities to build their resilience and recovery efforts on their terms.

Genuine community partnership, including with First Nations People, communities, and organisations is essential to improve the nation's preparedness, responsiveness, and recovery efforts.

Recommendation 19: Support and empower communities to build their resilience and lead disaster recovery efforts, including by:

- 1) **creating and funding local Community Resilience Hubs that are community-led, engage in building community resilience and assist the community in planning, response and recovery.**
Budget impact: *-\$270 million (-\$295 million in 2023-24)*¹⁴
- 2) **funding local councils to form local community resilience committees to support development and implementation of resilience plans and to promote collaboration and joint planning between government, community organisations and local businesses. These committees could be subcommittees of relevant Commonwealth and state emergency management committees. We propose the Federal Government co-fund with states and territories.**
Budget impact: *-\$53 million (-\$55 million in 2023-24)*.¹⁵
- 3) **supporting the development of an online tool that includes a social vulnerability index (such as the Australian Natural Disaster Resilience Index) and online mapping feature to help identify where communities may need additional support to build resilience, prepare, respond and recover from disasters.**
Budget impact: *-\$1 million (-\$2 million in 2023-24)*.
- 4) **providing funding to support First Nations People and communities to participate in whole-of community responses to build climate resilience and to better prepare for, respond to and recover from natural disasters, building on traditional and local knowledge.**
Budget impact: *-\$25 million (-\$25 million in 2023-24)*

Budget impact: -\$350 million (-\$380 million in 2023-24)

Affordable, accessible, quality insurance

The Australian Insurance Council argues that climate change will lead to increased damage to our infrastructure, property and assets and that insurance customers will need to make more insurance claims.

It is well established that having insurance reduces financial hardship and speeds up recovery when affected by a natural disaster. However, covering the cost of insurance is becoming more difficult. The Insurance Council notes that insurance premiums have been rising because of an increase in catastrophic events. The average home insurance premium now costs almost four times as much as it did in 2004.¹⁶ The research shows

¹⁴ COSS has estimated costings based on an initial investment of \$1 million outlay per community hub in yr 1 and \$1.1 million in yr 2, to staff, accommodate and resource the hub. There are approximately 537 local councils. Bringing total cost to \$537 million in 2021/22 and 590 million in 22/23. The federal Government contribute half the costs, matched by States.

¹⁵ ACOSS has estimated costings based on there being 537 local councils and Federal Government contribute a minimum \$100,000 to each council

¹⁶ Insurance Council Data Hub <https://insurancecouncil.com.au/industry-members/data-hub/>

every region in Australia will be affected by more extreme weather events and it is possible some regions will become uninsurable.

As insurance premiums increase, it is inevitable we will see more people, especially people already experiencing financial hardship, drop or reduce insurance as the costs become prohibitive. This will increase financial disadvantage and inequality in our community and lead to an increase in the need for government supports.

Recommendation 20: To support affordable, accessible, and quality insurance, establish a review on insurance affordability in Australia regarding worsening impacts of climate change and rising levels of financial difficulties; and options for ensuring insurance coverage for people on low incomes.

Budget impact: -\$2 million (\$0 million in 2023-24)

Better meet the needs of people affected by natural disasters

Feedback from community sector organisations on the ground during extreme weather events such as bushfires, floods, and storms, suggests that the quantum, timeliness, and accessibility of support has not adequately met the needs of affected communities.

It's important we have adequate support measures and processes in place to reduce trauma and facilitate a speedy recovery from climate change induced natural disasters.

Recommendation 21: Better meet the needs of people affected by natural disaster by:

- **increasing the Australian Government Disaster Recovery Payment from \$1,000 to \$3,000, and from \$400 per child to \$1,000 per child.**
- **increasing the amount and duration of Disaster Recovery Allowance.**
- **providing Rent Assistance to people receiving Disaster Recovery Payments.¹⁷**
- **increasing funding for food relief.**
- **streamlining government payment processes so that help gets to people on the ground quickly.**
- **streamlining coordination of government and community disaster recovery assistance.**
- **expanding mobile recovery centres and outreach clinics.**
- **covering funeral costs for people who have lost their lives in a natural disaster.**
- **assisting to identify short-term accommodation**
- **providing additional funding to meet demand for social support services post disaster.**

Budget impact: Not available¹⁸

¹⁷ Disaster Recovery Allowance recipients are currently ineligible to receive Commonwealth Rent Assistance

¹⁸ Costs are challenging to quantify, as they will be dependent on frequency of extreme weather events and numbers of people impacted.

Strengthen the resilience of community sector organisations

Community sector organisations play a critical role in disaster preparedness, response, and recovery, especially in supporting the needs of vulnerable people. But these organisations are themselves highly vulnerable to disasters.

For many people experiencing poverty, disadvantage and social exclusion, these organisations are often the primary source of connection to the broader community and form the basis of their resilience to everyday adversity as well as in times of crisis.

The Federal Government should resource community sector organisations to adapt to climate change, be better prepared for emergencies and disasters, and ensure continuity of care for vulnerable people.

Recommendation 22: Strengthen resilience of community sector organisations by:

- 1) supporting community sector organisations to undertake sector specific risk assessments and implement disaster management and service continuity plans. This should include financial support for social sector peaks to strengthen the community sector specific disaster management tool, establish a community of practice and provide training to community sector organisations to implement**
Budget impact: -\$1 million (-\$1 million in 2023-24).
- 2) creating an ongoing Disaster Management Grants Scheme for Community Sector Organisations**
Budget impact: -\$220 million (-\$220 million in 2023-24)¹⁹
- 3) providing a contingency fund and ensure contracts for service delivery provide greater flexibility to community service organisations and enable them to participate effectively in disaster response and recovery efforts**
Budget impact: -\$140 million (-\$140 million in 2023-24)²⁰
- 4) resourcing community service organisations to build resilience of their clients.**
Budget impact: -\$175 million (-\$180 million in 2023-24)²¹

Budget impact: -\$540 million (-\$540 million in 2023-24)

¹⁹ ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 50% of these organisations would be required to participate in local disaster management at an average cost of \$30,000 per organisation.

²⁰ ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 20% a year may be affected by extreme weather events and estimate an average of up to \$50,000 per organisation would be required to manage surge capacity, compensation for additional service provision, and enable community sector organisations to adapt and recover.

²¹ ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has allowed for up to 25% of community sector organisations to access the fund a year at an average cost to deliver RediPlan for clients and other relevant plans of up to \$50,000 per organisation

5. Make housing affordable for people with low incomes

New research published by the ACOSS/UNSW Sydney Poverty and Inequality Partnership in November 2021 revealed rapidly rising rents and declining affordability for low-income tenants around the country in the shadow of the pandemic. It found that annual urban rent inflation to August 2021 was 8% - its highest rate since 2008 – and was even higher in the regions at 12.4%. The research acknowledged state and territory government investments in social housing during COVID, which will generate 23,000 new dwellings in the coming years. However, it also highlighted the severe shortfall of social and affordable housing nationally, with 155,000 households on the social housing waiting list currently and another 400,000 in need of affordable housing.

To compound these challenges, the withdrawal of the National Rental Affordability Scheme will see the subsidies and rent restrictions attached to some 22,000 of these affordable homes expiring, with no plan to replace them. In the face of these policy challenges, it is imperative that this Federal Budget includes a major focus on housing policy to increase social housing stock and improve rental affordability for low-income tenants.

Major recommendations:

- **A 20,000 dwelling, \$7 billion social housing package should be rolled out over the next 3 years to reduce homelessness and kick-start housing constructions and growth in jobs and incomes.**
- **Rent Assistance for private tenants with low incomes should be substantially increased to ease housing stress.**
- **A new affordable rental investment incentive scheme should be developed.**

Boost social housing investment

There is a national shortage of just over 400,000 homes that are affordable for people who are homeless or living on the lowest incomes (the lowest 20% by household income) and 155,000 households currently on the social housing waiting list. Direct public investment in social housing is a cost-effective way to boost growth in jobs and incomes.

Recommendation 23: Build 20,000-30,000 social housing dwellings to reduce homelessness and generate over 15,000 jobs a year.

- 1) **Capital funding of \$7 billion over three years should be provided to State and Territory governments to facilitate construction of 20,000-30,000 social housing dwellings that meet accessibility and energy efficiency standards, with most construction occurring in the first two years.**
- 2) **Alternately, the Social Housing Acceleration and Renovation Program (SHARP) proposal from the Community Housing Industry Association could be implemented to construct 30,000 community housing dwellings.**

Budget impact: -\$1,000 million (-\$4,000 million in 2023-4)

Lift Commonwealth Rent Assistance by 50%

Commonwealth Rent Assistance (CRA) provides crucial assistance to tenants with low incomes in private housing, but it has failed to keep pace with steep increases in rents. The maximum rate should be increased by 50% to relieve rental stress for people on low incomes in the private rental market.

