Australian Council

of Social Service

Submission to Review of Australia's Welfare System

August 2014

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.

Join ACOSS

ACOSS membership is available for organisations and individuals. Go to http://www.acoss.org.au/take_action/join/ to find out more.

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Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

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Abbreviations

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Service
ACTU	Australian Council of Trade Unions
BCA	Business Council of Australia
CP	Carer Payment
CPI	Consumer price Index
DSP	Disability Support Pension
DSS	Department of Social Services
EEH	Employee Earnings and Hours
FTB	Family Tax Benefit
GDP	Gross Domestic Product
GST	Goods and Services Tax
HES	Household Expenditure Survey
JS	Jobseeker Support
MTAWE	Male Total Average Weekly Earnings
NDIS	National Disability Insurance Scheme
NRAS	National Rental Affordability Scheme
NSA	Newstart Allowance
PBS	Pharmaceutical Benefits Scheme
PPS	Parenting Payment Single
SPRC	Social Policy Research Centre
YAO	Youth Allowance Other

Summary and Recommendations

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

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

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

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

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

Social security payments: inadequate and complex

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

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[1] Welfare Review Interim Report Appendix G, p163.

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

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

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

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

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

As the Report acknowledges, the division of payments into pensions and allowances means that people with the same living costs receive vastly different levels of support. It makes common life transitions – including from income support to employment - much harder for people on the lowest incomes. When a person with disability moves from the Disability Support Pension (DSP) payment to employment and then loses the job, they face the prospect of having to apply for a Newstart Allowance that is $166 a week lower. When a sole parent's youngest child reaches eight years of age, the family typically loses $72 per week as the parent transfers to Newstart Allowance. Yet the cost of children rises as they grow older. When a person stops caring for a chronically ill relative and starts searching for a paid job, they move from Carer Payment to Newstart and lose over $220 a week.

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

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

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

Payment reform: a tune up or a new engine?

The solution to these problems is to remove the distinction between pensions, allowances and student payments and replace them with a common income support payment level that is adequate to cover the cost of life's essentials. People with extra costs, including the costs of a disability, the costs of care, and the extra costs of caring for a child alone, should receive supplementary payments in addition to any entitlement they may have to the common income support payment. This was the model advocated by the previous Welfare Review in 2000, and by a similar Review in New Zealand in 2011. It is being implemented in the United Kingdom where the common payment is called 'Universal Credit'. It is possible to reform the system in this way so that no current or future social security recipient is financially worse off, and those in the deepest poverty are better off. This undertaking should be given to allay the legitimate fears that many people hold - especially people with disability given recent media reporting – that payment 'reform' will leave them worse off.

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

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

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

The assessment of payment adequacy should be distanced from the 'rough and tumble' of the political process, without denying the Government of the day and the Parliament the power to make the final decisions over a substantial part of the Federal Budget. We therefore propose that an independent expert Commission be appointed by the Government to recommend benchmarks for the adequacy of income support payments in a reformed payment system for people of working age, and that it report regularly to the Parliament (at least every five years) on payment adequacy.

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

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

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

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

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

The present employment services system (Job Services Australia and Disability Employment Services) does not provide the individualised help which people who are most disadvantaged in the labour market need. Two-thirds of Newstart Allowance recipients have been out of paid work for over a year. Under the present system, the level of help available to them falls over time so that after a year's unemployment it is typically limited to an interview every two months and $500 worth or training or work experience. As a proportion of gross domestic product, the Australian Government spends half as much on employment assistance than the OECD average[3]. This is false economy.

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

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

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

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

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

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

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

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

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

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

The third problem with these attempts at 'social engineering' through income support is that they are futile and wasteful. Over $1 billion has been spent on compulsory 'Income

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

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

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

Recommendations

Conduct of the Review

1. The social security and related support systems for people of working age should be reformed in partnership with people receiving income support, and relevant peak and community organisations. To achieve this, the Government and Review Panel should:

   (1) extend the discussion period for the Review to at least three months before recommendations are finalised;

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

(2) hold national meetings with relevant peak and consumer bodies and independent experts;

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

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

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

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

3. Throughout the Review, the Government should:

   (1) ensure that people relying on income support, including people with disabilities, sole parents, carers, and people who are unemployed, are treated respectfully in its public commentary and media management strategies;
   [see the attached deeply troubling media headlines]

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

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

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

Payment structure:

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

Adequacy:

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

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

3. The maximum rates of income support payments for singles and couples should be benchmarked to broader community living standards by linking them to a common measure of wages:

   (1) A measure of gross (before tax) fulltime median wages would be appropriate for this purpose.

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

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

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

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

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

   (1) housing rents;

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

(3) costs of caring for a person with a disability (as a complement, not a substitute, for the National Disability Insurance Scheme);

(4) the extra costs of raising a child alone;

(5) the costs of job search and training for people out of paid work;

(6) retention of a separate system of Family Tax Benefits to assist low and middle-income-families with the costs of children.

5. Comprehensive action should be taken to improve the affordability of housing for people on income support, especially in areas with substantial job vacancies:

   (1) Rent Assistance payments should be adequate to prevent housing stress and indexed to movements in rents;

   (2) Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.

6. In setting future rates of payment for income support and supplements, the Government should ensure that no group is financially worse off and that those facing the greatest hardship are better off. This includes future applicants for social security.

7. Income support payments and supplements should be available to people when they are needed, for as long as they are needed:

   (1) Any waiting periods should be designed to avoid financial hardship. Budget proposals to increase the current one-week waiting period for young unemployed people should be abandoned.

   (2) No time limits should apply. Budget proposals to limit payments for young unemployed people to six months at a time should be abandoned.

Targeting to need:

8. Income support payments should be targeted to people in financial need through means tests which:

   (1) ignore modest levels of private income and assets;

(2) ensure a fair return to paid work;

(3) supplement part time but not full time employment in cases where people are expected to seek fulltime employment;

(4) supplement low paid full time employment as well as part time employment in cases where work capacity is limited by disabilities or caring responsibilities.

9. (1) Supplements should be targeted less strictly than income support payments, in accordance with the purpose of the supplement (for example the costs of disability or housing do not diminish once a person enters employment):

   (2) Supplements should generally extend at least to low paid full time wage earners and in some cases should also extend to middle-income-earners.

10. (1) Income tests should be simpler and easier to understand and comply with.

    (2) Income tests should be more flexible in the timing of their application, including through the use of a simple and consistent set of 'income banks', and take account of earnings at the time when people can reasonably expect to receive them.

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

11. (1) Any participation requirements for social security recipients should be balanced by responsibilities of Governments, employers and service providers to ensure that suitable paid work is available, that recruitment practices are fair, and that individualised help is available to people to secure a job (as proposed below).

    (2) Where suitable jobs and supports are limited or not available, participation requirements should be adjusted accordingly.

12. Any participation requirements should be reasonable, predictable, individually tailored and negotiated, and designed to directly improve each person's paid employment prospects:

    (1) No requirements should apply for people whose disabilities or caring responsibilities preclude employment for the foreseeable future;

    (2) Requirements should be adjusted, and appropriate services and supports offered, for people whose disabilities or caring responsibilities limit their employment

capacity, so that they can realistically combine care and workforce participation;

(3) Compliance systems should be based on re-engagement not punishment and penalties should be designed to avoid placing people in severe financial hardship. The maximum eight-week suspension of income support should be reduced.

13. Participation requirements should not extend beyond activities that directly improve employment prospects, and should not include the regulation of social behaviour, care of children, or requirements to undertake medical treatment.

Legislative basis, form of payment, and administration:

14. Social security payments should continue to be paid as legislated entitlements, administered by a public body, and subject to a fair, accessible and quick external appeal system.

15. (1) Social security should be paid as cash benefits without restriction on their use, unless the recipient or local community elects to receive social security in a different form (for example, to pool payments to provide employment in a remote community).

    (2) 'Income Management' should not be compulsory and should not apply automatically to categories of people based on benefit type, location, or race.

Financing:

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

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

Individually-responsive employment services and supports

17. The employment services system should be reformed to:

    (1) give people greater choice and control in their pathway to employment and the services they receive;

(2) increase and better target resources (including Employment Fund and service fees) to support lower caseloads and individualised investment in training, work experience and other help for people unemployed long-term

(3) reduce administrative oversight, control and reporting requirements while ensuring that jobseekers receive a quality service.

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

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

    (1) re-engineering employment services programs and the vocational education and training system so that providers have more resources and incentives to partner with employers to assist them into secure jobs [more detail is provided in our joint statement with the BCA and ACTU on employment partnerships in attachment 5];

    (2) introducing requirements to recruit from these target groups by Governments and their contractors.

    (3) To prevent duplication and bring such employment partnerships up to scale, they should be integrated with employment services rather than funded separately.

    (4) To ensure cost effectiveness, they should be targeted to the most disadvantaged jobseekers rather than a demographic group as a whole.

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

More detail is provided in our submission on reform of employment services at: http://acoss.org.au/images/uploads/ACOSS_Partnerships_for_Participation_Employment_Services_Submission.pdf and as attachment 6.

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

21. To reduce the most severe poverty and gaps between pension and allowance payments, maximum single rates of Newstart and other allowance payments, including student payments and payments for young people living independently of their parents, should be increased by $50 per week, so that they receive the same increases granted to pensioners in 2009.

22. In addition to the increase proposed above, student payments for single adults over 24 years of age (Austudy and Abstudy Payment) should be increased by $48 per week, to reach the same level as other allowance payments such as Newstart Allowance.

23. Social security payments for sole parents with school age children should be increased to prevent the overall income support package for these families from falling as children grow older:

    (1) In addition to the above $50 per week increase in Newstart Allowance for sole parents with school age children, Family Tax Benefit Part B for sole parents with school age children should be increased by $22 per week, to the same level that applies to those with younger children.

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

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

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

1. The adequacy of social security payments for people of working age (pillar one)

Key conclusions:

- The main purpose of the social security system is to prevent poverty. To achieve this, two requirements must be met: maximum payments should be high enough to meet basic living costs, and the social security system should connect people with employment and other supports that smooth their path to paid employment.
- Maximum rates of income support must be adequate to achieve a 'basic acceptable standard of living' for a single person and a couple, respectively.
- Those income support recipients most at risk of poverty and deprivation are single people on the lowest 'allowance' payments, sole parents and people with disability who are fully reliant on income support, and social security recipients renting privately.
- The Harmer Review of pensions found that a single pensioner needed 66.3% of the income of a couple to achieve the same living standard and single pension rates were subsequently raised to reach that benchmark.
- To achieve the same benchmark for single people on allowance payments, who missed out on the above pension increases, a $50 per week increase in single allowance rates is needed.
- To prevent the living standards of people reliant on social security from falling behind the rest of the community, their payments must be indexed to wages as well as consumer price inflation.
- The most appropriate wage benchmark to ensure that social security recipients keep up with growth in 'middle' incomes is a measure of growth in full time median (middle) wages, before tax.
- There is a strong case for supplementary payments to meet the extra costs of disability, caring, raising a child alone, job search and training, and housing rents because without these payments people facing those costs could not achieve the same living standard as others.
- To resolve the crisis in affordable housing for people on low incomes, Rent Assistance should be substantially increased for those paying the highest rents. This should be complemented by policies to strengthen affordable housing supply, including tax and regulatory changes. Closer alignment of subsidies for private and public tenants is desirable but should not cause financial hardship among public tenants.

Adequacy of income support payments

The 2009 'Harmer' Pension Review report argued that pensions should be adequate to achieve a 'basic acceptable standard of living'[5]. This principle should apply to *all* income support payments for people with no other source of income. A 'basic acceptable standard of living' is not an absolute, unchangeable measure, nor is a measure of mere physical survival. It means that people can afford to buy goods and services that are generally regarded as essential according to contemporary Australian standards.

Three methods are commonly used by social researchers to establish who is living in poverty: poverty lines, budget standards, and deprivation studies. The following briefly summarises findings of recent studies of the living standards of people relying on social security payments using each of these methods.

The table below compares the percentage of people living below the poverty line in households whose main source of income was a range of different social security payments. The poverty line was set at 50% of median equivalent household disposable income ($358 a week for a single person, adjusted for family size) which is a common poverty measure used by the OECD.

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[5] Harmer J (2009) 'Pension Review Report', Canberra: Department of Families Housing Community Services and Indigenous Affairs.

