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Serving Canberra and Region since 1983

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Welfare Review

C/- Welfare System Taskforce

Department of Social Services

PO Box 7576

Canberra Business Centre ACT 2610

by email to: [welfarereview@dss.gov.au](mailto:welfarereview@dss.gov.au)

Attention: Mr. Patrick McClure AO

Dear Mr. McClure

We thank you for the opportunity to provide comment on the Interim Report of the Reference Group on Welfare Reform.

Care Inc. Financial Counselling Service (Care) has been the main provider of financial counselling and related services for low to moderate income and vulnerable consumers in the ACT since 1983. Care’s core service activities include the provision of information, counselling and advocacy for consumers experiencing problems with credit and debt. Care also has a Community Development and Education program, makes policy comment on issues of importance to its client group and operates the ACT’s first No Interest Loans Scheme which was established in 1997. Care also hosts the Consumer Law Centre (CLC) of the ACT.

Across Care’s service delivery programs, the agency responds to over 2000 new requests for assistance every year.

As a financial counselling service funded to work with low to moderate income earners, Care’s financial counsellors see a significant number of clients with Centrelink incomes. Over 50% of clients in 2013 were in receipt of Centrelink payments and of the 40% who were working many also received part Centrelink payments.[[1]](#footnote-1)

Given the short timeframe for submissions our responses to the questions focus on our main areas of expertise.

What is the preferred architecture of the payment system?

In general we agree with a simplified payment system; the current system is extremely complex to navigate. A restructure of the payment system, however, with the main focus being on those that work and those that don’t work, will foster a demarcation between the job ‘haves’ and ‘have nots’, and lead ultimately to a more divided community. It also focuses on an individual’s inability to get and retain a job rather than addressing the structural and social barriers that lead to, and keep people, unemployed. One of the most obvious barriers is the lack of suitable jobs; and in many communities lack of suitable training and education.

A real concern is that if a simplified payment system becomes an end in itself without adequate examination of the effects on the those likely to be affected, it may lead to a lack of flexibility in response to an individual’s or family’s circumstances. It can also lead to potential reduction or cutting of payments. Any changes or simplification should *not* leave people worse off. There should be an in-depth examination of the issue of effective marginal tax rates (EMTRs)[[2]](#footnote-2) that cut into people’s payments and reduce incentives to work in tandem with any proposed restructure of the system.

Financial counsellors already work with people struggling to make ends meet with the current level of payments; any reduction in their incomes will only further disadvantage them. Streamlining of the payment system should therefore include an increase in payments such as Newstart and Youth Allowance that have fallen behind in real terms comparative to other payments.

Should people with a permanent impairment and no capacity to work receive a separate payment from other working age recipients?

People should be recognized as having unique circumstances which differ from the rest of the population although they may *broadly* be categorized into groups e.g. people with disabilities, carers, families etc. This should not be a rigid system where individual needs for tailored support are not recognized.

There is a wide range of disabilities and abilities; those with permanent incapacity who do not have the possibility of working could be recognized as a subset within the broader group; however this does not mean that they need to be on a separate payment. The current system in effect calculates a separate payment for people with a disability who cannot work: it assigns a full rate of Disability Support Pension (DSP) to this group and a lesser amount of DSP to those with disabilities that can work even for a few hours per week. Placing people who have disabilities on a work related payment *may* acknowledge their work capacity but does not acknowledge the challenges they face. Unless there is significant and sustained change in employment practices, people with disabilities will be unlikely to access and keep employment.

The current system supports the changing circumstances of those with episodic mental illness who may receive a lower rate of DSP when able to work and a higher rate or full rate when they are severely unwell and unable to work. Many of these people struggle with attending work and make enormous efforts to stay in a job; any extra stresses such as the threat of lower payments could mean they end up being unable to work at all. The current DSP model also caters for the situation where a person cannot work and can access full DSP; or if they try and work fulltime can suspend their DSP for up to two years and know that there is the safety net of being able to re-access it without the stress of having to fill in more paperwork. The current payment system for DSP has a measure of flexibility that could be easily lost if people with disabilities are lumped in together with other job seekers. It potentially puts people with moderate to profound disabilities in the same job market as people without disabilities making it less likely that they will be able to find and keep a job. There seems no real need to change the present DSP system, other than to look at ways of reducing what recipients lose via EMTRs, and to provide meaningful support and opportunities for those that are able to be employed.