For more information, see the Chapter 1 (Social Security), recommendation 2.

Create a new affordable rental investment incentive

A new rental investment incentive scheme is needed to replace the discontinued National Rental Affordability Scheme, and to complement the National Housing Finance Investment Corporation, Bond Aggregator and Housing Infrastructure Facility. Its purpose should be to bridge the finance gap for potential investors in housing for rent below market rates for people with low incomes (eligible for social housing assistance) or modest incomes (eligible for 'affordable housing' assistance).

The scheme should be funded by reducing the concessional tax treatment of 'negatively geared' property investments (see 'Chapter 10: A fairer tax system that supports economic development')

Recommendation 24: Introduce a two-tier investment incentive for construction of new rental housing for people with low or modest incomes, which is set at two rates based on a proportion of construction costs up to a cap and financed through restrictions on deductions for costs associated with property investments ('negative gearing');

- **with a higher rate for dwellings for community housing providers to house people with low incomes (with rent tied to incomes); and**
- **a lower rate for 'affordable housing' dwellings for people with modest incomes (with rents set at a 20% discount from market rents for at least ten years after construction).**

Budget impact: *-\$600 million in 2023-24*

Develop a new First Nations housing strategy

Since 2009, there has been no dedicated Commonwealth funding for Aboriginal and Torres Strait Islander housing supply outside of remote areas and services have increasingly been mainstreamed in a context of little or no overall growth. This is despite the demonstrated benefits of culturally appropriate housing for Aboriginal people around the country and the large Aboriginal populations in urban centres.

Dedicated funding is needed to improve the viability of Indigenous Community Housing Organisations (ICHOs) as an alternative to mainstream providers and support their capacity to take advantage of new financing options such as the Bond Aggregator.

Recommendation 25: Develop a new national Aboriginal and Torres Strait Islander housing strategy with a 10% boost to funding under the National Housing and Homelessness Agreement earmarked to build capacity for Indigenous Community Housing Organisations (ICHOs) in urban, rural, regional and remote areas.

Budget impact: *-\$190 million (-\$220 million in 2023-24)*

Develop a new inter-governmental remote housing agreement

The National Partnership on Remote Indigenous Housing expired in June 2018 and has been replaced with a range of uneven and short-term bilateral arrangements that do not meet the scale of the need. The Federal Government's own review of the National Partnership Agreement on Remote Housing in late 2017 recommended that:

- a recurrent program be funded to maintain existing houses, preserve functionality, and increase the life of housing assets; and that
- investment be provided for an additional 5,500 houses by 2028, which are needed to continue efforts on Closing the Gap on Indigenous disadvantage.

Recommendation 26: Develop a new inter-governmental remote housing agreement negotiated between the Commonwealth and state and territory governments, with funding shared equally between the parties.

Budget impact: *-\$480 million (-\$500 million in 2023-24)*

6. Improve access and affordability of essential community services

Whilst community services are a vital part of the national recovery, the sector remains beset by considerable funding, contractual and regulatory challenges. These challenges make it harder to invest in a sustainable workforce, deliver tailored programs with a long-term focus, and achieve positive outcomes for service users. Despite recent welcome commitments by the Federal Government to invest in selected services, such as home care packages, early childhood education and care and programs for Aboriginal and Torres Strait Islander peoples, overall investment in essential services remains seriously insufficient. The climate for the sector remains one of chronic uncertainty, constantly attempting to deliver even more for people needing help while coping with fewer resources.

Major recommendations:

- **Create a Community Sector Continuity of Service Enabling Fund**
- **Improve access to preschool**
- **Improve the affordability of early childhood education and care**

Create a Community Sector Continuity of Service Enabling Fund

In 2020, ACOSS welcomed the announcement of additional funding during the COVID health and economic crises to meet demand in domestic violence, mental health and emergency and food relief. However, with the health and economic impact of COVID-19 continuing throughout 2021 and extending into 2022, demand for some services remains heightened. Many community sector organisations continue to face difficulties due to service disruption, rising demand for services, falling revenue, higher costs, and a decrease in volunteers.²²

In the COSS Network's report on the *Australian Community Sector Survey – COVID-19 edition*, more than half of community service respondents (57%) had experienced loss of investment income, a quarter (26%) reported a loss of income from individualised funding (NDIS and home care packages), and half (50%) had lost income from other client-based fees or charges. Almost half (48%) had lost income from other commercial sources (e.g. retail).²³ Income from donations have still not recovered to pre-pandemic levels, with JBWere finding that to December 2020, social services saw some of the sharpest declines in donations across different sectors.²⁴ The budget should reflect the

²² https://www.jbwere.com.au/insights/news/2021/07/jbwere_nab_charitabl

²³ Cortis, N & Blaxland, M (2020): Australia's community sector and COVID-19: Supporting communities through the crisis. Sydney: ACOSS https://www.acoss.org.au/wp-content/uploads/2020/09/Australias-community-sector-and-Covid-19_FINAL.pdf

²⁴ https://www.jbwere.com.au/insights/news/2021/07/jbwere_nab_charitabl July 2021

fact that the sector is still grappling with the impact of the pandemic, and likely will in 2022 and beyond.

Recommendation 27: Create a Community Sector Continuity of Service Enabling Fund to ensure continuity of service delivery, adaptation, secure jobs, prevent loss of jobs or income, and guarantee paid special leave for all workers:

- **This Fund should be distinguished from funds designated for new or additional service delivery.**
- **It should be targeted to community organisations that see increases in demand not met by new and existing funding, and/or who can demonstrate that their income has declined because of COVID-19.**

Budget impact: *-\$260 million (-\$150 million in 2023-24)*

Apply fair and uniform indexation to all grants and contracts for community sector organisations

The Commonwealth does not have a consistent or adequate approach to indexation of funding for community services. As a result, many organisations in the sector have seen real cuts to the value of their funding. Despite the emergency spending by the Federal Government to stave off the worst effects of COVID-19, it remains committed to tight curbs on services that were imposed before the pandemic hit. Unfunded shortfalls seriously impact on the sector's capacity to offer services to local communities, especially at a time of rising community demand and increased complexity of service user need. In real terms, the indexation arrangements amount to a gradual reduction of Commonwealth funding against projected cost increases, which mainly comprise wages.

Recommendation 28: Indexation for community sector funding should be improved:

- 1) **Establish the Wage Price Index (when greater than the Consumer Price Index for the same period) as the primary index for annual funding adjustments and publish the indexation rate in the Budget Papers.**
- 2) **Commit to non-application of Efficiency Dividends to community sector funding.**

Budget impact: *-\$360 million (-\$370 million in 2023-24)*

Improve access to preschool

High quality and accessible early childhood education has a significant positive impact on a child's development and future learning outcomes and is a policy area that can deliver a major social and economic benefit to the country. Children who attend early childhood education for at least a year before starting school are half as likely to have developmental vulnerabilities when they start school as children who have not received early learning services. There have been significant strides in lifting enrolments of children in preschool programs in the year before school (four-year-olds) and additional preschool funding was announced by the Federal Government for this cohort for four years to 2025. However, Australia lags in enrolment of three-year-olds and is in the bottom third of countries ranked by the OECD (at 69%), with our enrolment rates for

the entire three-year to five-year old cohort substantially behind the OECD average as well as the leading developed nations.²⁵

Recommendation 29: Current early childhood education and care policy settings should be reformed so that:

- **children have access to high-quality early education two years before school (with the national rollout of this reform to prioritise children experiencing educational disadvantage, including Aboriginal and Torres Strait Islander, children in rural and remote areas, children from non-English speaking backgrounds).**
- **funding commitments are long-term to provide security for parents and early learning centres, in line with the recommendations of the Universal Access National Partnership COAG Review.**²⁶

Budget impact: -\$630 million (-\$1,000 million in 2023-24)

Improve the affordability of early childhood education and care

Some of the most severe economic impacts of COVID-19 have been felt by women with children. Women have borne the brunt of the additional care and education of children resulting from lockdowns. There is a risk that the gains in female employment participation that have been made in recent decades will be lost. This is an unaffordable setback for the women of Australia and the country at a precarious time in its recovery from the pandemic.

As we look to charting a path to economic recovery, policy settings should support job search and employment participation of parents, minimise out of pocket costs for families under financial pressure and deliver continuity in quality education and care for children.