Table 1: Estimated percentage of social security recipients living below poverty lines (2010)

PAYMENT	MAXIMUM INCOME SUPPORT PAYMENT (FOR SINGLES IN $2010)	% LIVING BELOW 50% OF MEDIAN INCOME
YOUTH ALLOWANCE (18-20 Y.O., INDEPENDENT)	$186	**68%**
NEWSTART ALLOWANCE	$284	**52%**
PARENTING PAYMENT SINGLE	$556 *	**64%**
DISABILITY SUPPORT PENSION	$336	**66%**
AGE PENSION	$336	**38%**
CARER PAYMENT	$390	**34%**
ALL PEOPLE		**13%**

Sources: ACOSS (2010), 'Poverty in Australia.' Housing costs are taken into account.
Illustrative payment rates include the maximum rate of Rent Assistance, and Family Tax Benefits and Carer Allowance where appropriate.
*Includes Family Tax Benefits with two pre-school age children

These estimates suggest, as we might expect, that recipients of the lowest payments face the greatest risk of poverty. Since pension rates for singles were just below the poverty line at this time (2010, just after the major payment increases for pensions) single pensioner households needed extra income from wages or investments to get them over the poverty line. However the fact that housing costs were taken into account in this poverty measure, and a majority of age pensioner households own their homes, reduced poverty rates among that group of social security recipients. The high poverty rate among households receiving Parenting Payment Single reflects the higher costs of raising children alone, and the fact that only a minority of these households own their homes.

The table below compares various social security payments with 'Low Cost Budget Standards' developed by the Social Policy Research Centre (SPRC) in 2006 and subsequently updated using the CPI. These are based on hypothetical budgets developed by the SPRC to purchase essential goods and services. The budgets shown here are for a mature age home owner, which are the lowest of the budgets prepared by the SPRC. If rental costs and the costs of job search (for those on activity tested payments) or the costs of disability and care were included, these budgets would be much higher. Since supplementary payments can be used to compensate people for these additional costs, the budgets in the table below may nevertheless be appropriate for benchmarking the base rates of income support payments.

Table 2: Income support payments and 'Low Cost' Budget Standards (Dec 2013, dollars per week)

	LOW COST BUDGET (MATURE AGE HOME OWNER)	PENSION RATES	GAP (LOW COST BUDGET MINUS PAYMENTS)	NEWSTART ALLOWANCE RATES	GAP (LOW COST BUDGET MINUS PAYMENTS)
SINGLE, NO CHILDREN	339	414	-75*	271	**68**
COUPLE, NO CHILDREN	**462**	**623**	**-161***	**452**	**10**

Sources: Saunders (2004), 'Updating and extending indicative budget standards for older Australians,' SPRC;
Note: Budget standards are indexed from 1996 values using the CPI.
*In this case, income support is higher than the Budget Standard.[6]

It should be noted that these Budget Standards have not been properly updated for almost two decades and are out of date. In the absence of updating, the 1996 estimates were indexed to the CPI. This does not take account of improvements in general living standards and resulting changes in what the community would regard as a 'low cost budget'. ACOSS is partnering with the SPRC in a project to update these Budgets.

This means that the low cost budgets in the table above should be treated as conservative estimates of the minimum costs of living.

[6]These Budget Standards are for mature age home-owners, so do not include rent or the costs of working or job search. They have been updated to Dec 2009 using the CPI. Payment rates include the pension supplement (which is paid to all recipients of qualifying pensioners) but not those supplements that are restricted to people with particular costs (such as Rent Assistance).

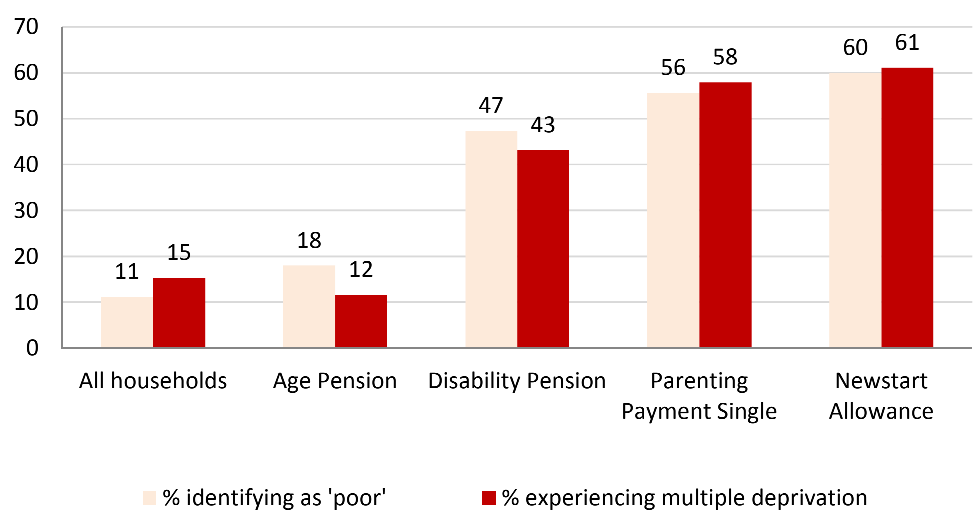
The table shows that pension payments (especially for couples) are above the budget standards but allowance payments (especially for singles) are below them. This reinforces the above evidence (from the Poverty Line measure) which suggests that single allowance recipients face a relatively high risk of poverty.

The third measure of poverty discussed here is deprivation. This was calculated by asking respondents to a national survey to identify items which they regarded as essential, whether they had those items and if not, whether this was because they could not afford them. If over half of respondents identified an item as essential, it was included in the list of 24 key deprivation measures (see Attachment 2).

Where people lacked three or more of these 24 items because they could not afford them, they were identified by the researchers as experiencing 'multiple deprivation'. Overall, 15% of households reported multiple deprivation in 2010.

The graph below compares rates of multiple deprivation among people in households whose main income source was a social security payment, and the proportion of those households who identified themselves as 'poor'.

Figure 1: Multiple deprivation and households identifying as 'poor' (2010)



Source: Saunders P & Wong M (2012), ibid. 'Multiple deprivation' refers to % of households lacking three or more of 24 essential items.

The strong association between multiple deprivation and households identifying as 'poor', suggests that the multiple deprivation measure is robust. The rankings of households on various payments according to risk of multiple deprivation are also the same as those using the Poverty Line measure reported above: people on Newstart Allowance faced the highest risk of multiple deprivation, followed by Parenting Payment Single, Disability Support Pension, and then Age Pension. The differences between multiple deprivation rates among people on working age payments and age pensions are much greater here than in the Poverty Line research. It is possible that the deprivation research is more sensitive to the effects of the higher housing costs of people on working age payments than the Poverty Lines, or that other factors such as the costs of disability (not included in the Poverty Lines) increase measured deprivation levels among recipients of working age payments.

To summarise, the results of the above research, and practically all other relevant research, strongly indicates that the groups of social security recipients at greatest risk of hardship are:

- People receiving the lower 'allowance' payments such as Newstart Allowance and Youth Allowance, especially single people;
- Sole parent families wholly reliant on social security payments;
- People with disabilities wholly reliant on social security payments;
- Social security recipients of all ages renting privately.

While the above research methods give a clear indication of which groups are at greatest risk of financial hardship, they do not offer reliable estimates of the levels of payment needed to prevent poverty. The Poverty Lines do not take account of range of important factors such as costs of disability and job search and the Budget Standards are well out of date (though new research is under way). The deprivation measures are more useful for comparing deprivation levels among different groups than determing social security payment levels.

Assessing the minimum financial needs of people receiving income support payments is a complex task that should be undertaken by independent experts using a transparent process that considers the views of stakeholders and social security recipients as well as the best research. For this reason we propose that an independent body be tasked with making recommendations to Government on the adequacy of income support payment rates and supplements. It is not necessary to wait for that work to be finished before taking action to ease the worst poverty. We recommend that immediate action be taken to increase single rates of allowance payments, family payments for sole parents with school age children, student payments for adults, and Rent Assistance. Our proposed $50 a week increase in single allowance rates is based on work already undertaken by the Pension Review and the Henry Report on the tax-transfer system[7], which are discussed below.

Comparing the adequacy of single and partnered payments

The Pension Review adopted a different approach to assessing the adequacy of social security payments. It used a range of measures to compare the living standards of two groups of pensioners -singles and couples - to estimate the appropriate relativities between the two rates of payment. It concluded that single pensioners with no other source of income needed higher payments to achieve the same average living standard as a couple, and recommended that the single pension rate should be increased to 66.3% of the rate for a couple.

Regrettably, the adequacy of payments for people receiving allowance payments such as Newstart Allowance or Parenting Payment Single (PPS) was excluded from the Review's terms of reference, though it did have evidence available to it, consistent with our findings described above, which demonstrated that recipients of the lowest working age payments were on average significantly worse off[8].

The need for an increase in single rates of allowance payments is, if anything, greater than for pensions because up until the late 1990s the couple rate of allowances was indexed to wage movements while the single rate was only indexed to the CPI. This means that by the time pensions were reviewed in 2009, the gap between single and couple rates was much greater for allowance payments than it was for pensions.

Following release of the Harmer Report in 2009, the Rudd Government increased the single rate of pension by $32 per week in real terms (in addition to inflation), the largest ever increase in pensions. ACOSS supports this increase, which was based on solid research into the financial needs of single pensioners. Regrettably, despite calls from ACOSS and many others, allowance payments and the pension for sole parents (PPS) were not increased. The Government argued that the adequacy of those payments would be examined by the 'Australia's Future Tax System' review into the tax and transfer system.

[7] Henry K et al (2010), 'Australia's Future tax System review, final report', Canberra: Australian Government.

[8] Saunders P & Wong M (2008), 'Deprivation and Other Indicators of the Living Standards of Older Australians' Social Policy Research Centre report to FAHCSIA.

The Henry Report proposed a few years later that single recipients of allowance payments should receive the same increases given to those on pension payments. It argued that single rates of allowance payments should have the same relationship to married rates (of allowances) as Harmer had recommended for pensions (that is, 66.3%).

That proposed increase for single allowance recipients is now worth $50 per week, which is the increase sought by ACOSS in recent years. We argue for this to extend to sole parents on Newstart Allowance, and recipients of student payments who are living independently of their parents.

The Interim Welfare Review Report suggests that the appropriate relativity between single and couple rates of unemployment payments might be lower that this because the costs of job search do not have significant economies of scale. For example, a couple on unemployment payments do not save money by pooling their resources for job search in the same way they might save by sharing accommodation. The Report suggests that, compared with people on an Age Pension, single Newstart Allowance recipients might not therefore need 66.3% of the couple rate of allowance to achieve the same living standard as a couple.

One problem with this view is that it assumes that the costs of job search are, or should be, taken into account in setting income support payment rates, rather than through a supplementary payment such as the *job search and training supplement* proposed by ACOSS. It is very unlikely that job search costs are captured in the current rates of Newstart Allowance, since they are well below pension rates (a group that does not have job search requirements). The above-mentioned Budget Standards research suggests that even if we set aside the costs of employment and job search, typical minimum living costs are greater for people of working age (with or without children and regardless of housing status) than for retired people.

Even if this argument raised in the Interim Report is valid, single allowance recipients would need an increase in their payments of at least $50 a week to achieve a decent minimum living standard. If the appropriate relativity is less than 66.3%, then this is really an argument for an increase in allowance payments for couples as well as singles.

Indexation

Once a suitable benchmark is established for the adequacy of income support payments for single people and couples, the next step is to determine how they will be indexed. Automatic six-monthly indexation gives the recipients of social security payments as well as Governments financial certainty.

Following this year's Budget proposal to index pensions to the CPI only and not wage movements, the issue of payment indexation has attracted controversy. It is easy to see why this is so. Over a period of a decade, ACOSS estimates that the proposed change to indexation would reduce the value of single pension rates by approximately $80 a week[9]. To be clear about the implications of this proposal, it would not reduce the 'real value' of pensions significantly (the basket of goods and services a pension would buy each fortnight) as they would still be indexed to the CPI[10]. However the living standards of people on pension payments would fall by comparison with the rest of the community, as community living standards rise.

As discussed above, poverty is best measured by comparison with community living standards at the time. If poverty is understood in this way, then it will almost inevitably rise among recipients of a payment that is only indexed to the CPI. This is one of the main reasons for the impoverishment of recipients of Newstart Allowance today. That payment has not been increased above the CPI since 1994 (apart from GST compensation payments in 2000).