If there is simplification of the payment structure there needs to be support to engage people. There should be adequate contact and ongoing support from services appropriate to people’s ages and stages of life. This will require well-resourced health, human services, education and community workers. The current numbers of people who are employed and receive part DSP is relatively low, in 2010 8.9% of people on DSP declared income from employment[[3]](#footnote-3).

This is a reflection of the lack of availability of suitable training and employment opportunities as well as the severity of health conditions that mean people can’t take up work; rather than a desire by many people on DSP to remain outside the workforce. Financial counsellors regularly see clients who are on DSP, who have been unable to find suitable education or employment opportunities or who have had to give up work as their employer was not supportive when they became ill. It is also the case that there are not sufficient jobs for everyone who is currently unemployed. If people on DSP are put onto a lower payment and expected to compete in the general jobs market, they will be unlikely to find employment and then be stuck on a lower payment and fall further into poverty.

How could supplements be simplified? What should they be?

Supplements should reflect the actual costs of living for each group. They should acknowledge ‘gaps’ that exist in the basic payments such as extra medication/medical costs, education needs, transport and mobility needs for certain groups. All groups should receive utilities (phone, internet and energy costs) allowances as these are essential items for households today.

How should rates be set, taking into account circumstances such as age, capacity to work, single/couple status, living arrangements and/or parental responsibilities?

Fairer should not mean less than currently paid to any group as all groups generally struggle to make ends meet. A first step would be to consult widely with members of each group to determine their needs and to look at the costs associated with each group e.g.

• Bringing up children e.g. education, childcare, medical etc.

• Trying to find a job: transport, access to technology, clothing, transport etc. There should be an immediate increase in the rate of Newstart and Youth Allowance

• Trying to attend work when mental or physical health makes this very difficult: requiring medication and doctor’s visits, transport etc.

• Household composition i.e. it is cheaper generally to live as a couple as costs can be shared. Single people are more likely to exist in poverty if they are on low incomes so they need a higher rate as is the case now for Aged pensioners (many of whom are single) and Disability Support Pensioners. Care’s clients in 2013 included 46% individuals without dependents.

What might be the basis for a common approach to adjusting payments for changes in costs of living and community living standards?

Our agency works with some of the most vulnerable and disadvantaged members of our community and we do not want to see them falling further into poverty. Some current payments are patently inadequate, for example the amount Newstart and Youth Allowance recipients receive. A first step would be to raise the lower payments such as Newstart and Youth Allowance to a level on par with other payments taking into account the characteristics of people on this payment i.e. they are looking for work or studying and need money for this to occur (transport, clothing for interviews, technology to enable job applications to be sent, text books etc.). Any adjustment should take into consideration the fact that payments should be adjusted to avoid recipients having to live in poverty. Adjustments to payments should reflect the *actual costs of living* rather than only using the Consumer Price Index (CPI) as the sole basis for any future increases. All payments should be indexed to either CPI, male average weekly earnings or a pensioner basket of goods, whichever gives the best outcome in dollar terms, as is currently the case for pensioners. We note however that there is a change to indexation that will occur from the September 2017 indexation point.[[4]](#footnote-4) The objective of the upcoming change is to slow the rate of pension growth and to streamline the increases across recipients. This is the opposite of what is required in terms of trying to keep people from living in poverty. If CPI increases become the norm there will be more people struggling to make ends meet. It is likely that they will then need assistance from emergency relief providers and this will be an unsustainable outcome.

How can we better support families with the costs of children and young people to ensure they complete their education and transition to work?

It is vital to examine the structural issues that impede families and individuals from changing their lives i.e. lack of adequate housing, jobs, transport, educative and health services, so that adequate supports can be put in place.

Better targeted services (e.g. working to support families to deal with the effects of trauma and violence) will result in better outcomes but without adequate facilities it will not be possible for families to flourish. A well supported community with adequately financially resourced families will be one where it is more likely that children will finish school and find a job, provided there are jobs available. All people have a right to have money to live and this should not be confused with the responsibilities families have to ensure their children are educated and able to transition to work. While it may be appealing to punish people when their children do not attend school, in the longer term it disadvantages the family and children in particular. While not all families are fully functioning and many are in need of both financial and social support to achieve these goals, there may be cogent explanations for why a child does not attend school. A system that provides incentives and rewards rather than sanctions will benefit both children and the rest of their family.