In the short term, an adjustment to the current Child Care Subsidy and Additional Child Care Subsidy as proposed by The Grattan Institute could lift the level of subsidy for low and middle incomes families from 85% to 95% (with higher subsidies available to very low income or disadvantaged families through the ACSS), ease the taper rate and make access to a base subsidy (30%) universal.²⁷ Adjustments to eligibility for the child care subsidy should also be made to reduce barriers to access and extend the duration of support.

However, beyond this budget cycle, there is a need to consider whether a more equitable, simpler and accessible reform package would be more beneficial.

Recommendation 30: Affordability of early childhood care and education should be improved by:

²⁵ https://www.oecd.org/els/soc/PF3_2_Enrolment_childcare_preschool.pdf

²⁶ Nous (2020), 'UNAP Review – COAG Education Council', Nous Consulting. <http://www.educationcouncil.edu.au/site/DefaultSite/filesystem/documents/Reports%20and%20publications/UANP%20Review%20Report.pdf>

²⁷ Grattan Institute (2020), 'Cheaper Childcare: A practical plan to boost female workforce participation, 2020' <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf> p 55-56

- 1) **lifting the Child Care Subsidy for low-income families so that ECEC is free for households on incomes of up to \$70,015 per annum (at a minimum, lift the subsidy from 85% to 95% of costs for these families).**
- 2) **flattening and simplifying the taper rate, so the subsidy reduces to 30% for households on higher incomes (\$400,000 per annum or more).**
- 3) **removing activity tests to access the Child Care Subsidy to support continuity of access to high quality early education and care for children, especially for low-income families.**
- 4) **extending access to the Additional Child Care Subsidy (Temporary Financial Hardship subsidy) beyond the current 13-week period.**

Budget impact: -\$5,800 million (-\$6,000 million in 2023-24)

Ensure equality for Aboriginal and Torres Strait Islander children in their early years

Aboriginal and Torres Strait Islander children are supported by their families, their communities, and their culture. Despite this support, Aboriginal and Torres Strait Islander children continue to face challenges arising from colonisation and its effects. Achieving equity means dismantling the systems that perpetuate the ongoing trauma, disadvantage and marginalisation experienced by Aboriginal and Torres Strait Islander children. Whilst there have been some additional investments in Aboriginal early childhood in the Closing the Gap Implementation Plan, more comprehensive reform is required, which includes a strengthened role for community-controlled organisations in the lives of Aboriginal and Torres Strait Islander children.

Recommendation 31: To improve access to early childhood services by Aboriginal and Torres Strait Islander children, the following steps should be taken in line with the SNAICC and Early Childhood Australia position paper – *Working Together to ensure equality for Aboriginal and Torres Strait Islander Children*:

- 1) **Ensure Aboriginal and Torres Strait Islander three- and four-year-olds have a minimum of three days per week of high-quality preschool with a bachelor-qualified teacher.**
- 2) **Provide a minimum entitlement of 30 hours of 95% subsidised care per week for all Aboriginal and Torres Strait Islander children as an ongoing measure to Close the Gap in early education and care attendance and Australian Early Development Census (AEDC) outcomes.**
- 3) **Invest to increase the coverage and capacity of Aboriginal and Torres Strait Islander community-controlled integrated early years services through a new specific funding model and program designed to meet the needs of Aboriginal and Torres Strait Islander children and families.**

- 4) **Fund a targeted program to support evidence informed, culturally safe, and well-integrated early childhood and family-focussed programs, across the nurturing care spectrum in early education and care services that work with high numbers of Aboriginal and Torres Strait Islander children.**

Budget impact: *-\$80 million (-\$80 million in 2023-24)*

Establish an Evaluator-General to oversee the evaluation and monitoring of policy, programs and initiatives

Ensuring that programs and initiatives delivered by government are effective is vital so that public money is invested well, and people receive quality services and essential supports to improve their quality of life. After multiple independent reviews of the Australian Public Service, and various initiatives to improve the quality of proposed regulations, the evaluations of programs remain of inconsistent quality.

Program reports and associated datasets are not always promptly released when needed; an absence of coordination remains in sharing data across government to improve programs; and lessons from evaluations in other portfolios are not exchanged regularly. This is exacerbated by a chronic overdependence on private sector consultants to bolster public sector policy capability.

ACOSS calls for the establishment of a central oversight agency to improve consistency and coordination in the evaluation of programs across different departments. Creating a standardised and rigorous evaluation framework via a trusted and credible public entity will ultimately improve service design, development, and delivery, which in turn improves the institutional memory within the public service. Ultimately, this will go on to improve the lives of people across the country.

Recommendation 32: A high-level independent body should be established to oversee rigorous evaluation (quantitative and qualitative) of the impact of public policies, programs, and initiatives with maximum input from people who use social services, and evaluations and data should be promptly released (subject to privacy rules).

Budget impact: *-\$5 million (-\$5 million in 2023-24)*

Conduct a service needs analysis to inform investment decisions

Our research has demonstrated that the pandemic has had a significant impact on people experiencing poverty and disadvantage. Not only have community service providers observed rising levels of poverty as well as increased demand for essential services, but the complexity of need for people seeking assistance has also increased. This has been most noticeable in housing and homelessness, child, family and youth and mental health services.

Part of our national recovery must be developing a more sophisticated understanding of how the need for community services has changed over the past two years, and how to

best address it. Developing this evidence base would greatly assist the government to target its investment in areas where the need for assistance is more acute both in terms of population cohorts and geography. This would be of assistance to the Federal Government and the states and territories, given these combined levels of government spent \$48 billion on community services in 2019-20.²⁸

Recommendation 33: Allocation of funding should be based on a comprehensive service needs analysis and demand mapping exercise, conducted in partnership with the community sector and communities across Australia.

Budget impact: -\$10 million (\$0 in 2023-24)

Increase funding to peaks and advocacy organisations to ensure marginalised voices are heard in public and policy debates

The community sector makes a vital contribution to the development of policy, the improved performance of public departments and the accountability of the Federal Government via systemic advocacy on behalf of people who struggle to have their voices heard in Canberra. This is fundamental to a robust and vibrant civil society in Australia, ensuring issues important to people experiencing poverty, disadvantage and hardship are addressed as policy priorities.

However, over the past eight years, we have seen funding cuts to organisations representing Aboriginal and Torres Strait Islander peoples, LGBTIQI people, children and young people, refugees and migrants, people experiencing homelessness or struggling in the housing market to name some key groups. After a period of flexibility and support from funding bodies during COVID-19, we are concerned that the next parliamentary cycle will bring further, repeated cuts to peak bodies and other advocacy organisations. Reduced funding combined with silencing the sector is a major concern for the good governance of Australia.

It is crucial that the above trend is reversed, and that the community sector's advocacy activities are funded, safeguarded, and guaranteed. With only a modest financial investment, peaks and other advocacy organisations can undertake highly effective and respected advocacy that delivers a significant return on investment.

Recommendation 34: To ensure that everyone's voice is heard in our public debate, peak bodies and advocacy organisations representing people facing disadvantage should be adequately funded.

Budget impact: -\$10 million (-\$11 million in 2023-24)

²⁸ <https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/community-services>

7. Strengthen preventive health care and public health services

Under present policy settings, the cost of health, disability services and aged care will rise by \$21 billion a year by 2024. To address this growth, we need to shift focus to prevention, by lifting expenditure on preventive health to 5% of the Commonwealth health budget. This must happen well in advance of the current commitment (2030), so that we improve people's health and wellbeing and reduce the burden on the health system. We also need to reduce wasteful spending in health like the Private Health Insurance Rebate and the Extended Medicare Safety Net, to reduce costs and price inflation. For the duration of the COVID-19 pandemic, we need to invest in community-led health promotion to ensure that the vaccine rollout, along with ongoing prevention efforts, are successful. A key priority should also be to take steps to address one of the key gaps in our health system – the lack of a universal dental health scheme. Finally, reforms to tax policy settings should be undertaken to discourage consumption of sweetened beverages and tax alcoholic drinks more consistently to deliver public health benefits.

Major recommendations:

- **Lift investment in health promotion and prevention to 5% of total health expenditure by 2025 (well in advance of the current 2030 commitment).**
- **Strengthen the oral health safety net through increased investment and a multi-year funding agreement.**
- **Abolish poorly targeted, wasteful health spending, including the Private Health Insurance Rebate and the Extended Medicare Safety Net.**

Shift investment to health promotion and prevention

Too much of our public health spend is directed towards tertiary or hospital services, with inadequate investment in preventive health initiatives. Stronger investment in preventive health care and supporting people to adopt healthier lifestyles would save significant future health care costs.²⁹ The new National Preventive Health Strategy takes some important steps in the right direction, including a commitment to increase investment in preventive health to be 5% of total health expenditure across Commonwealth, state and territory governments by 2030 (up from 2% in 2018-19). However, we encourage the Government to be more ambitious and seek to achieve this goal sooner.