The main source of increases in community living standards over time is national productivity increases. The benefits of increases in productivity are divided between employers and workers through increases in real wage rates. Therefore, the simplest way to ensure that people relying on social security payments for their income keep up with increases in community living standards is to index their payments to wage increases as well as consumer price inflation.

Since the late 1990s, pension payments have been indexed to wages through a legislative benchmark. Initially the single pension rate was benchmarked to 25% of Male Total Average Weekly Earnings (MTAWE). This was increased to 27.7% in 2009, following the Harmer Report. The indexation of pensions, and not allowance payments, to wage movements is the main reason that the gap between these payments has since grown by as much as $10 per week each year. The Interim Report notes that in 1997, people receiving allowances on the lower single allowance rate received 91% of the pension rate and those with a partner received more

[9] ACOSS (2014), 'A budget that divides Australia.'

[10] The living costs of people on social security payments have risen more than the CPI in recent years, as shown by movements in the 'Pensioner and Beneficiary Costs of Living Index' developed by the ABS. While the PBCLI is the better measure of price inflation for social security recipients, the most important factor in the long run is whether or not payments are indexed to wages, rather than which measure of consumer price inflation is used.

than 99% of the pension rate. By 2014, people receiving single allowances received only 62% of the pension rate and those with a partner received 74% of the pension rate.

If payments are indexed differently, the relativities between them will change over time, regardless of the subsequent intentions of policy makers. Since 2009, Family Tax Benefits have been indexed to the CPI only. The indexation formula for the maximum rate of Family Tax Benefit Part A for low-income families was switched from wage movements to the CPI in 2009, possibly to help pay for the pension increases. This means that a payment gap is emerging between pensions and family payments as well as between pensions and allowances. Another outcome of that decision is that child poverty will almost inevitably increase over time.

To ensure that the living standards of people relying on social security payments do not fall behind those of the rest of the community, and that fair relativities are maintained between different payments, it is essential that once benchmarks for the adequacy of income support payments are struck:

- All working-age income support payments and family payments for those on the lowest incomes are indexed in a consistent way;
- All working-age income support payments and family payments are indexed to a measure of wage movements as well as consumer price movements (whichever yields the higher outcome in each period).

This would ensure equity and certainty for recipients of social security payments.

The Harmer Report argued that MTAWE (which was originally chosen as the benchmark for setting pension rates by the Whitlam Government because data was only regularly available for male total earnings at the time) is not the most appropriate wage measure for social security indexation purposes. There are three problems with the MTAWE measure:

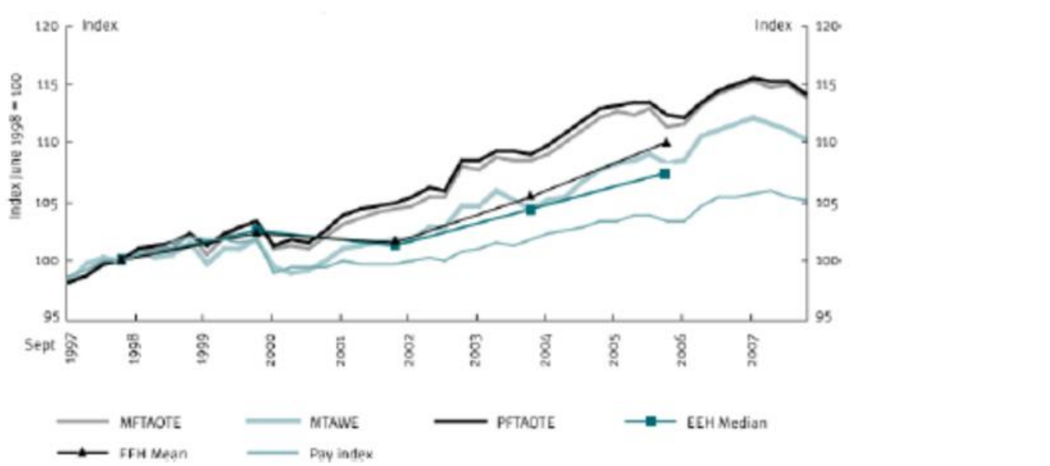
- It only reflects movements in male wages, ignoring women;
- It includes part time wages, so that over time it is less stable since it is distorted (downwards) by increases in the incidence of part time work among men;
- As an 'average' measure, it is more sensitive to changes in wages at the top and bottom of the distribution rather than those in the middle. This is inconsistent with

the role of social security payments to prevent poverty, since poverty is generally measured relative to median or ‘middle’ incomes [11].

Based on first principles, a measure of median (middle) fulltime wages for both men and women would be more appropriate, and the Harmer Report recommended that this be adopted. This was not taken up by the Rudd Government.

From the standpoint of payment indexation, it is the *trend* in the wage measure that matters, not its current level. It is a simple matter to adjust the benchmark to a higher or lower percentage of the wage measure chosen if the aim is to ensure that people are neither better nor worse off in the short term. For a range of reasons noted in the Harmer Report (including growth in male part time employment), MTAWE grew at a similar pace to median fulltime earnings over the early to mid 2000s (see graph below).

Figure 2: Growth in various wage measures (1997 to 2007)



Notes: Index numbers, June 1998=100, real values derived using CPI. MFTAOTE = Male Full-Time Adult Ordinary Time Average Weekly Earnings; MTAWE = Male Total Average Weekly Earnings; PFTAOTE = Persons Full-Time Adult Ordinary Time Average Weekly Earnings; EEH = employee earnings and hours.

Source: Harmer Report (2009), p68. The relevant statistics are ‘MTAWE’ and ‘EEH Median’.

The key weakness of the Harmer Report’s proposed wage benchmark is that it is based on net (after-tax) rather than gross (before tax) wages. The Report argued that this was desirable to

[11] An example is the OECD ‘50% of median disposable income’ poverty measure.

help Governments to adjust to future Budget pressures. This is counter-intuitive: if payments are indexed to after-tax wages and tax rates are *cut*, then the cost of social security payments would automatically *rise,* adding to budget pressures. From this standpoint it would make more sense to use a gross or before-tax wage as the benchmark for indexing payments (as is the case now for pensions). A before-tax measure is also likely to be more stable as it would not be influenced one way or the other by major changes in tax policies.

Additional living costs

There is a strong case for supplementary payments to compensate people for *substantial* additional living costs faced by a *substantial* minority of people. This is about 'target efficiency'. In the absence of payments such as Rent Assistance for low-income households renting privately, income support payments would either be inadequate to prevent poverty among private tenants, or (if they were increased across the board to achieve that goal) too much money would be spent supporting those income support recipients who don't rent privately. Either way, 'horizontal equity' would not be served because the living standards achieved by these two groups would differ substantially.

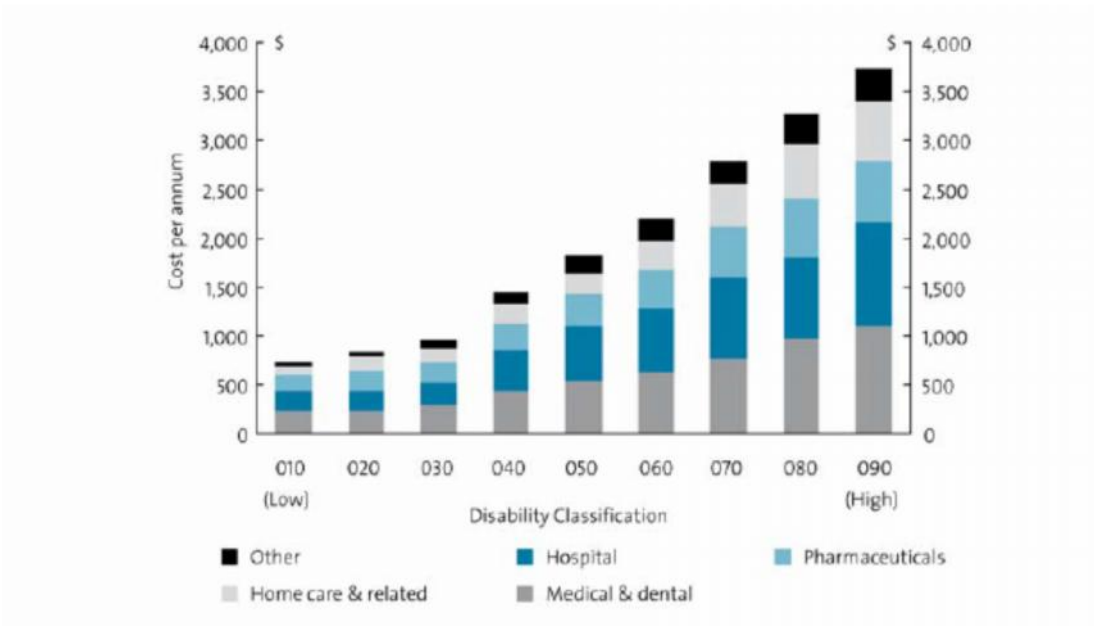
Examples of supplementary payments that play a key role in reducing poverty include Rent Assistance for private tenants, Family Tax Benefit Part B for sole parents, Carer Allowance for carers, and Mobility Allowance for people with physical disabilities.

At the same time, too many supplements for too many different purposes would make the system too complex, and may have inequitable results. For example, the Utilities Allowance, Pharmaceutical Allowance and Telephone Allowance were paid to recipients of pensions and not allowances. Once we look beyond the big ticket items such as rent, above-average expenditures in one area of a family budget are often offset by below-average costs in others.

Costs of disability and care for people with disability

There is a strong case for supplements to assist with the extra *costs of disability and caring for people with disability*. People with disabilities and their carers face a range of non-discretionary costs including pharmaceuticals, transport costs, communication costs, medical treatment and special diets. This is illustrated by the graph below drawn from the Harmer Report's Background Paper, which shows how various costs paid for by the Department of Veteran's Affairs 'White Card' increase with the severity of the person's disability.

Figure 3: Average expenditure on services by veterans using the 'White Card', by disability level (2008)



Source: Department of Families, Housing, Community Services and Indigenous Affairs (2008), 'Pension Review Background Paper', p30.

Note: While these payments do not take account of public subsidies such as Medicare and the Pharmaceutical Benefits Scheme (PBS), they are limited by administrative caps. These data do not therefore give an accurate account of typical out-of-pocket costs, but they are useful to understand the effect of disability and its severity on living costs.

Another way to measure the extra costs of disability is to use a population-wide data set such as the ABS Household Expenditure Survey (HES) to compare the living standards of households with and without a member with a disability that have similar incomes. Such studies usually find that the costs of disability are high. Applying this method to the 1989 HES, Saunders estimated that on average, the extra income required by a household with at least one member with a disability to attain the same standard of living as a household where no one had a disability was around 37% of household disposable income[12].

The Harmer Report argued that these costs are best met through subsidised service provision, such as the National Disability Insurance Scheme (NDIS) that was developed later. The main problem with this approach is that significant expenses are not fully compensated, either because service delivery programs have limited coverage, because funding is capped or co-payments apply. The Pharmaceutical and Telephone Allowances were both introduced in response to public concerns about the inadequacy of service subsidies (such as the Pharmaceutical Benefits Scheme, for which a co-payment had just been introduced) for people on the lowest incomes.

The NDIS is not expected to assist the majority of people with disability or carers of working age (even a majority of DSP and Carer Payment recipients), and it is unlikely to be able to cover all contingencies for those it does help. There is a case for supplementary assistance to cover gaps left by the scheme. A costs of disability supplement and an extended Carer Allowance or supplement, similar to payments that exist in other wealthy countries, could play that role [13].

The main challenge in designing supplements for the costs of disability and caring is that these costs vary widely across different households. In the long run, it would be best to vary the maximum rates of these payments according to the type of disability or care required, as is the case now with Mobility Allowance. Another option is to set a standard rate that is relatively low and a higher rate for those groups likely to face much higher costs.

A further issue to resolve is whether supplementary payments for carers should compensate them for the caring work they perform or wages foregone (the 'indirect cost' of care). This would be a major departure from the present social security system, which provides income support targeted to poverty alleviation and help with *direct* costs such as rents and taxi fares

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[12] Saunders P (2006), 'The Costs of Disability and the Incidence of Poverty.' Discussion Paper No. 147. Sydney: Social Policy Research Centre.