In what circumstances should young people be able to access income support in their own right?

When the family cannot support young people e.g. where they have to leave due to violence or neglect or inability to maintain family relationships, young people should be able to access income support. They should also be able to access it if they need to leave home to study or find work, regardless of their age or family situation.

Young people are particularly vulnerable to mental illness and they should under no circumstances be made to exist without an income for a period of time. This will not encourage self-reliance if there are no jobs/training to go to; and will most likely generate feelings of despair, isolation and possibly contribute to suicidal ideation in some young people[[5]](#footnote-5).

How could Rent Assistance be better targeted to meet the needs of people in public or private rental housing?

Financial counsellors see clients experiencing housing stress in both private and public rental properties. Many of them cannot meet their ongoing rental payments or have accumulated rental arrears due to other life issues. The question should be about the *adequacy of the* *payment* rather than the targeting. The current level of Rent Assistance (RA) is inadequate and the amount needs to be increased. There also needs to be a mechanism for ensuring that increases in Rent Assistance levels do not result in private landlords increasing rents. The most effective way of trying to keep people housed is to tie rental calculations to a percentage of income, such as currently is done in public housing.

There needs to be an increase in community housing and affordable housing where income based rental calculations are the basis for rentals paid. Income based rental calculations are not dependent on market forces. If RA was effective less people would be in difficulty in private rentals. Increasing numbers of people in private rental access Care’s services; some of whom pay nearly all their income (often wages but also Centrelink payments) in rent and have to rely on charities for food, medical and other assistance. Clearly this is unsustainable and reflects the need for more affordable housing options (including public housing) for low income people.

Even when rents are tied to a percentage of income it is often a challenge for low income consumers (approximately 50% of Care’s clients in lived in government or community housing in 2013[[6]](#footnote-6)), as clients have multiple and often complex needs including medical and social, so secure, affordable housing is a must for them to survive. They also pay a disproportionate amount of their income in basic goods and services and have little if any discretionary income.

How should means testing be designed to allow an appropriate reward for work?

In the experience of financial counsellors at Care Inc., many clients want to work and not just remain on welfare payments. A significant percentage of our clients are waged but many also receive part Centrelink payments. This group includes people on the full range of payments that are available.

For those clients we see who are able to work but have not been able to secure employment, financial counsellors may refer them for assistance to job agencies. Increasing income through work is part of discussions we may have with clients when examining options for resolving debts. The current system reduces payments for taking up work, and for many people there is a flow on effect to other aspects of their finances. Their rent goes up if they live in government housing, their taxation goes up and this occurs at the same time as their pension or allowance is reduced. Instead, *raise the allowable income free threshold* that people can earn before their payment is reduced and *extend the working credits* that people have before a payment reduction takes effect. This is especially the case for people who begin a job that requires them to outlay for work clothes, shoes, bus tickets etc. This would go some way to offsetting what becomes a high effective marginal tax rate. It is about incentives and rewards for taking up work.

At what income should income support cease?

Ceasing income support should be done at levels no less than is currently the case for payments such as Age Pension and DSP, most people who work part-time and receive part-Centrelink are still at the lower edges of the community in terms of income. For payments such as Newstart and Youth Allowance, the levels need to be raised and the allowable threshold for income earned should be raised as well.

How should participation requirements be better matched to individual circumstances?

What is the best way of ensuring that people on income support meet their obligations?

In order for individuals and families to better meet participation requirements, there should be an examination of the structural barriers they face in order to fulfil their requirements. For example, is there sufficient transport infrastructure to enable job seekers to attend interviews in their local region? Do job seekers have a working phone with credit that will receive calls and messages over a reliable and consistent network? Are there sufficient medical and health services available in their local area to enable them to deal with health and mental health issues they may be facing?

On an individual level, ongoing support from the same case worker may assist people with complex needs. This requires a relationship between the provider and the job seeker that assists them to gain meaningful long term employment. Specialist training and expertise are needed for workers in this area. This means mental health qualifications for people working with clients who have mental health issues or an understanding of parenting challenges for example when working with parents. Flexibility should be the key when working to engage individuals taking into account the many obstacles they face at both a personal and community level.

How can carers be better supported to maintain labour market attachment and access employment?