Recommendation 35: Increase investment in health promotion and prevention (including nutrition, obesity, tobacco and alcohol use, mental health, diabetes, cancer, and communicable diseases prevention) to 5% of total Commonwealth health spending

Budget impact: -\$1,500 million (-\$3,000 million in 2023-24)³⁰

²⁹ For a strong rationale for preventive services, see for example Preventative Health Task Force (2010): *Taking preventative action – a response to Australia: The healthiest country by 2020*, Preventative Health Task Force, Canberra. Available: <https://apo.org.au/node/21989>

³⁰ Total Commonwealth health spending in 2022-23 is estimated to be \$95,779 million. Wide propose a progressive increase to 5% by 2024-25.

Invest in community-led health promotion for COVID-19 public health response

Australia's COVID-19 public health response in 2021 was significantly improved by the work of community-led health initiatives assisting target populations. Local organisations built trust with people by engaging with them to explain the benefits of the vaccine, and to address any hesitancy issues. They also provided rapid feedback to government and health decision-makers about how to improve the rollout as well as identified ongoing health, economic and social risks in specific communities. Aboriginal and Torres Strait peoples turned to their ACCHOs for health promotion and education messages and guidance during this pandemic, and similar experiences were seen with other community-controlled organisations in CALD communities, LGBTIQ communities and communities of people with disability.

The task of protecting everyone from the virus is far from over. With new variants already spreading, Australia is still trying to provide two doses to all eligible persons including those aged 12 to 16 years and beginning to immunise children aged 5 to 11 years. Funding made available for Primary Health Networks to support local vaccine activities was only short-term, as were the small grants awarded to relevant peak bodies.

If Australia does not want to endure further lockdowns and associated disruption, it is critical that we learn the lessons from the first phase of the rollout and better resource community-led health initiatives. This requires ongoing investment to continue their work into 2022. Such organisations must have financial security to continue to reach specific at-risk and hard to reach populations with messages about vaccination, prevention, testing and isolation.

Recommendation 36: Provide targeted funding for community organisations representing key population groups to continue to deliver peer-led health promotion and education to their own communities in order to ensure that health promotion and education messages about COVID-19 prevention, testing, vaccination and isolation are reaching hard to reach and at-risk populations.

Budget impact: *-\$100 million*³¹

³¹ Expenditure in later years will be determined by the trajectory of the pandemic.

Strengthen the oral health safety net

One of the most significant gaps in our public health system is the provision of affordable, accessible dental care for all. While seeing a GP usually results in Medicare bearing all or most of the cost, seeing a dentist often results in significant out-of-pocket costs, even for those with private health insurance. This makes dental care unaffordable for many people on low incomes, and many go without the treatment they need. This creates costs in our broader health system, but also impacts on people's ability to live their lives, including to eat well, work and be engaged in their communities. Australia should begin the transition to a universal oral health scheme, funded by the Federal Government, by expanding existing public dental funding and access and committing to a new multi-year Commonwealth/State funding agreement to provide stability and certainty in the system.

Recommendation 37: Begin the transition to a universal, federally funded dental care scheme:

- **As a first step in the transition to a full scheme, public dental services investment and eligibility should expand and a new multi-year Commonwealth/State dental health funding agreement created.**

Budget impact: -\$500 million (-\$1,000 million in 2023-24)

Abolish the Private Health Insurance Rebate

Despite being a significant component of health expenditure, the Private Health Insurance Rebate (PHIR) has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Total savings of \$6.8 billion from abolishing the rebate in 2022-23 would be offset by a modest increase in demand for public hospital services.

Recommendation 38: Abolish the Private Health Insurance Rebate and reinvest \$2.8 billion in public hospitals.

Budget impact: \$4,000 million (\$4,200 million in 2023-24)

Abolish the Extended Medicare Safety Net

Poorly designed consumer subsidies such as the Extended Medicare Safety Net (EMSN) can exacerbate inflation in health costs and offer little benefit to people on lower incomes. An independent review of the EMSN found that less than 4 per cent of EMSN benefits go to the most socioeconomically disadvantaged 20 per cent of the population. This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds.³² While EMSN benefit caps have helped to stabilise fees charged for specialist and allied health services, there is no evidence that this has resulted in a more equitable distribution of EMSN benefits across the income distribution. More fundamental reform is needed, including greater transparency for people on the outpatient fees charged by specialists and out-of-pocket costs to patients.

Recommendation 39: Abolish the Extended Medicare Safety Net, which costs \$500 million a year and is driving up medical costs.

Budget impact: \$500 million (\$510 million in 2022-23)

³² The EMSN provides an additional rebate for people who incur out-of-pocket costs for Medicare eligible out-of-hospital services. Once the relevant annual threshold of out-of-pocket costs has been met, Medicare will pay for 80% of any future out-of-pocket costs for out-of-hospital Medicare services for the remainder of the calendar year. From 1 January 2021 the annual EMSN thresholds are: \$697 for Commonwealth concession cardholders and Family Tax Benefit Part A, and \$2,184.30 for all other singles and families. See Department of Health (2020): 'Medicare safety net arrangements - 1 January 2019', Department of Health, Canberra. Available: http://www.mbsonline.gov.au/internet/mbsonline/publishing.nsf/Content/Factsheet-MSN_1Jan2021

Centre for Health Economics Research and Evaluation (2011): 'Extended Medicare Safety Net: Review of capping arrangements report 2011', CHERE, University of Technology, Sydney, Sydney. Available: [https://www1.health.gov.au/internet/main/publishing.nsf/Content/2011_Review_Extended_Medicare_Safety_Net/\\$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf](https://www1.health.gov.au/internet/main/publishing.nsf/Content/2011_Review_Extended_Medicare_Safety_Net/$File/Final%20Report%20-%20Review%20of%20EMSN%20benefit%20capping%20June%202011.pdf)

8. First Nations communities

If governments are serious about improving outcomes for First Nations People, they must support local, community driven solutions. The recommendations relating to First Nations communities in this submission are designed to support community-led reform. Building capacity in communities is critical to improve the quality of life and wellbeing.

ACOSS strongly supports the 'Uluru Statement from the Heart' to give First Nations People a say in the decisions that affect their lives with a constitutional voice to Parliament. This will help ensure that we do things differently and more productively and allow Aboriginal and Torres Strait Islander people to claim their rightful place in the nation.

Major recommendations:

- **Implement Uluru Statement from the Heart, including by holding a referendum on a First Nations Voice to Parliament enshrined in the Constitution.**
- **Abolish discriminatory social security policies including mandatory income management and cashless debit.**

The following recommendations – featured elsewhere in the submission – are priorities for reform with respect to policies, programs and services that affect First Nations People:

- Ensure Aboriginal and Torres Strait Islander children get access to high quality early education that is culturally safe, delivered by appropriately skilled teachers (see Chapter 6).
- Abolish compulsory income management and the cashless debit card in all states and territories, putting in place both transition arrangements for individuals and communities wishing to retain voluntary income management and cashless card schemes; and opt-in schemes which have been co-designed with communities and to include supports and services as elected by communities, which could include financial counselling, drug and alcohol services, mental health and social support services (see Chapter 1).
- Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas, and a new remote housing agreement (see Chapter 5).
- Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities, including solar and other subsidies for Aboriginal and Torres Strait Islander householders (see Chapter 3).
- Support Aboriginal and Torres Strait Islander peoples and communities to participate in whole-of community response to building climate resilience and to better prepare for, respond and recover from natural disasters that build on traditional and local knowledge (see Chapter 4).

9. Decent retirement incomes and services

Security in retirement depends on pensions that prevent poverty, fair superannuation that cushions the loss of income from employment, affordable housing, and universal access to quality health and aged care services. The tax treatment of superannuation is parsimonious for people on low incomes and most women, and too generous for people with high incomes, mainly men. This entrenches inequality in retirement and deprives governments of the revenue they need to fund decent health and aged care for an ageing population. Tax concessions for contributions should be replaced with an annual rebate that is simpler and fairer. To guarantee quality aged care for all, a levy should apply to superannuation fund investment incomes after retirement, and the Medicare Levy should be strengthened to fund essential health services.

Major recommendations:

- **Replace tax concessions for superannuation contributions with a fairer and simpler annual rebate.**
- **A 15% levy on superannuation fund earnings after retirement to guarantee universal access to quality aged care services.**
- **Prevent avoidance of the Medicare Levy to strengthen funding for health services.**

Compulsory superannuation that's fit for purpose

Compulsory superannuation has improved retirement incomes and living standards for many who would otherwise rely on the Age Pension alone. Since compulsory super is forced saving, the system should take account of greater financial pressures people (especially those with low incomes) face during working life, including higher housing costs, raising children, and the financial risks of unemployment and unstable employment, separation, and illness.