[13] These payments in other countries are described in Stapleton D, Protik A & Stone C (2008), 'Review of international evidence on the cost of disability', Leeds: Department for Work and Pensions Research Report No 542.

for people with disabilities. A Government payment for care implies that the Government could direct carers to provide care in a certain way, or to work certain hours. This would be intrusive and inappropriate for informal care.

Costs of sole parenthood

It is widely acknowledged that, compared with couples raising as child, sole parents face additional costs. These are due in part to reduced economies of scale in the family budget, in part to the time constraints facing sole parents, and also to the fact that parents on low incomes often sacrifice their own living standards to ensure that their children are not socially excluded, and this is more difficult to manage when there is only one parental income.

The data cited above shows that the poverty rate among recipients of the main sole parent payment was 64%, and that rates of multiple deprivation and self-assessed poverty were four times greater among recipients of Parenting Payment than the general community.

The need for additional financial support for low-income sole parents to achieve the same living standard as a similar couple with children has been recognised in Australia for many years. A 'Guardian Allowance' was included in family payments for this purpose, until the tax reforms of 2000 when it was integrated with Family Tax Benefit Part B. The purpose of the Part B payment for sole parents was very different to that for couples, and has nothing to do with whether a sole parent cares for their child 'at home'. Nevertheless, the Part B payment for both couples and sole parents falls by $22 a week when the youngest child reaches five years, on the grounds that there is less need for 'at home' care by that stage. It is very likely that the extra costs of caring for a child alone (whether the parent is in paid employment or not) increase as the child grows older.

These extra costs for sole parents are also partly recognised by a higher rate of Newstart Allowance ($21 per week extra) for sole parents compared with other single adults.

Given the much higher risk of poverty and deprivation among sole parent families, it is very likely that these existing supplements are inadequate to meet the extra costs of raising a child alone in a low-income household[14].

[14] See for example Breunig R (2005) /XDRIVE/Policy/Poverty%20inequality/poverty/

Costs of job search and training

The extra costs faced by recipients of income support who are required to search for jobs or participate in education or training are often overlooked in social security policy. Those costs include transport, phones, information technology, enrolment fees, books and educational materials.

Modest support ($10 a week) is provided to participants in the Work for the Dole program to assist with transport and other costs, and a Pensioner Education Supplement worth up to $34 a week is paid to recipients of pension payments undertaking fulltime study. Regrettably, it was announced in this year's Federal Budget that the Government proposes to abolish the latter payment.

The previous Welfare Review in 2000 advocated that a Participation Supplement be paid to assist with these and other costs and help remove any immediate financial disincentives to search for jobs and study.

It is highly unlikely that the present Newstart Allowance and student payments take adequate account of these costs, given that they are much lower than non-activity tested payments.

Housing costs

Housing costs are typically the largest essential spending item for people on low and modest incomes, the majority of whom are renting their homes.

Australia has a severe and growing shortage of affordable housing, with 410,000 or two in five households paying over 30% of income in rent, a standard definition of 'housing stress'. In 2012 the National Housing Supply Council reported a shortage of 539,000 private rental dwellings in Australia that were both affordable and available for those in the bottom 40% of the income distribution, at least two-thirds of which was in capital cities.

Rent Assistance plays a vital role in easing poverty by reducing housing costs. In its absence 810,000 households would face 'rental stress'. Yet it is inadequate for the purpose, especially in high-cost areas such as Sydney. Over 13% of Rent Assistance recipients pay more than half of their income in rent. The main reasons for this are the inadequate maximum rates of Rent Assistance and their lack of sensitivity to variations in housing costs. The gap between the maximum rate of Rent Assistance and median rents has grown steadily, due to the indexation of Rent Assistance to the CPI rather than rent increases. In the three years to 2009, rents rose by an average of 10% per year while the maximum rates of Rent Assistance increased by only 3% [15].

There are two main demand-side public subsidies for housing for people on low incomes: Rent Assistance for private tenants and rental rebates for tenants in State Government social housing. The former is a capped fortnightly payment based on household type, income and rent levels, while the latter are generally designed to cap rent levels in public housing at around 25 % of household income. The Interim Report (along with the Henry Report on the tax–transfer system) suggests that these subsidies be merged into a single payment or rental subsidy. While there is a clear policy logic to this proposal and it is fair on the face of it, there is a major hurdle to this kind of reform: the average subsidy for public tents is much higher than Rent Assistance. When a similar reform was undertaken in New Zealand in the early 1990s social welfare agencies reported a large increase in emergency relief applications from social housing tenants as their rents rose sharply. This reflects in part the deeply disadvantaged profile of most people in social housing. In both countries, it is increasingly targeted towards people who are unable for both financial and other reasons (such as disabilities) to survive in the private rental market.

Reform of demand-side housing subsidies for people on low incomes should therefore be pursued with care, in discussion with stakeholders and tenants, and using the best available data on housing costs and living standards among different groups of tenants.

Nevertheless, there is a strong case for an immediate and substantial increase in maximum rates of Rent Assistance, and we propose a 30% rise, equal to around $20 per week for those paying the highest rents.

Demand-side subsidies cannot solve the housing affordability problem on their own and there is a risk that they would inflate housing costs. A coherent package of supply and demand-side reforms is essential. That should include urban planning reforms, improvements in public transport, and major reform of the tax treatment of housing which to date has encouraged speculative investment in existing properties by small investors chasing capital gains, rather than patient investment in new affordable housing by institutions. Direct public investment in housing for those least able to cope in the private rental market, and an expanded scheme

[15] National Welfare Rights Network (2013), 'A home on the range or a home out of range? How Commonwealth Rent Assistance fails low income Australians'

along the lines of the existing National Rental Affordability Scheme (NRAS) are key elements of the solution to our housing affordability crisis.

2. Reform of the payment structure (pillar one)

Key conclusions

- The division of social security payments into lower 'allowance' payments for people deemed 'unable to work' and higher pensions for people deemed 'unable to work' is based on outdated ideas about disability, care, and participation in paid work.
- It creates unfairness as people with the same financial needs receive vastly different levels of payment, complexity as people are classified according to their future employment prospects, and work disincentives as people receive lower income support payments the closer to come to paid employment.
- A person with disability who moves from DSP to Newstart Allowance risks losing $166 a week, a sole parent whose youngest child reaches eight years must transfer to Newstart and loses $72 a week, and a person who stops caring for a chronically ill relative and starts searching for a paid job moves from Carer Payment to Newstart Allowance, often losing over $220 a week.
- Student payments are $48 a week less than Newstart Allowance, including for adult students up to 64 years old.
- These payment gaps grow every year because pensions are indexed to wage movements and allowance payments are not.
- These payment gaps are inappropriate because they are based on outdated ideas that allowance payments are for short term support between jobs and that people with disabilities or caring roles should be 'pensioned off' from the paid workforce. The average duration of receipt of Newstart Allowance is now over four years.
- Policies to raise employment participation among social security recipients all too often result in people being shifted from higher to lower payments. Recent examples include the 80,000 sole parents transferred to Newstart Allowance in 2013 and the tightening of DSP rules that has diverted many people with disabilities to Newstart Allowance.
- The solution is to restructure the system of working-age social security payments along the lines recommended by the previous Welfare Review in 2000, with a common income support payment for all that is topped up by supplements for those who face extra costs including the costs of disability, sole parenthood, and caring.
- Payments would then be based on people's current financial needs, rather than their future employment prospects.
- Since the supplements serve a different purpose to income support payments, they would be income tested less strictly, so that they extend to low and possibly middle-income households that do not receive income support. That would improve incentives for people with disabilities, carers, sole parents and private tenants to undertake fulltime employment.
- Activity tests would be applied more flexibly within four streams of the common income support payment: disability, carer, parent, and job search and training.

- It is possible to implement this reform in a way that ensures that no group of current or future recipients is worse off and those in the greatest hardship are better off, and this commitment should be given.
- The Interim Report proposes a different model in which some people who would receive either pensions or Newstart Allowance under the present rules would instead receive an intermediate 'tier' of payment in between the two. It proposes that only a relatively small minority of people with disabilities on income support – those with a 'permanent incapacity' should receive the DSP.
- The extra payment 'tier', along with the Interim Report's proposals to review the adequacy of single allowance payment rates generally and to equalise payments for adult students and unemployed people, would potentially improve payments for some Newstart Allowance recipients.
- However, it would reduce payments for others and keep a flawed payment structure in which levels of payment are based on employability rather than need. People could still be arbitrarily shifted from higher to lower payments under this model.
- The 'common income support payment and supplements' model proposed in this submission is being implemented in the United Kingdom through the introduction of 'Universal Credit'. Unlike other welfare changes in that country, Universal Credit is on the whole a positive reform that will ease poverty and simplify the system, though it has been poorly implemented (see Attachment 3).
- A similar payment model was proposed by New Zealand's 'Welfare Reform Working Group' but unfortunately it was not pursued by the Government (Attachment 3). While we have much to learn from New Zealand's 'investment model' of funding for employment supports and 'joined up' local service provision, the use of income support to enforce social behaviours such as good parenting, budgeting, drug testing, and the discouragement of additional children while on payments, is intrusive, discriminatory, and unlikely to achieve social or economic policy objectives.

The pension-allowance system

Historically, the Australian social security system for people of working age has been divided into pension payments for people who were 'unable to work' and benefit (later 'allowance') payments for people who were available for employment. Pension payments had no activity requirements whereas allowance payments had requirements to register with employment services, seek employment and participate in programs that improve their job prospects. Since the mid 1970s, rates of allowance payments were set below pensions on the grounds that people would only need to rely on them for short periods between jobs, and to preserve work incentives. Underpinning these different rates of payment was the notion that those on pensions were more 'deserving' of income support than those on allowances because they were 'unable to work' and therefore not to blame for their lack of paid work.[16]

The implicit contract between Government and people receiving pension payments was they would be 'left alone' on a higher payment in return for limited expectations of help them secure employment. In the vernacular of a previous era, they were 'pensioned off'. Pension payments were harder to obtain, but people were expected to rely on them for a long time, even 'permanently'.

The key features of pension and allowance payments are compared in table.

Table 3: The main differences between pensions and allowances

	ALLOWANCES	PENSIONS
MAJOR PAYMENTS	Newstart Allowance Youth Allowance Abstudy and Austudy Payments	**DISABILITY SUPPORT PENSION** **CARER PAYMENT** **PARENTING PAYMENT SINGLE** *.
LEVELS OF PAYMENT	Lower	**HIGHER**
INITITAL ELIGIBILITY REQUIREMENTS	Less strict	**STRICTER**
ACTIVITY REQUIREMENTS	Stricter, including work requirements	**NONE OR LESS STRICT**
INCOME AND ASSETS TESTS	**TIGHTER**	**LOOSER**

16 The original pension legislation at the turn of the 20th century required successful applicants to be 'of good character and deserving of a pension'. At various times this logic was rejected by the Government of the day. For example the first legislation of the newly-elected Hawke Government in 1983 was a substantial rise in Unemployment Benefits to reduce the gap between that payment and pensions. That Government made an explicit policy commitment to remove the payment gap entirely.

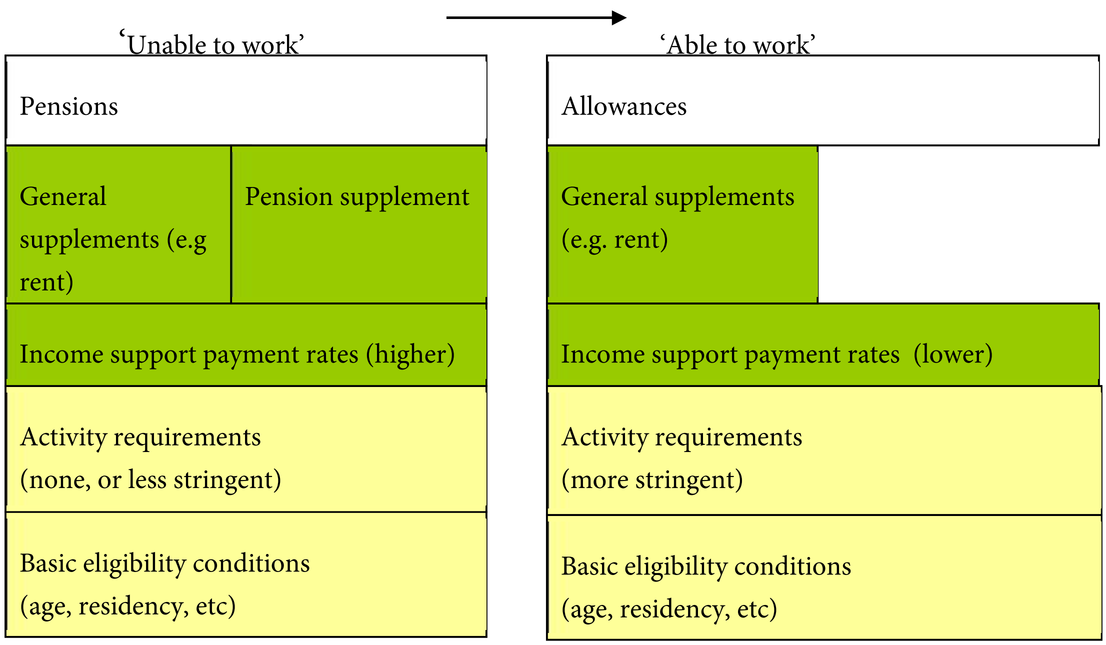
* Since 2009 the PPS payment, which was previously regarded as a 'pension' seems to have become a hybrid payment, with lower rates that other pensions and higher rates than allowance payments.