Financial counsellors regularly work with carers and many would say that they already have a job in caring for a relative; and they are in fact saving the government money if they continue to do so. They should not be forced into taking up jobs or training opportunities particularly if they are caring for severely disabled relatives. Someone else will have to be employed to care for their relative; this will impact on all parties and may mean that the person being cared for becomes more stressed due to not being familiar with the new carer. Carers who want to, and are able to work and care for relatives that require intensive support, should be supported with opportunities to update their skills and be job matched with jobs that will allow them to take time off from their work at short notice. In many ways they face similar challenges to people with disabilities who have episodic conditions that require workplaces to be flexible around taking time off at short notice. It is difficult for anyone to maintain attachment to the labour market when that same market shuts off opportunities every time a carer needs to take extended time off to resume their caring role.

In what circumstances should income management be applied?

Income management should be reserved for the very small percentage of Centrelink payment recipients where it is likely to be of benefit e.g. protecting money from abusive partners, or relatives. It should be applied on a case by case basis only after rigorous assessment of its appropriateness for a given family. It should not be seen as a long term solution and should be an interim step to families becoming independent of it as soon as possible. Voluntary income management may be an option for some individuals and families who choose this. It is a tool amongst a suite of tools that are available including budgeting and financial education and also Centrepay arrangements.

Inability to manage finances does not exist in a vacuum and the structural barriers that people (particularly in remote communities) face, should be addressed alongside any income management program. Many low income people face predatory lending practices and exclusion from financial services within their communities. The ‘poor pay more’ for many goods and services e.g. they cannot buy in bulk or take advantage of specials if they have no transport to get the goods home. These things compound their difficulties with making ends meet. They are also likely to be existing on inadequate incomes and may be dealing with complex life circumstances.

Income management is potentially extremely de-powering of any family that is involved. It identifies families and individuals as being ‘bad with money’ and incapable of managing their own finances. There are reports that “in many cases (participants) find it embarrassing and humiliating and in some cases de-motivating. “[[7]](#footnote-7) We are not aware of any research to date that indicates that income management is other than a neutral tool at best. Research is needed over the longer term to discern its effectiveness.

An outcome of this approach is that families never learn to manage money as they are supported to be dependent on the government to manage it for them. Rather than blaming the individuals and families that end up being income managed, the need for income management can be seen as a failure of a system that does not provide adequate support for people to learn these skills. There will always be people and families that fall through the cracks, and government has an obligation to try other ways of engaging them; for these families a case by case approach to income management may be considered.

If it is applied it should only be after:

1. Long term intensive support for a family has been tried to put in place adequate budgeting and payment plans for providing for the basic needs of their members

2. Consent to, and understanding of the process, by the family that is to be income managed

3. An ongoing support and education program to assist people to get off income management in the longer term.

How can the social support system better deliver early intervention for children at risk?

Whether they are at risk or not should be independent of their rights to social security payments. Being in a family where there is insufficient income to support and raise children can add to the stresses that may put children at risk[[8]](#footnote-8); adequate payments are therefore essential. Early intervention is dependent on there being sufficient resourcing available to identify the difficulties that families are having with children. Again, it means having generally well-resourced communities and removing structural barriers that keep families trapped in poverty and isolation. It means providing essentials such as adequate housing, transport, health, education and community facilities. Infant and child health nurses also need to be adequately resourced and have the back up of medical, social workers and other staff to assist in the identification of at-risk children. It could also be beneficial if a system of reward rather than punishment be implemented to support them, for example families that have their children attend school regularly (from the at risk groups) could receive a bonus payment that they could spend on something they want or need.

How can a focus on ‘earn or learn’ for young Australians be enhanced?

The focus on ‘earn or learn’ supposes that there are adequate jobs available or alternatively enough accessible courses for young people to complete. This approach disadvantages young people where they cannot access such jobs or courses. Where these are not available there need to be other alternatives including online training and wage subsidies for local businesses to employ young people. ‘Earn or learn’ does not acknowledge the barriers young people may face in their communities. There are multiple barriers for communities such as culturally and linguistically diverse (CALD) communities, indigenous communities and rural and remote communities. ‘Earn or learn’ supposes that all young people live in supportive, functioning family units and that they themselves are fully functioning. The reality is that young people need age appropriate and relevant support from specialist services designed to work with them to help them achieve their goals. It is not a ‘one size fits all’ equation and allowances need to be made for young people who find themselves outside the ‘earn or learn’ approach. Reward young people for the steps they take to independence.

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