A sensible goal for compulsory retirement saving is to ensure that a worker on a median wage can come within reach of their average living standard during working life after they retire (taking account of pension entitlements). Research by the Retirement Income Review indicates that most wage earners will achieve this goal through a combination of the Age Pension and superannuation contributions of around 10% of earnings throughout typical working lives.³³

The Superannuation Guarantee, which regulates compulsory retirement saving, is currently set at 10% of earnings. It should only be increased above that level if the benefits of higher compulsory contributions for the median wage-earner and those with lower incomes are clearly demonstrated, and tax concessions for contributions are reformed so that compulsory saving is worthwhile for people with low and modest incomes.

³³ Retirement Income Review (2020), 'Final report'. Canberra.

Recommendation 40: Universal compulsory super contributions should remain at 10% unless it is demonstrated that higher contributions would benefit people on low and modest incomes across their lifetimes.

- 1) **Compulsory superannuation should remain universal, with the same compulsory saving requirements and conditions applying as far as practicable to all employees.**
- 2) **The Superannuation Guarantee should only increase above 10% where:**
 - **The tax treatment of superannuation contributions is reformed in a revenue neutral way so that people with low incomes receive at least the same benefit per dollar contributed as those with high incomes;**
 - **Higher compulsory contributions are of demonstrated benefit to people with low and modest incomes, taking account of their typical living standards before and after retirement and the impact of higher contributions on wage increases.**

Make superannuation fairer for women and people with low incomes

People on low and modest incomes presently receive little or no support from tax concessions for superannuation contributions that cost the budget \$25 billion annually. A worker earning \$20,000 (more likely to be a woman) receives no tax support for employer contributions while another worker on \$200,000 (more likely to be a man) saves 32 cents in tax per dollar contributed. This is due to the way their marginal tax rates interact with the inequitable flat 15% tax on employer contributions.

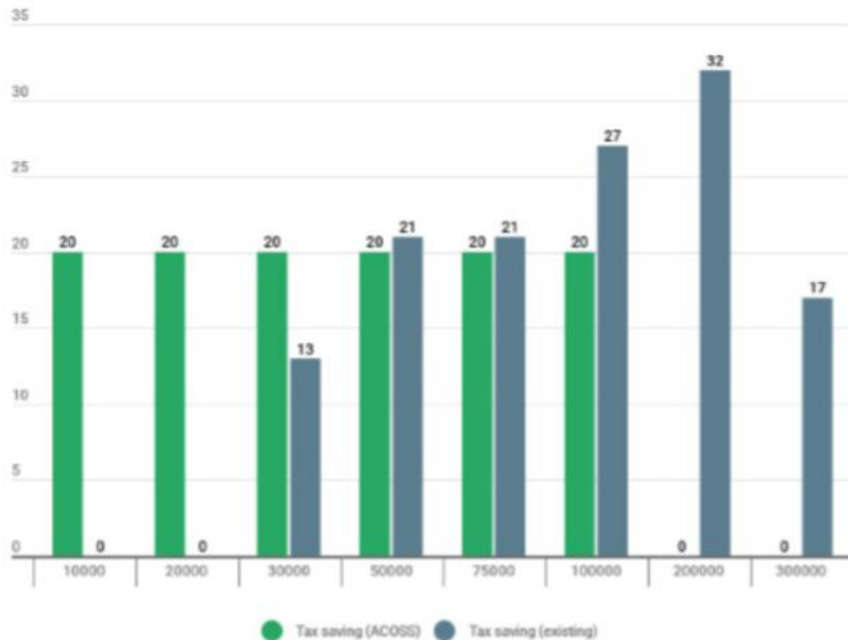
The system particularly disadvantages women. In 2017, 11% of female taxpayers earned less than \$30,000 compared with 9% of men. At those income levels, people generally receive no tax benefit from super contributions since the Low Income Superannuation Tax Offset merely offsets the 15% tax deducted from their employer contributions.

This flat superannuation tax should be replaced with a rebate (for example, 20% of contributions from all sources) that provides the same or greater support for each dollar of contributions for people with low incomes as that provided to middle and high income-earners. This would be paid for by reducing tax breaks for people with high incomes. In addition, to make super worthwhile for people with very low incomes, a higher rebate (for example equal to 100% of contributions) could be paid for, say, the first \$500 a year contributed to super accounts.

Tax breaks on contributions should be capped at a much lower level than the present \$25,000 a year (for example, \$15,000) so that average wage earners are not subsidising luxurious retirement living standards.

The impact of this reform on the marginal tax rate applied to contributions just above the Superannuation Guarantee is illustrated in Figure 3.

Figure 3: Tax saved, in cents per dollar contributed above the Super Guarantee, at different income levels (existing system compared with ACOSS rebate)



Note: Marginal tax rate of additional employer contributions above the superannuation guarantee. The existing 15% tax is offset by a rebate for those below the tax-free threshold, so that the tax concession in those cases is effectively zero.

The proposed rebate is more generous for SG contributions for middle income earners than the present 15% tax rate, so most middle income-earners would be financially better off.

Recommendation 41: Fair and simple tax concessions for superannuation contributions:

- All tax concessions for superannuation contributions (including the 15% employer contributions tax rate, deductions for contributions, and rebates for contributions by low-income earners and for spouses) should be replaced in a revenue-neutral way by an annual two-tier refundable rebate paid into the fund, capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.**

- 2) **The rebate for concessional contributions would be structured as follows:**
 - **100 cents per dollar contributed from any source up to \$500 per year (not income-tested, indexed to movements in average full-time earnings), to support retirement saving by low paid part-time workers and replace the Low Income Superannuation Tax Offset;**
 - **Plus 20 cents per additional dollar contributed from any source up to \$15,000 (indexed to movements in average full-time earnings), with no higher cap for 'catch-up' contributions;**
 - **For this purpose, contributions would be calculated as net contributions, that is all contributions made to a person's superannuation accounts in a given year minus any benefits paid, in order to curb tax avoidance through re-contribution strategies.**
- 3) **The annual non-concessional contributions cap should be reduced to three times the new concessional cap (\$45,000), and people should no longer be able to contribute up to three years' contributions within the cap in a single year.**
- 4) **The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing by self-managed funds should be removed.**

Budget impact: \$0

A levy on superannuation fund income post-retirement to help pay for aged care

It will not be possible for future governments to properly fund aged care and health services for an ageing population as long as only 16% of older people pays income tax.³⁴ We must choose between over-generous tax breaks for retirement, decent services, or a steep rise in out-of-pocket costs for health and aged care. Older people are rightly concerned about the deficiencies in aged care revealed in the recent Royal Commission and increases in out-of-pocket costs for those services including large up-front deposits for residential care.

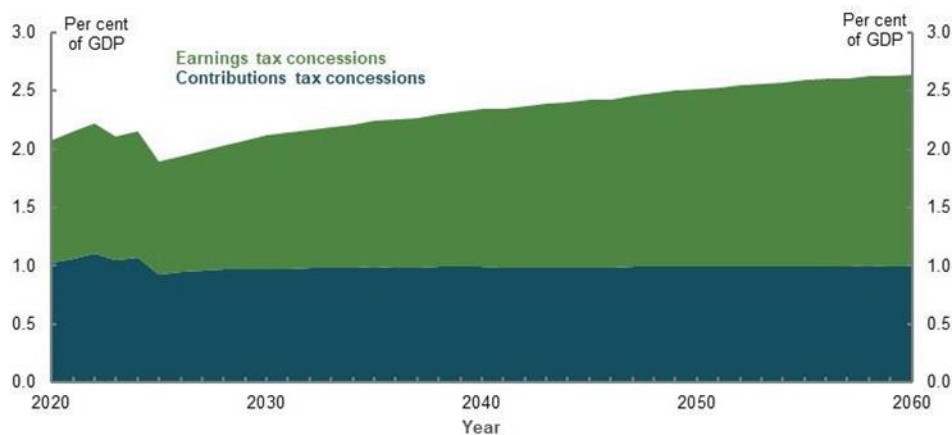
These concerns have led many people to avoid drawing down their retirement savings, reducing their enjoyment of retirement while they are still healthy, in case they need the money for health and aged care services later in life. The outcome is larger bequests instead of improved living standards in retirement.³⁵

The fiscal cost of tax concessions for superannuation, especially post-retirement tax concessions, is projected to rise substantially as the population ages and the superannuation system matures, from 2.1% of GDP in 2020 to 2.6% in 2060 (Figure 4). Over the same period, growing public expenditures on health and aged care will put more pressure on Commonwealth budgets.

³⁴ Coates B (2018), 'The entitlement of age', Grattan Institute.