Australia has a categorical system of income support, with separate payments for each 'target group' such as unemployed people and people with disabilities. As indicated in the table, some are pensions and others are allowances. The pension and allowance payment systems (and to some extent each individual payment) have evolved independently, so that over time not only their payment rates but also the eligibility conditions and income tests diverged. In effect, we have at least two social security payment systems for people of working age (see chart below)[17].

Within the 'allowance category' there is a third level of even lower payments for full time adult students (receiving Austudy Payment or Abstudy Payment). These payments are lower on the assumption that full time students are supported by their parents, or can readily pick up casual employment to supplement their income support. Oddly, this logic is applied to recipients of adult student payments up to 64 years old, yet the Youth Allowance is paid at the same rates for unemployed young people and students.

[17] We arguably have three systems, with allowances divided between employment participation and student payments.

Figure 4: Structure of the present income support system for people of working age

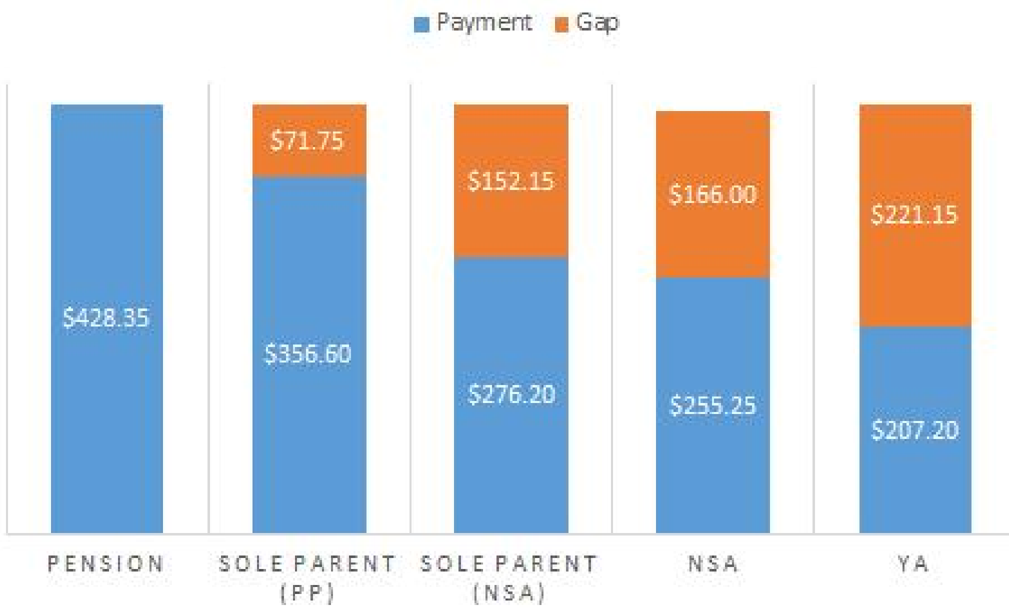


Note: dark shaded areas represent payment rates, lighter shaded areas represent conditions of payment

The growing gaps between pension and allowance payments

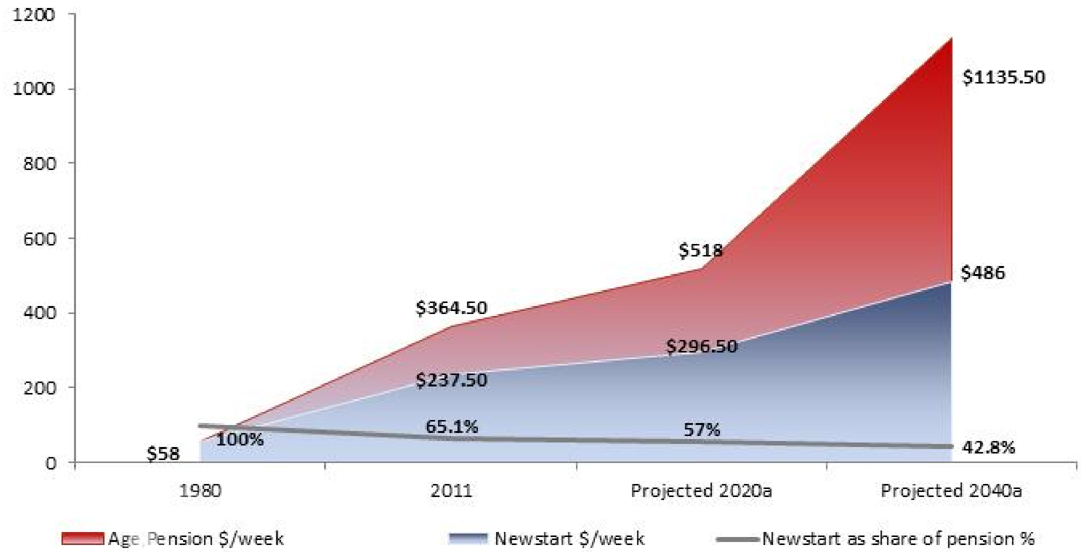
The maximum single rate for allowance payments is $166 per week less than the pension rate (including Pension Supplement), and the maximum student income support payment is $48 less than allowances for unemployed people, as shown below.

Figure 5: Gaps between payments (April 2014)



These payment gaps emerged in the late 1970s when allowance (then called 'benefit') payments, especially those for single people, were not indexed to cost of living increases at a time of high inflation. They were reduced in the early 1980s when the Hawke Government committed to raise benefit payments to the pension level, and then rose again when that commitment was abandoned. The subsequent decision of the Howard Government to index pensions, but not allowances, to movements in MTAWE meant that the payment gap steadily increased to around $50 a week by 2009. It then rose dramatically when the Rudd Governments increased pensions for single people by $32 a week in addition to cost of living increases, but excluded unemployment payments and the PPS from that increase (see graph below).

Figure 6: Projected growth in the gap between single pension and allowance payments



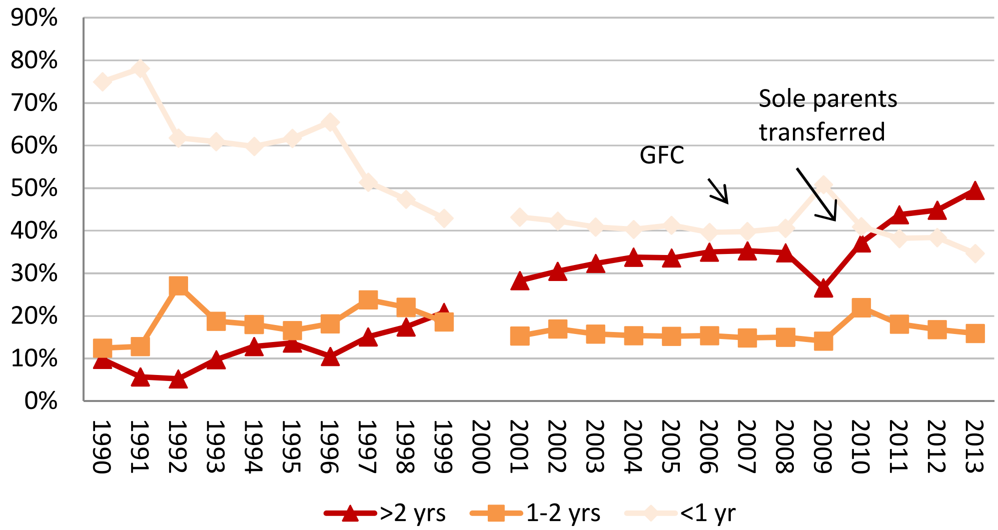
The above graph shows that if present trends continue, the single allowance rate will be worth just half that of the pension by 2030. This is clearly unsustainable.

Pressures for change

The labour market and social environment has changed in three significant ways over the last 20 years, undermining the assumptions on which the pension-allowance system is based.

First, as unemployment has fallen a growing proportion of people receive allowance payments long-term. In 2014, 65% of people on Newstart Allowance (NSA) and the Youth Allowance Other (YAO) payment received income support for over 12 months continuously, compared with 40% in 1994. The average duration of income support for Newstart recipients is now over four years. This challenges the notion that allowances are 'short term payments'.

Figure 7: Unemployment payment payment recipients by duration (% of total)



Source: Department of Social Services (DSS), Statistical summary of social security payments.

Second, as unemployment has declined the profile of unemployed people has become more disadvantaged in other ways as well. In 1990, a survey of people on the former Unemployment Benefit *long-term* found that 3% identified as Aboriginal people, 4% had a substantial disability, and 20% were over 44 years of age[18]. In 2013, as shown in the graph below, 10% of *all* people on NSA identified as Indigenous, 15% were assessed with partial work capacity, 16% were sole parents, and 24% were over 49 years of age[19].

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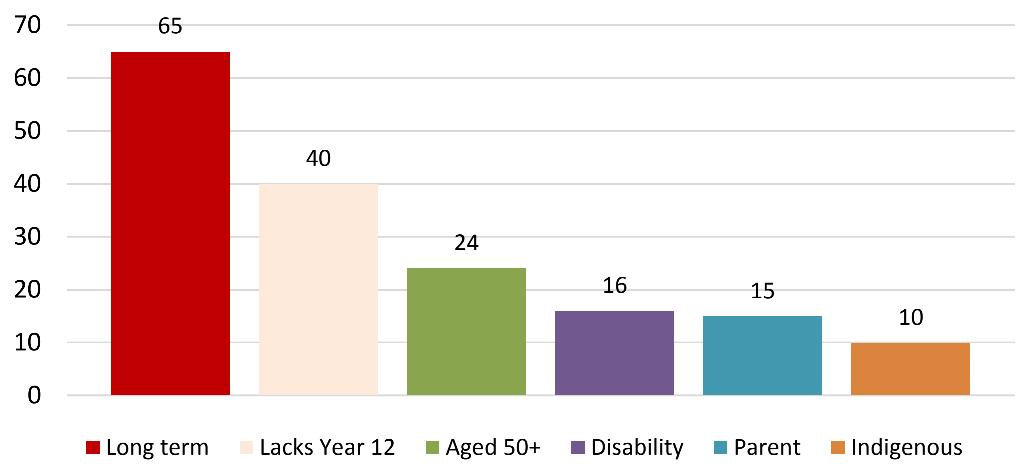
18 Kalisch D (1991), 'Long term UB recipients, the impact of Newsart and economic conditions', National Social Policy Conference, Sydney, July 1991.

19 This estimate (the proportion of recipients formally assessed with a 'partial work capacity') greatly understates the incidence of disability among Newstart Allowance recipients. When all significant disabilioties are taken into account, especially anxiety and depression, around half of all recipeints have disabilities.

Figure 8: Profile of NSA/YAO recipients (2013 - per cent)



Senate Standing Committee on Education Employment and Workplace Relations, QUESTIONS ON NOTICE, DEEWR Question No. EW0073_14. These categories are not mutually exclusive.

'Welfare to Work' policies have also altered the profile of Newstart and Youth Allowance recipients, by diverting people from pensions to these payments (including the 80,000 sole parents who were shifted to this payment from the higher Parenting Payment last year). As more people are shifted to these payments, Newstart and Youth Allowance recipients increasingly resemble the pensioner population of previous years.

Third, these employment participation or 'activation' policies have challenged the old assumptions that people are 'unable to work'. We no longer take it for granted that people with disabilities and the main carers of children are 'unable to work' (of course carers always 'work', only without pay). The social security system increasingly expects people who were

'I've come to sort of realise that, okay, in many ways disability is a social construction. I can't work because the workplace actually doesn't provide me with carers. It doesn't provide me with suitable equipment so that I can work. I can (no) longer drive. Now I cannot use the buses. Transport is not wheelchair accessible. How do I get to work? Wheelchair accessible taxis, the service is, one, very expensive; and, two, quite poor and unreliable in peak times. So again I realised that society was also putting restrictions on me so that even if I wanted to work it was actually going to be extremely difficult.' (Leah, Disability Support Pension)
Murphy et al 2011, 'Half a citizen': The stories of 150 welfare recipients in Australia, Allen & Unwin. (name changed to protect privacy)

formerly categorised as ‘pensioners’ to seek paid employment. The old social contract referred to above is breaking down.

Activity requirements have extended to more groups. Over the past 20 years, a number of non-activity tested payments for mature age people have been closed, and principal carer parents with school age children and people with ‘partial work capacity’ have faced activity requirements. Since this happened within the pension-allowance framework, many people who previously would have received pension payments have been shifted to the lower allowance payments. Thus, in 2014 over 100,000 Newstart Allowees were sole parents and at least another 100,000 had a ‘partial work capacity’. *The profile of people receiving NSA today increasingly resembles that of yesterday’s pensioners*.

These changes have placed mounting pressures on the pension-allowance system, and it lacks the flexibility to respond to them. To continue with the present distinction between pensions and allowances in these circumstances is unfair and counterproductive.

The system is *unfair* because, as the Interim Report of the Welfare Review indicated, people in similar circumstances are receiving different levels of payment. For example, people with disabilities on NSA receive $166 per week than those on the DSP, and sole parents on NSA receive $72 per week less than those on PPS. Although young students up to 22 years of age receive the same levels of payment as people of the same age who are unemployed, older students on Austudy or Abstudy Payment receive $48 per week less than people on NSA. Payment rates are based on dubious assumptions about people’s future employability (and hence their ‘deservingness’) rather than their current living costs.

The pension-allowance divide is *counterproductive* for the employment participation agenda for four reasons.

First, at a time when public policy is encouraging more people to participate in the labour market, the income support system pays people less the closer they come to paid employment. It requires them to prove they ‘cannot work’ in order to receive a higher, more secure payment. On the other hand, once they are in the pension system, especially the DSP, people are fearful of seeking employment in case they subsequently lose the job and have to fall back on NSA instead of a pension. Despite recent policy attempts to alleviate this fear, for example by giving people with disabilities ‘two years grace’ in paid employment before their eligibility for the pension is reassessed, it remains widespread. This is neither irrational nor surprising, since people with disabilities are especially vulnerable to unemployment and financial hardship.

Second, a large part of the complexity and cost of our income support system is due to the distinction between pensions and allowances and the need for Centrelink to make increasingly fine distinctions between degrees of 'inability to work'. For example, Job Capacity Assessors must classify people according to four different levels of work capacity.

Much administrative effort is devoted to categorising people according to their degree of labour market disadvantage. On the other side of Centrelink counters, applicants for payment are forced to devote their efforts to 'proving' their inability to undertake paid work. This diverts energies on both sides of the counter away from the principal goals of the income support system: to prevent poverty and improve people's employment prospects. Inevitably, many of those judgements are arbitrary yet they now make a big difference to people's financial wellbeing.

The system is needlessly complex in other ways. Since the pension and allowance systems have developed their own independent eligibility requirements many of the differences are arbitrary. One example is the requirement for people to be Australian residents for at least 10 years to obtain a pension, including the DSP. No such requirement applies to allowance payments.

> I always get a chuckle from the first question I do: 'Do you require an interpreter?' I tick yes. Then [they ask] for what? SS to English.' (Stephen, Disability Support Pension) Murphy et al 2011, 'Half a citizen': The stories of 150 welfare recipients in Australia, Allen & Unwin. (name changed to protect privacy

Third, the pension-allowance system makes life difficult for people as their circumstances change and they have to move from one payment to another. On the 5th birthday of their youngest child, sole parents on income support arbitrarily lose $22 per week in Family Tax Benefit payments. On the child's 8th birthday, the family arbitrarily loses another $72 per week in income support. This bears no relationship to the family's living costs, which typically increase as a child grows older.

Fourth, the pension-allowance system throws up hurdles to employment participation reforms. As employment participation policies are extended to more groups, the boundaries between pension and allowance payments are shifting, undermining the income security that was once promised to people on pensions. Although it is possible to extend activity requirements and employment supports without cutting payments, in the pension-allowance system 'activation' is automatically associated with payment reductions. Since Governments are reluctant to cut the payments of people *already* on income support (recent budget decisions with regard to sole parents are an unfortunate exception), grandfathering arrangements are often introduced to protect their entitlements. These arrangements create their own set of anomalies and workforce disincentives.

A framework for reform

In principle, the solution to these problems with the pension-allowance system is simple: income support payments should be set on the basis of financial need rather than employability. Employability is still important in determining which activity requirements and employment supports (if any) should apply, but it should not determine levels of payment.

We outline below a framework for simplification and reform of the present system of income support payments for people of working age. These changes would not affect age pensions or Family Tax Benefits, which would remain separate. We have not developed detailed proposals at this stage because it is important to achieve a consensus first on the *purpose and direction* of reform.

A key condition for our support for social security reform of this kind is that no group in need of income support is left financially worse off, and those in greatest hardship should be better off.

The proposed structure is essentially that advocated by the previous Welfare Review in 2000 and the 'A Simpler System' statement by Ministers Vanstone and Abbott a year later. It comprises a common income support payment to meet general living costs together with supplements to assist with additional costs (such as rents and the costs of disability).

Common base rates of income support would be set for single people and couples, respectively, based on the *minimum costs of attaining a 'basic acceptable standard of living',* the benchmark set by the Henry and Harmer reports. As recommended in the Harmer Report, the single rate would be equal to 66.3% of the couple rate. Common base rates of payment would remove the key distinction between pensions and allowances for people of working age. It means that people would no longer be penalised with lower payments as they move closer to employment.

The base rate of income support would be *income tested* to target income support to those in most need of financial support. Broadly speaking, the income test for those required to seek fulltime employment would be designed so that the payment 'cuts out' (reduces to zero) at around or below the full time minimum wage (around $30,000). For those required to seek part time employment only, this constraint would be eased to make part time employment financially worthwhile.

The system would be further simplified by introducing a *common set of basic eligibility requirements,* such as residency requirements, for income support payments for people of working age.

Categories of payment (such as parenting, caring and disability) would still be needed to circumscribe the *activity requirements* that apply to individuals. In the absence of payment categories there is a risk that activity requirements would be determined arbitrarily and there would be little certainty for people about the range of requirements that might apply to them.

However, removal of the link between activity requirements and payment levels would open up opportunities to apply activity requirements in a more flexible way. They could be based on a realistic assessment of the activities and supports most likely to assist each individual to secure employment. In cases where employment prospects are very limited, no activity requirements would apply.

Supplements would be paid to assist substantial minorities of people who face significant non-discretionary living costs above the *minimum costs* referred to above. Examples include rents, the extra costs associated with disability, caring, and raising a child alone, and the cost of job search and training. Since these costs (apart from rents) vary among households in ways that are difficult to measure accurately, the supplements would generally be flat rate payments based on the *typical* additional costs faced by the relevant target group. Another option, as discussed in the previous section of this submission, is a modest base rate supplement and a higher rate for those likely to face substantially higher costs (for example, people with major mobility restrictions)

> 'I think with the amount that we are given in our pensions is not enough to cover basic, basic, basic living expenses, that for example when I hurt my back, for me to be able to get well enough to actually gain employment, I didn't have the support for it. To be able to afford physiotherapists, hydrotherapy. Even through the public assistance places where you had to pay a smaller fee for those things. Maintaining things like medications were just ridiculous. There were pills and vitamins to take to get my health to optimum levels.' (Serena, Disability Support Pension)
> Murphy et al 2011, 'Half a citizen': The stories of 150 welfare recipients in Australia, Allen & Unwin. (name changed to protect privacy)

The supplements have a different purpose to the common income support payment. They improve horizontal equity (ensure that people can achieve similar living standards despite facing different non-discretionary costs) as well as vertical equity (reducing poverty). This implies that they need not be targeted as strictly as the common base rates of payment. For example, disability, carer, sole parent and rent supplements could extend to low or middle-income earners who also face these additional costs but whose private incomes are too high to entitle them to income support. In this way the supplements would strengthen incentives for people to transition from income support to at least low paid fulltime employment. As is the case now with Family Tax Benefits, many former recipients of income support would keep their supplementary payments once they become employed.

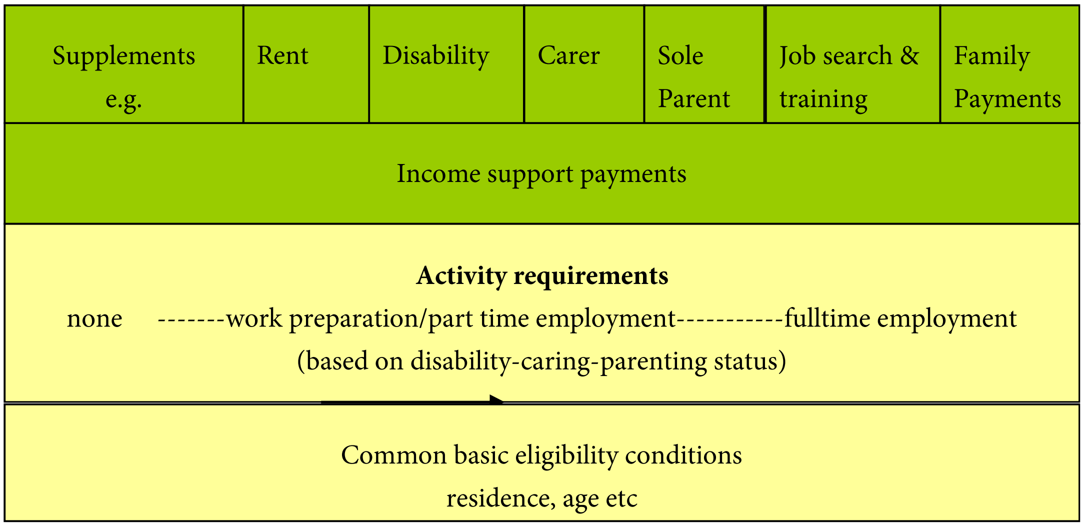
Another supplementary payment that should be introduced is an ‘employment and training supplement’ to assist with the cost of job search and training and improve incentives to undertake those activities. This could replace the existing Pensioner Education Supplement and Work for the Dole Supplement.

There is scope to simplify existing supplements, for example by integrating some (such as the Pension Supplement) into the base rate of payment[20]. The basic principles would be that supplements are incorporated into base rates of payment where an overwhelming majority of social security recipients face similar expenses, and remain separate where a substantial minority of people (such as tenants and people with disabilities) face much higher non-discretionary costs.

The structure of the proposed system is illustrated below.

[20] The Pension Supplement for age and veterans pensions is beyond the scope of this submission and this does not necessarily imply that it would be integrated with those pensions.

Figure 9: Structure of the proposed system



The proposed framework retains many features of the present system. Many of the existing payments and supplements would remain in place, though rates and conditions of eligibility would change. This is desirable since evolutionary reform is more likely to be publicly supported and transitional costs and risks would be minimised. For the majority of recipients of working-age pension payments, little would change over the short to medium term, except that there would be fewer hurdles in the way of transitions to paid employment.