³⁵ Retirement Income Review (2020), op cit.

Figure 4: Projected cost of superannuation tax concessions (% of GDP)



Source: Retirement Income Review (2020), op cit.

The tax treatment of superannuation after retirement is extraordinarily generous, especially for people with substantial wealth. It is not widely understood that in addition to the exemption from income tax of superannuation benefits (lump sums and pensions), the investment income of a superannuation fund is no longer taxed once it pays a pension to a fund member. In contrast, during the so-called 'accumulation phase' interest, dividends and capital gains off super funds are taxed at 15% (10% for capital gains).

Re-contribution strategies (where a fund member who receives a superannuation payment makes contributions in the same year, churning their income through super) have blurred the artificial distinction between accumulation and pension phases of superannuation. As the Henry Report recommended in 2009, that distinction should be removed, and the same tax rate should apply to super fund earnings before and after retirement.³⁶

The tax exemption for the investment income of super funds in the so-called pension phase opens up tax avoidance opportunities. People can avoid paying tax on capital gains accrued through working life by transferring or retaining assets in a self-managed superannuation fund until they reach the age of 60 and the fund pays them a pension, at which point the fund's earnings, including capital gains, are tax free. Small business owners can transfer assets into their super fund tax free, taking advantage of the CGT rollover for small business assets used for retirement. Further, the 17% tax on superannuation assets transferred to a deceased estate can be avoided by shifting savings from pension to accumulation accounts. This undermines the purpose of superannuation, which is to support a decent retirement rather than bequests to adult children.

To guarantee universal, good quality aged care, a 15% aged care levy should apply to the investment income of superannuation funds after retirement. As well as simplifying the tax treatment of superannuation, this would ease concerns among retired people over whether or not they can 'afford' decent in home and residential care when they need it later in life. In return for this contribution from retired people who can afford to

³⁶ Henry K et al. (2009), Henry K et al. (2009), 'Australia's future tax system review final report', The Treasury, Canberra, at: <https://treasury.gov.au/review/the-australias-future-tax-system-review/final-report> . Tax avoidance through re-contribution strategies was addressed in part by the government's decision in 2016 to apply the 15% tax rate to the investment income of Transition to Retirement accounts.

pay, the government should guarantee a decent standard of aged care for all who need it, free of charge.³⁷

Recommendation 42: Introduce a 15% levy on superannuation fund earnings after retirement to help pay for aged care services:

- 1) **The 15% tax on fund earnings in the accumulation phase should be progressively extended to the pension phase over a three-year period from July 2023 (with a 5% increase each year).**
- 2) **To simplify the system, the distinction between accumulation and pension phases should be phased out.**
- 3) **This should be offset by a 15% rebate (minus any imputation credits) for people over the preservation age whose income (including Age Pension, earnings, superannuation and other investment income) falls below their tax-free threshold. The rebate would be calculated each year by the ATO and deposited in a superannuation fund chosen by the taxpayer.**
- 4) **Opportunities for taxpayers to avoid or reduce tax on capital gains accrued during working life by holding assets in a self-managed super fund should be curtailed.**
- 5) **Transfers from superannuation accounts to the estates of deceased fund members (apart from partners and dependents) should be taxed at the statutory rate of 17% without exception apart from transfers to spouses and dependent children.**
- 6) **Revenue collected from these measures (which would rise substantially in later years) should be earmarked for public expenditure on aged care services.**

Budget impact: \$0 (\$2,500 million in 2023-24)

Prevent avoidance of the Medicare Levy

The income definition for the Medicare Levy is taxable income, which opens up opportunities for taxpayers to avoid paying it by taking advantage of negative gearing arrangements, salary sacrifice, or the use of private trusts. The broader income definition for the high-income Medicare Levy Surcharge ('MLS income') restricts these tax avoidance opportunities. To strengthen revenue for health services, this broader definition should extend to the Medicare Levy itself.

Recommendation 43: Prevent avoidance of the Medicare Levy

- 1) **From 1 July 2023, the income definition for the Medicare Levy should be broadened from 'taxable income' to 'Medicare Levy Surcharge income' to prevent people from avoiding the Levy by using tax shelters such as private trusts, negative gearing or salary sacrifice arrangements.**
- 2) **Revenue raised from this change should be earmarked for public expenditure on essential health and disability services.**

Budget impact: \$0 (\$1,300 million in 2023-24)

³⁷ Accommodation and other services would still attract charges, but the care component of aged care services would be free, as is the case for public hospital treatment and care.

10. A fairer tax system that supports services, safety nets and economic development

While there is no urgency to reduce the budget deficit, the government should begin work to shore up the revenue base needed in future years to finance essential services and income support and action on climate change, as proposed in the community sector [statement on budget policy](#).³⁸ This is not the time for more income tax cuts, especially those scheduled for 2024, which cost over \$16 billion a year and mainly go to men with high incomes. Instead of cutting taxes, the government should restructure them so that revenue is raised more fairly and efficiently. High priority should be given to reforms to taxes on investment incomes from property and shares, superannuation (see previous chapter), the use of private companies and trusts to avoid tax, curbs on tax avoidance by multi-national companies, and the removal of business tax concessions that are economically and environmentally harmful such as fossil fuel subsidies.

Australian governments don't collect enough tax to fund the essential services and safety nets we need. Australia is the ninth lowest-taxing country among 36 OECD nations. All levels of government collect 30.5% of Gross Domestic Product (GDP) in tax compared with an average of 32.9% among wealthy nations. Our personal income tax revenue (at 11.5% of GDP in 2017) is also lower than the average for wealthy nations (17.4% of GDP), taking account of social insurance taxes. An average fulltime worker pays 24.1% of their overall income in income tax, lower than an average American worker (24.4%).³⁹

We do, however, collect tax unfairly and inefficiently. The main problem is not that we tax income too much and consumption too little, as some argue. There is little difference in the economic impact of taxes on income and consumption. The main difference between them is that income taxes fall mainly on people with high incomes and consumption taxes fall disproportionately on people with the least capacity to pay.

The main weakness of our tax system is that we fail to tax individuals and company income consistently, due to shelters and loopholes that generally benefit individuals with high incomes and companies that already occupy a dominant place in the Australian economy. This is unfair: for example, it means that people with high incomes and smart accountants often pay less tax on their investment income than an average worker pays on their wage. These inconsistencies also distort work and investment decisions in ways that are economically and environmentally harmful. For example, the tax treatment of investment income is biased towards speculation in property, while fossil fuel subsidies delay the necessary and inevitable transition to renewable energy sources.

We also rely too little on fair and efficient tax bases such as land.

³⁸ 'A Guarantee to the Nation – Community organisations' call to the Parties', ACROSS, 2021 <https://www.acoss.org.au/wp-content/uploads/2021/08/A-Guarantee-To-The-Nation-Final-Release.pdf>

³⁹ OECD (2021), 'Revenue statistics'; OECD (2020), 'Taxing wages'.

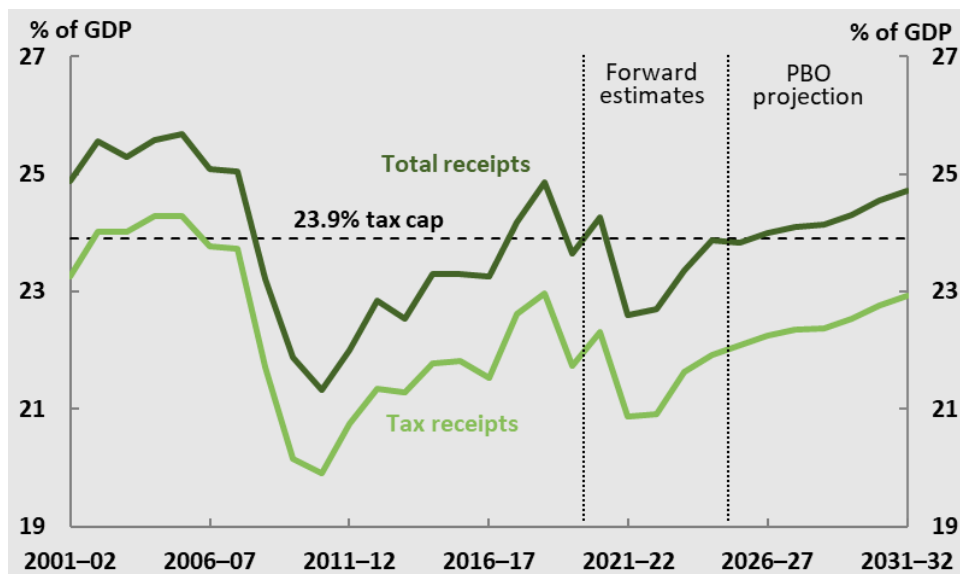
Major recommendations:

- **Do not proceed with scheduled 2024-25 income tax cuts.**
- **Reduce the general Capital Gains Tax discount for individuals and trusts by half and restrict deductions for personal investment expenses (negative gearing).**
- **Abolish fuel tax credits for off-road use, except for agriculture.**

Cancel the tax cuts

Australian government revenue is expected to fall sharply in the wake of last year's recession, from 24.9% of GDP in 2018-19 to 22.7% in 2022-23 (Figure 5). The Parliamentary Budget Office projects that it will not recover to pre-recession levels by 2031-32 (when it will be 24.7% of GDP).⁴⁰

Figure 5: Australian government total revenue and tax revenue (% of GDP)



Parliamentary Budget Office (2021), *Beyond the Budget - 2021-22: Fiscal outlook and scenarios*, Report No 2/2021.