The key changes include:

- Replacement of pensions, unemployment allowances and student payments with a common income support payment:
  - there would still be income support payment categories such as disability and parenting, but they would determine the activity requirements (if any) which would apply rather than levels of payment.
- Payments are based on current financial need rather than future work prospects
  - the categorisation of people into pensions for those 'unable to work' and allowance for those 'able to work' would end, without leaving any group financially worse off;
- Higher income support payments for single people than the current allowance payments for unemployed people and students;
- Increased payments for sole parents, people with disability and carers who currently receive allowance payments, due to new or higher supplementary payments for these groups to assist them to meet the extra living costs they face;
- The two changes above would end the current payment reductions as people move from pension to allowances in the present system;
- Sole parents, people with disability and carers in low paid fulltime employment would receive new or increased supplementary payments;

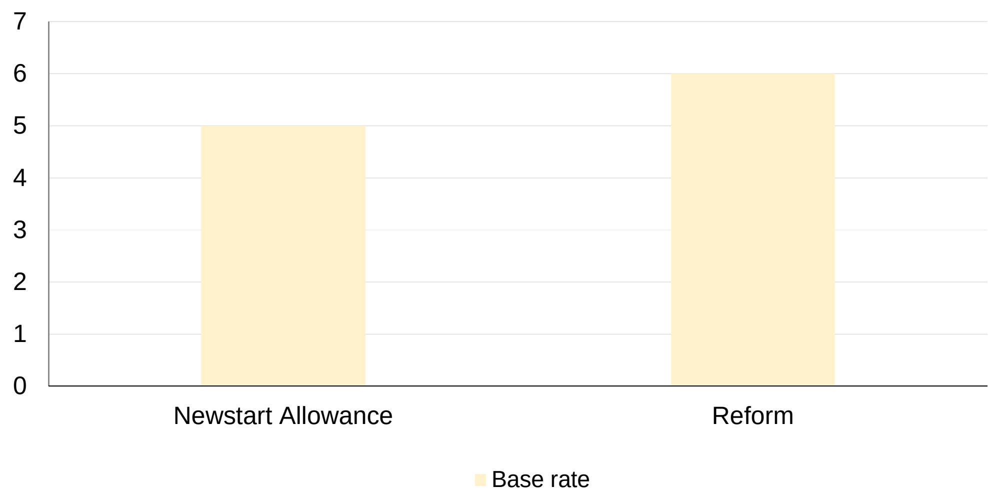
- More flexible activity requirements (where such requirements are appropriate) within a clear legislative framework that takes account of disabilities and caring roles.

To compare the present system with the proposed framework, we describe below how the proposed system would affect a single unemployed person, a person with disability, a sole parent with a young child, and a carer of a person with disability. We have not specified proposed rates of payment for the common income support payment or supplements as we believe these should be based on an objective, public assessment of living costs by an independent body (see recommendations).

How our proposed reforms would affect an person who is unemployed (without disabilities or caring responsibilities)

An *unemployed person* would receive the same common income support payment as other social security recipients (not a lower payment) regardless of their future employment prospects. The new payment would be substantially higher than Newstart Allowance (at least for single people), in recognition of the inadequacy of that payment (see graph below).

Figure 9: Existing and proposed payment structure: single unemployed person: $0 private income



If they are not assessed as having a disability or caring responsibilities (as described below) their income support payment would be classified as an *employment or job search* payment.

They would have job search and job preparation requirements, including in most cases a requirement to seek full time paid employment. The income test for this payment would be designed so that (as is the case now) the payment reduces to zero if they secure a fulltime job at the minimum wage (see graph below).

Figure 10: Existing and proposed payment structure
Single person on FT minimum wage ($30K)

If they are engaged in active job search, training or another employment assistance program that involves extra costs (such as travel, purchase of books, and regular phone calls), they may qualify for a *job search and training supplement* to help with those costs. This would replace existing supplementary payments such as the Pensioner Education Supplement and the Work for the Dole supplement.

How our proposed reforms would affect a person with disabilities

A *person with disability* would receive the same common income support payment regardless of their future prospects of employment[21]. They would no longer be financially penalised if they are assessed as 'able to work', and would receive a *disability supplement* to help with the

[21]This would be substantially higher than Newstart Allowance but not necessarily as high as the existing pension payments. However, the combination of income suppoprt and supplements would be no less than the present pension payment for those who are eligible for it under the present social security legislation.

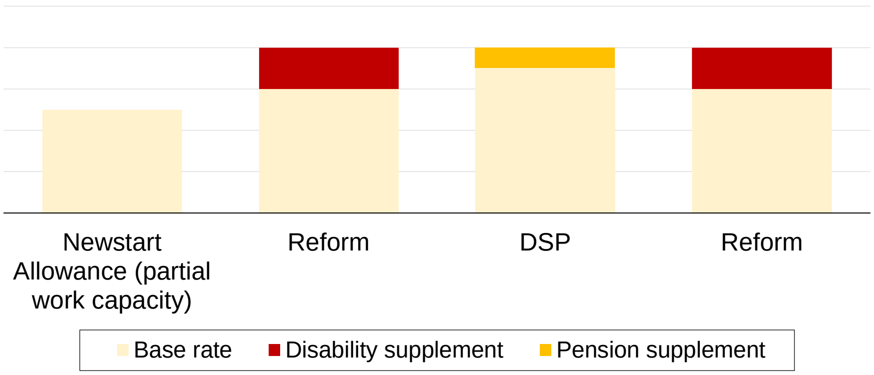
costs of their disability. If they are assessed with disability, this has two implications for their social security payments.

First, their *income support* payment would be classified as a *disability payment* so that their activity requirements (if any) and the income test are adjusted according to their work capacity and best feasible path to employment. At least initially, the assessment for this purpose could be similar to the work capacity tests for DSP and Newstart 'partial work capacity'. Depending on the severity of the disability this would mean that in many cases no requirements would apply (as is the case now for DSP recipients), while in other cases *partial* activity requirements would apply (as is the case now for Newstart Allowance recipients with a partial work capacity). This work capacity assessment would *not* affect their maximum level of payment, but it may result in an easing of the income test to encourage part time employment where no full time work requirement applies.

Second, they would qualify for a *disability supplement* to help with the extra costs of disability. At least initially, this would be paid at a flat rate to all individuals with disability who meet the eligibility requirements[22]. The maximum rate of the supplement would be at least equal to the difference between the new common income support payment and existing DSP payment. This would ensure that DSP recipients are not worse off as a result of reform. Instead of the DSP and Pension Supplement, they would receive the common income support payment and the new disability supplement (see graph below).

[22] Eligibility for the supplement could, for example, be tied to 'points' obtained under the DSP impairment tables, but without applying the additional 'capacity to work' tests (for example, capacity to work at least 15 hours a week in a regular paid job) that are now used in DSP assessments.

Figure 11: Existing and proposed payment structure: person with disability: $0 private income



The first and third bars show the status quo for people with disability on NSA and DSP respectively; the second and fourth bars show payments for the same groups after reform.

Importantly, this would reverse the payment reductions affecting people with disabilities due to successive ‘welfare to work’ policies from 2006 to 2011.

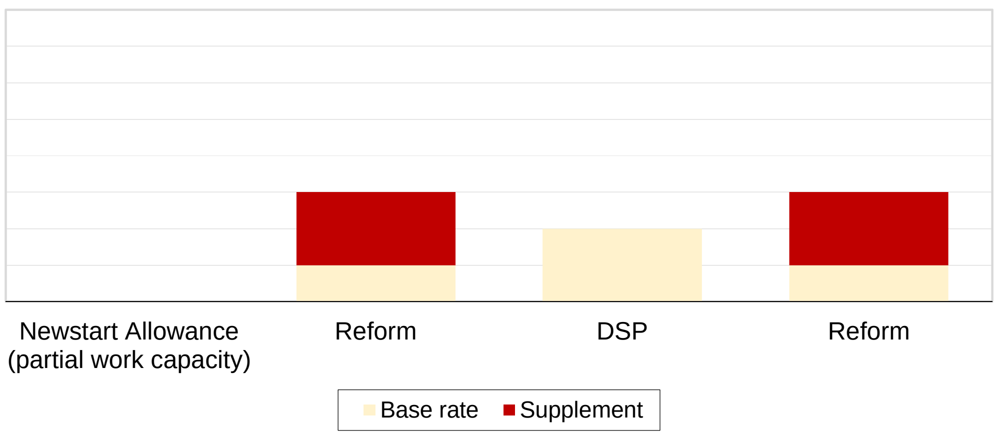
As shown in the graph above, people with a partial work capacity who currently receive Newstart Allowance would be substantially better off, since the common income support would be higher than Newstart Allowance, and they would receive the new disability supplement.

The income test for the disability supplement would be less strict than the current pension income test, since the purpose of this payment is to help with the costs of disability, and this affects full time wage earners as well as people totally reliant on income support. The income test would apply to people with incomes above a threshold level (substantially higher than the full time minimum wage), on the grounds that they have less need for help with the costs of their disability[23].

[23] A similar principle applies to Family Tax Benefit Part A. High income families do not receive this payment on the grounds that a modest increase in their family income would make little difference to the wellbeing of their children.

If they obtain fulltime employment and lose their income support payment (due to the income test on that payment), they may still retain all or part of the supplement (as shown in the graph below). If they subsequently lose the job and re-apply for income support, they would return to the common income support payment and would receive the same level of payments as previously. This would remove the fear among current DSP recipients that if they secure employment and leave the pension system they may end up on the lower Newstart Allowance if they lose the job later on.

Figure 12: Existing and proposed payment structure
Single person with disability: FT minimum wage ($30K)



The first and third bars show the status quo for people with disability on NSA and DSP respectively; the second and fourth bars show payments for the same groups after reform.

The proposed system would allow more seamless transitions between income support and employment for people with disabilities, as well as recognising the extra costs they face whether unemployed or in paid work. Employment incentives would be significantly improved for two reasons: the risk of being displaced onto a lower payment would be removed, and wages from fulltime employment would be topped up by the disability supplement.

The proposed system would be more consistent with modern thinking on disability – that it is the barriers to employment imposed by the labour market and society more than individual impairments that stop people from participating fully in the labour market and society, and that people with disabilities should not be 'pensioned off'.

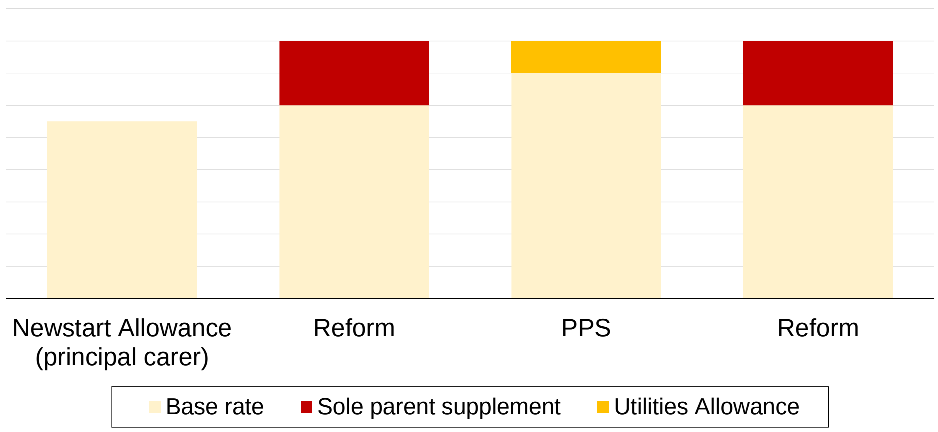
How our proposed reforms would affect a sole parent

A *sole parent* would receive the same common base rate of payment regardless of the age of their youngest child. There would be no reduction in income support payments as the child grows older. If the child is less than 16 years of age this payment would be classified as a *parenting payment*. Partnered parents who are the main carer of a child would also receive this payment. This would not affect the maximum rate of payment though the income test would be less strict to encourage part time employment, and activity requirements would also be adjusted to take account of caring responsibilities. Their activity requirements, if any, would depend on their caring role. There would be greater scope than under the present system to adjust the requirements to take account of combinations of personal disabilities and caring roles.

A sole parent would also be eligible for a new s*ole parent supplement* to assist with the extra costs of supporting a child alone. As discussed previously, it is widely acknowledged that sole parent families have a greater risk of poverty than couples with children, and that part of the reason for this is the additional costs of raising a child alone. Since there is already a sole parent supplement in the Family Tax Benefit system (the Part B payment extends to most sole parents), the new supplement could either be paid through the income support system or by topping up the 'Part B' payment for sole parents (especially for those with school age children). Unlike the present Family Tax Benefit (FTB) arrangements, the supplement would not fall as a child grows older because the cost of raising a child alone does not decline in this way.

The sole parent supplement would at least be equal to the difference between the common income support payment and the current PPS. This would ensure that those who are eligible for PPS in the present system are not worse off as a result of reform. Instead of the PPS and Utilities Allowance, they would receive the common income support payment and new sole parent supplement (see graph below). Sole parents currently eligible for Newstart Allowance would be substantially better off, due to a higher base rate of payment and the new supplement.