Given diminishing public revenues, and growing public expenditure needs, we cannot afford the \$16 billion a year cost of the 'Stage 3' tax cuts set to commence in 2024-25. Those tax cuts would also go to people who need the least support. Analysis from the Parliamentary Budget Office indicates that over three quarters (78%) of the value of the tax cuts will go to the top 20% by income on \$102,000 or more, and only one third will go women.⁴¹

Recommendation 44: Do not proceed with scheduled income tax cuts for high income-earners:

- **The 'Stage 3' tax cuts legislated to begin in 2024 should be withdrawn.**

Budget impact: \$0 million (\$15,700 million in 2024-25)

⁴⁰ Parliamentary Budget Office (2021), *'Beyond the Budget - 2021-22: Fiscal outlook and scenarios'*, Report No 2/2021

⁴¹ Parliamentary Budget Office (2021), *'Distributional analysis of the Stage 3 tax cuts.'*

Tax investment income more fairly and consistently

Households invest more in dwellings than businesses invest in plant and equipment. The result of our high levels of housing investment is rising prices rather than affordable housing for all. Over the past year, home prices have risen by over 20% and rents rose by more than 8%.⁴²

Our tax system encourages over-investment in housing and other assets that increase in value at the expense of more productive investments. Capital gains from investment in housing, shares and other assets are taxed at half each individual's marginal tax rate, and these increases in personal wealth are only taxed when the assets are sold. This tax bias encourages speculative investments in assets, inflating their value and detracting from long-term economic development. It exacerbates boom and bust cycles in the economy, especially when, as now, interest rates are at very low levels.

The 50% Capital Gains Tax (CGT) discount overwhelmingly benefits the top 10% of taxpayers, who receive two-thirds of all capital gains.⁴³ We propose that this concession be halved, so that three-quarters of capital gains are taxed. Rather than grandfathering this change (which would lock in existing investments), we propose that from July 2022 the tax rate on capital gains be progressively lifted from 50% of the marginal tax rate to 75% over a three-year period. Existing investors should have the funds to pay the higher rate of CGT as it only levied once an asset is sold.

In addition, avoidance of CGT would be curbed by our recommendation to tighten the tax treatment of superannuation fund earnings post-retirement (see Chapter 9: Decent retirement incomes and services).

Ideally, the delay in taxing capital gains would be eliminated by taxing them annually as they accrue. This is impractical as it would require annual valuations, and many long-term investors would not have the cashflow to pay annually. Instead, the government should ensure that the tax treatment of investment expenses (including interest payments on borrowings to purchase an asset) is consistent with the (delayed) tax treatment of capital gains.

From January 2023, investors should no longer be able to claim deductions on those expenses until the investment yields a positive return (often through sale of the asset years later).⁴⁴ That is, 'negative gearing' of expenses relating to assets such as housing and shares (where individuals offset income tax on their wages and other income with deductions for fictional 'investment losses') should not be permitted. Investors could still claim deductions, but they would be better matched with investment income. Assets acquired before that date would be grandfathered so that deductions can still be claimed under the present rules.⁴⁵ This restriction would not apply to investment in an 'active business'.

⁴² ABS (2021), 'Australian National Accounts'; Pawson H et al (2021), 'COVID19, rental housing and homelessness impacts in Australia', UNSW Sydney.

⁴³ Australian Taxation Office (2020), 'Taxation Statistics'.

⁴⁴ A more detailed explanation of this reform, including our responses to claims that it would mainly affect people on low or modest incomes, is in ACOSS (2016): 'Fuel on the fire: Negative gearing, capital gains tax & housing affordability,' ACOSS, Sydney at:

https://www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf

⁴⁵ Unlike the above change to CGT, grandfathering is appropriate in this case because otherwise some existing investors would lack the cashflow to pay the additional tax.

The revenue saved from this measure would be devoted to the affordable rental housing investment incentive proposed in Chapter 5: Make access to housing affordable for people with low incomes.

Recommendation 45: Reduce the general Capital Gains Tax discount for individuals and trusts:

- **The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over five years (reduced by 5% per year) commencing 1 July 2022.**

Budget impact: \$800 million (\$1,400 million in 2023-24)

Recommendation 46: Restrict deductions for personal investment expenses (negative gearing):

- 1) **Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those asset classes, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2023.**
- 2) **The revenue saved from this measure should be used to introduce an affordable rental housing investment incentive which rebates a proportion of the construction costs of new 'affordable rental' dwellings annually over a ten-year period, during which rents are held at least 20% below median market levels (see Recommendation 24 in Chapter 5, Housing).**

Budget impact: \$0 (\$600 million in 2023-24)

Curb personal tax avoidance using private trusts and companies

Private (closely held) trusts, especially discretionary trusts, are used to avoid income tax by splitting income with a family member, delaying or avoiding payment of CGT, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries (unlike the tax treatment of companies). Although the policy intention is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied.

Private trusts and companies are also used to (illegally) evade tax and launder money by shifting funds through complex chains of entities or to 'tax havens' such as Panama, Bermuda, or Switzerland.

One way to close off these tax avoidance opportunities is to tax private trusts as companies as recommended in 2000 by the Review of Business Taxation (Ralph Review).⁴⁶ This would also improve consistency in the tax treatment of trusts and companies, especially the treatment of tax-preferred income (tax concessions), which

⁴⁶ Review of Business Taxation (1999): 'A tax system redesigned: More certain, equitable and durable', Treasury, Canberra.

would no longer 'pass through' to the beneficiaries of private trusts. On the other hand, it would enable high-income-earners to exploit the gap between the company tax rate and higher personal tax rates by retaining income in the trust, so that weakness in the tax treatment of private companies should also be overcome as proposed below.

An alternative way to curb tax avoidance through discretionary trusts is to apply CGT to untaxed or concessional tax income (for example, where taxable income is reduced by building works deductions) of private discretionary trusts when it is distributed to beneficiaries. Currently, these distributions do not attract CGT, including where capital gains are realised through asset revaluations within the trust. This would bring the tax treatment of discretionary trusts into alignment with that of fixed trusts, and curb avoidance of CGT.

The proposed changes would apply to private express trusts (both fixed and discretionary trusts), with exemptions like those recommended in the Ralph Review including complying superannuation funds and disability trusts.

A related policy challenge is the widespread use of private companies and trusts to (unlawfully) evade tax and launder money through secrecy jurisdictions or 'tax havens', as revealed by revelations from 'Operation Wickenby' (Switzerland), 'Panama Papers' (Panama) and the 'Paradise Papers' (Bermuda), and 'Pandora Papers' (Cayman Islands and Samoa).

In 2014, Australia was a prominent supporter of the G20 initiative to curb these practices by improving the transparency of beneficial ownership of companies and trusts. Seven years later, two independent progress reviews have found Australia has not complied with its commitments to improve transparency in beneficial ownership of companies and trusts.⁴⁷

To encourage tax compliance and curb money laundering, information on private trusts should be published by the ATO on a public register, akin to the register for companies. The privacy of beneficiaries of family trusts registered as such could be protected by exempting those trusts (but not related entities that are not themselves family trusts) from requirements to publicly list their beneficiaries.⁴⁸

In addition, private companies should be required to declare their beneficial owners to ASIC and companies exempted from public disclosure requirements by previous grandfathering arrangements should be included.

Private companies are also widely used to avoid tax, often in conjunction with discretionary trusts. These arrangements take advantage of the gap between the top marginal rate of personal income tax and the company tax rate.

The use of 'cashbox companies' to avoid personal income tax by retaining income in a private company should be curbed by taxing retained earnings (minus a reinvestment

⁴⁷ Group of 20 (2014): 'High-level principles on beneficial ownership transparency', G20, Brisbane, at: https://star.worldbank.org/sites/star/files/q20_high-level_principles_beneficial_ownership_transparency.pdf ; OECD (2017): 'Global forum on transparency and exchange of information for tax purposes: Australia 2017 (second round): Peer review report on the exchange of information on request', OECD Publishing, Paris, at: <https://doi.org/10.1787/9789264280069-en> ; Financial Action Task Force (2018), 'Anti-money laundering and counter-terrorist financing measures - Australia, 3rd Enhanced Follow-up Report & Technical Compliance Re-Rating.' Paris. <http://www.fatf-gafi.org/publications/mutualevaluations/documents/fur-australia-2018.html>

⁴⁸ In a family trust election, the transfer of income or losses beyond beneficiaries who belong to the family that owns the trust is discouraged by a penalty tax. Private companies exempted from disclosure requirements by previous grandfathering arrangements should be included.

allowance for active businesses) in private companies at the top marginal personal tax rate plus Medicare Levy. This tax treatment would also apply to private trusts taxed as companies under the reform proposed above. Where the owner of the private company would ordinarily face a lower personal tax rate, they could distribute company income to themselves in the form of dividends or wages so that they are taxed at their personal tax rate.

This reform has become more urgent now that the company tax rate has fallen to 27.5% for companies with annual turnover below \$50 million. This change provided windfall gains to high-income-earners using companies as business vehicles.⁴⁹

Recommendation 47: Curb the use of private trusts to avoid personal income tax and conceal income:

- 1) From 1 July 2023, closely-held express trusts (both discretionary and fixed) should be taxed as companies. This would not apply to certain categories of trusts including collective investment vehicles, complying superannuation funds, disability trusts, and trusts established pursuant to court orders.**
- 2) Alternately, Capital Gains Tax should apply to untaxed and preferentially-taxed distributions to the beneficiaries of closely-held discretionary trusts, including distributions arising from asset revaluations.**
- 3) A public register should be established by the ATO by July 2023 to hold the following information in regard to trusts that are required to lodge tax returns: the names and tax file numbers of the trustee, controller, any beneficiaries that are not natural persons (for example other trusts or companies), annual financial statements, and (where the trust is not a family trust) all other beneficiaries together with a declaration from the trustee identifying all beneficial owners.**

Budget impact: \$0 (\$1,600 million in 2023-24)

Recommendation 48: Curb the use of private companies to avoid personal income tax:

From 1 July 2023, income retained in private companies, apart from a reinvestment allowance for companies engaged in active business (comprising a fixed proportion of the assets of the company), should be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Budget impact: \$0 (\$1,500 million in 2023-24)

⁴⁹ The lower company tax rate is restricted to active businesses, as distinct from passive investment vehicles. Nevertheless, incorporated active business entities with turnover of up to \$50 million include many owned by high income-earners (for example, professional practices). Business owners with low to modest incomes are less likely to incorporate.

Curb international business tax avoidance

The government has implemented welcome reforms to tackle corporate tax base erosion and to prevent the shifting of profits offshore, including the introduction of a Diverted Profits Tax and a Multinational Anti-Avoidance Law (MAAL). More needs to be done. Too many corporations operating profitably in Australia pay little or no tax. Improving the financial transparency of multinational companies operating in Australia would help change this behaviour. Further, the 'thin capitalisation' rules designed to prevent the shifting of debt to Australia to avoid tax should be strengthened and the use of secrecy jurisdictions (tax havens) for this purpose should be discouraged.

Recommendation 49: Curb international business tax avoidance:

Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2023:

- 1) **Tighten thin capitalisation rules so that allowable debt deductions are based on a company's global debt-equity ratio;**
- 2) **Improve the transparency of reporting on business income and taxation flows by requiring public disclosure of the ultimate beneficial ownership of companies registered in Australia; requiring the ATO to publicly release high-level reports under the OECD country-by-country reporting initiative in regard to companies with turnover above \$750 million; and requiring the ATO to share information on the tax status of trusts and partnerships as well as companies with other tax authorities pursuant to international agreements;**
- 3) **Apply special withholding taxes on transfers of funds to secrecy jurisdictions that do not provide effective information exchange pursuant to international treaties.**

Budget impact: \$0 (\$500 million in 2023-24)

Remove fossil fuel subsidies

The fuel tax offset for off-road use refunds the excise paid by businesses for fuel that is not used to transport goods or people on Australian roads. Its rationale is that the fuel excise is a user charge to fund public roads, so fuels used for other purposes should be exempted. This is questionable, especially when Australia will struggle to meet its carbon reduction commitments. Fuel taxation is a mechanism for generating general government revenue and reducing our reliance on environmentally harmful fossil fuels.

In Chapter 4: Accelerate a just climate transition and strengthen community climate resilience, we argue that fuel tax credits for off-road use increases carbon emissions and dampens incentives to improve energy efficiency and switch fuels.

Recommendation 50: Abolish fuel tax credits for off-road use:

- **Fuel tax credits for off-road use, except agriculture, should be abolished from July 2022.**

Budget impact: \$7,000 million (\$6,000 million in 2023-24)

Use the tax system to encourage healthy practices and fund preventive health care

Excessive sugar consumption is a major reason that almost two-thirds of residents in Australia are overweight or obese; one of the highest rates in the OECD. Excessive sugar consumption also leads to tooth decay, especially in children.

We propose a *tax on water-based drinks with added sugar* as a first step towards reducing excessive sugar consumption since these often have a very high sugar content and have no nutritional value. This would be a volume-based tax on water-based drinks with added sugar (not including unsweetened fruit juices) along the lines of the British tax on sugary drinks.⁵⁰

Revenue from this tax should be earmarked for preventive health and health promotion programs, including healthy eating and sports programs in schools, and a public subsidy for the transport of fresh food to remote areas. In remote Aboriginal and Torres Strait Islander communities a fresh food transport subsidy would be a direct, equitable and cost-effective way to improve health.⁵¹

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of excessive consumption of cheap wines on drinkers, their families and communities, especially its contribution to family violence.

A contributing factor is the inconsistent tax treatment of different forms of alcohol, with wines and ciders taxed at relatively lower rates.

The Wine Equalisation Tax (WET) and WET Rebate should be abolished and wine and ciders should be taxed at two uniform rates according to alcohol volumes, lying between the tax rates for brewed full-strength beer and spirits.⁵²

These reforms should be part of a wider strategy to reduce harmful consumption of alcohol including regulatory reform (especially advertising and financing of sporting and similar activities by producers) and health promotion campaigns.

Recommendation 51: Introduce a 'sugar tax' on sweetened drinks

(1) As part of a comprehensive strategy to reduce sugar consumption where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2022 a two-tier volumetric 'sugar tax' should be

⁵⁰ That tax applies to drinks with sugar content above 5g/100ml and at a higher rate for drinks with over 8g/100ml. Soft drink manufacturers quickly reduced the sugar content of their products to bring them under the thresholds for higher taxation.

⁵¹ This could be modelled on a Canadian program, 'Nutrition North America', which provides a transport subsidy to food providers in remote, isolated regions. Funding is based on the total weight of fresh food products shipped to eligible communities, who must then pass on the savings to consumers.

⁵² ACIL Allen Consulting (2015): Alcohol tax reform: Economic modelling, ACIL Allen Consulting, Sydney for FARE. Available: https://www.acilallen.com.au/uploads/files/projects/177/ACILAllen_AlcoholTax_2015.pdf A common volumetric tax rate for wine at \$56.46 (half way between the full-strength draught beer rate of \$33.16 and the spirits rate of \$79.77) would raise \$2.3 billion in annual revenue and reduce overall alcohol consumption by 7.1% (mainly by raising the cost of cask wines); The Henry Report also proposed a uniform volumetric tax. See Henry et al (2009): op. cit.

introduced for water-based drinks with added sugar (excluding unsweetened fruit juices) at rates of 30 cents per litre for drinks with 5-8 grams of added sugar per 100ml, and 40 cents per litre for those with over 8 grams of added sugar per 100ml.

(2) Revenue from this excise should be earmarked for expenditure on preventive health care services, health promotion schemes focussing on healthy eating and fitness, fitness programs for children and young people, and a fresh food transport subsidy for remote areas.

Budget impact: \$0 million (\$500 million in 2022-23)

Recommendation 52: Tax drinks consistently on the basis of alcohol content

(1) As part of a comprehensive strategy to reduce alcohol consumption where this is harmful to health, and to better incorporate related health and social costs into its price, from 1 July 2022 the WET and WET Rebate should be abolished and wine should be taxed at a uniform rate of \$56 per litre of alcohol content and ciders at \$33 per litre.

(2) The revenue from this excise should be earmarked for expenditure on preventive health care services, including prevention of foetal alcohol syndrome.

Budget impact: \$0 (\$2,300 million in 2022-23)