Figure 13: Existing and proposed payment structure:
Sole parent: $0 private income

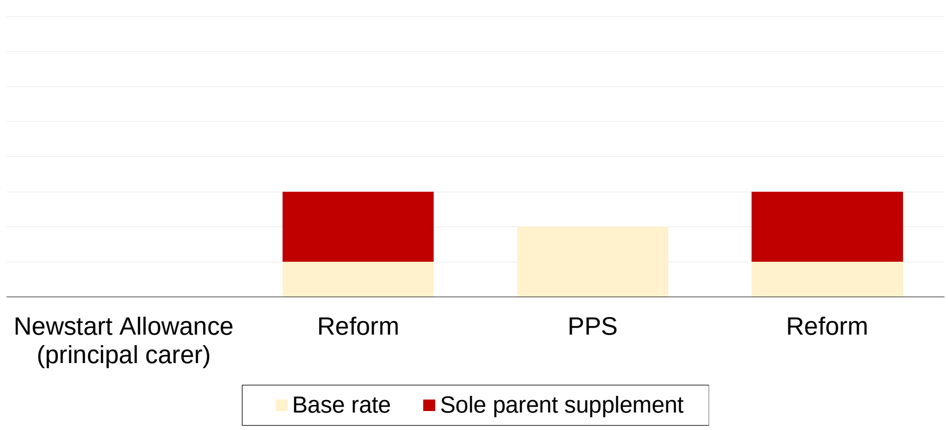


The first and third bars show the status quo for people with disability on NSA and PPS respectively; the second and fourth bars show payments for the same groups after reform.

Importantly, this would reverse the payment reductions affecting sole parents due to successive 'welfare to work' policies from 2006 to 2013.

The supplement would be paid to sole parents in low and middle-income employment (see graph below) and would improve work incentives as well as compensating for extra costs.

Figure 14: Existing and proposed payment structure
Sole parent: FT minimum wage ($30K)



The first and third bars show the status quo for people with disability on NSA and PPS respectively; the second and fourth bars show payments for the same groups after reform.

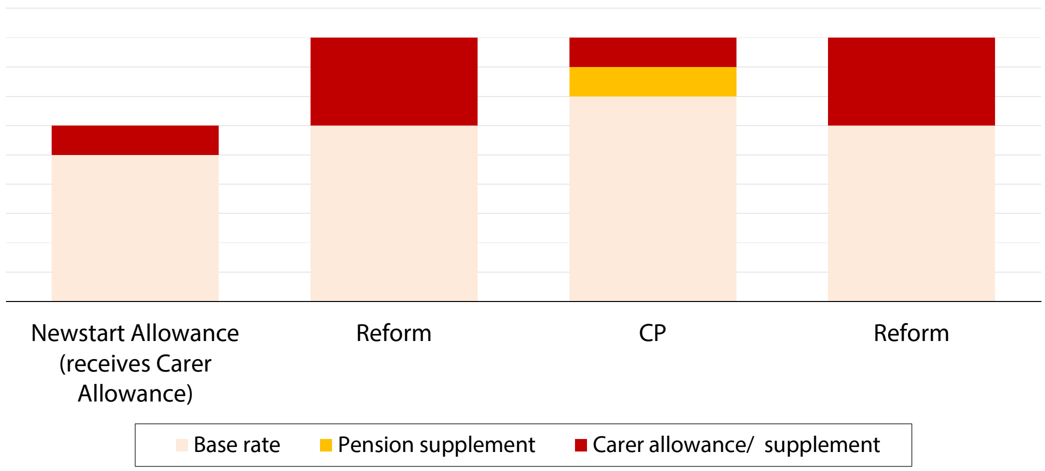
If a sole parent obtains fulltime employment and loses their income support payment (due to the income test on that payment), they may still retain all or part of the supplement. If they subsequently lose the job and re-apply for income support, they would return to the common income support payment at the same level as previously paid.

How our proposed reforms would affect a person who is the primary carer for a person with disability

A *carer* of a person with disability would receive the same common base rate of payment regardless of any changes in their caring role. There would be no reduction in income support if, for example, the person they are caring for enters full time nursing home care and the carer seeks paid employment. While they are caring for a person with disability, either full time or part time, the payment would be classified as a *carer payment*. This would not affect the maximum rate of payment though the income test would be less strict to encourage part time employment. Activity requirements, if any, would be adjusted to take account of caring responsibilities and also any disability the carers themselves may have. The proposed system would allow for a smoother transition from full time to part time care, and from care to job search, than the present '25 hour rule' (which would no longer be needed).

The carer would also be eligible for a c*arer supplement* to help with the extra costs of care. This would replace the present Carer Allowance, at a higher rate. The Carer Supplement would at least be equal to the difference between the common income support payment and the current Carer Payment. This would ensure that those who are eligible for Carer Payment in the present system are not worse off as a result of reform. Instead of the Carer Payment, Pension Supplement and Carer Allowance, they would receive the common income support payment and the new carer supplement (see graph below). Those carers who currently receive Newstart Allowance and Carer Allowance would be substantially better off, due to a higher base rate of payment and the new Supplement.

Figure 15: Existing and proposed payment structure: Single carer: $0 private income

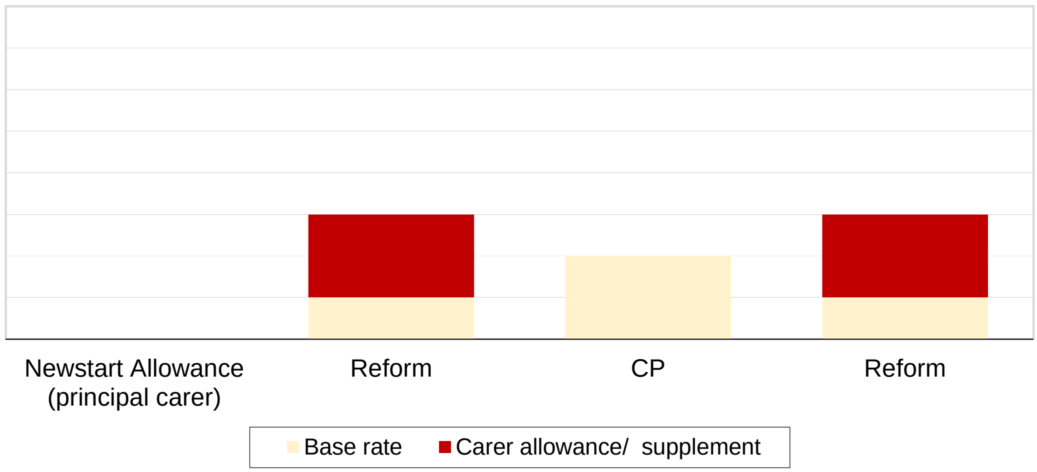


The first and third bars show the status quo for carers on NSA and Carer's Payment (CP) respectively; the second and fourth bars show payments for the same groups after reform.

An income test would apply to the carer supplement for those with incomes above a threshold level (substantially higher than the full time minimum wage), on the grounds that they have less need for help with the costs of providing care[24]. The income test for the carer supplement would be less strict than the current pension income test, since the purpose of this payment is to help with the costs of care, and this affects many wage earners as well as people totally reliant on income support. The supplement would be paid to carers in low and middle-income employment (see graph below) and would improve work incentives as well as compensating for extra costs.

[24] A similar principle applies to Family Tax Benefit Part A. For example, high income families do not receive this payment on the grounds that a modest increase in their family income would make little difference to the wellbeing of their children.

Figure 16: Existing and proposed payment structure
Single carer: on wage of $30K



The first and third bars show the status quo for carers on NSA and CP respectively; the second and fourth bars show payments for the same groups after reform

As with sole parents, if a carer obtains employment and loses their income support payment (for example, due to the income test), they may still retain all or part of the supplement. If they subsequently lose the job and re-apply for income support, they would return to the common income support payment and would receive the same level of payment as previously. Their activity requirements, if any, would depend on their caring role. There would be more scope than under the present system to adjust the requirements to take account of combinations of personal disabilities and caring roles.

The Interim Report's proposal for a tiered payment structure

The above proposals to replace pensions and allowances for people of working age with a common income support payment and supplements is similar to the payment structure advocated by the 2001 Welfare Review report and further developed in a statement from Ministers Vanstone and Abbott entitled 'Building a Simpler System'[25]. Regrettably, that 'simpler system' was not built by the Howard Government in the mid -000s, despite its reportedly modest budgetary cost. Had reform been implemented then, the present social security 'mess' could have been averted.

In 2009, the Rudd Government added to the inequity and complexity of payments for people of working age by increasing the gap between pension and allowance payments. Age, veterans, disability and carer pensions were increased for single people by $32 a week in real terms but recipients of allowance payments and sole parents missed out. ACOSS supported the increase in single pensions but called for this to be extended to those who missed out. As a result of that decision, and subsequent indexation of payments, the gap between the single rates of pension and Newstart Allowance increased from around $50 a week before 2009 to $166 a week today. This undoubtedly makes fundamental payment reform – the removal of the distinction between pension and allowance payments – much harder today.

The Interim Report's response to this dilemma is to move away from the 'common income support payment and supplements' model of the previous Welfare Review and propose instead a 'tiered system' of income support payments. Instead of closing the payment gaps between pensions and allowances, it proposes in effect an intermediate payment for certain groups with limited employment capacity.

Our understanding of the Interim Report's proposals is shown in the graph below.

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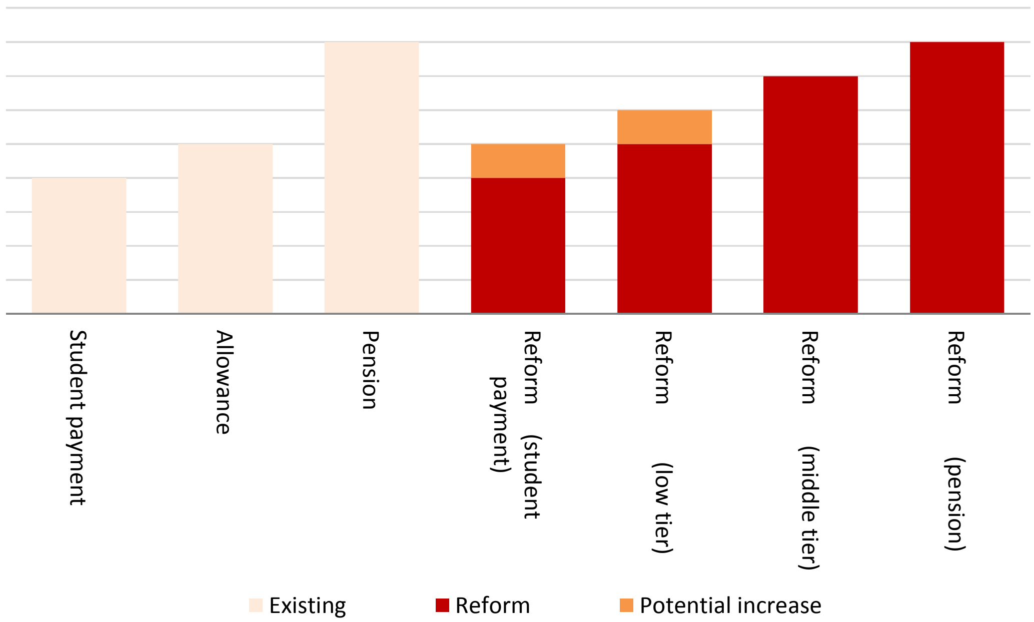
[25] Vanstone A & Abbott T (2001), 'Building a simpler system for people of working age', Departments of Family and Community Services and Employment and Workplace Relations.

Figure 17: Existing structure and Interim Report proposal: Single person with $0 private income



Note: The 'potential increases' refer to suggestions that student payments for adults might be raised to the same level as Newstart Allowance, and a proposed review of the adequacy of the single rates of allowance payments.

The Interim Report's payment model would essentially keep the present student, unemployment allowance and pension payments and add a 'middle tier' of payments in between Newstart Allowance and pension levels. This would be reserved for people assessed as having an employment 'limitation' due to a disability or caring role which does not qualify them for a pension. This might include, for example, people with a partial work capacity, sole parents with a school age child, and some carers who are unable to qualify for Carer Payment under the '25 hour rule'.

At the same time, the Interim Report proposes that the DSP be limited to a minority of recipients with 'permanent work capacity'. Presumably, those people with disability who are not 'grandfathered' under existing DSP payment rules would move down to the lower 'middle tier' payment. The Interim Report does not propose a similar tightening of PPS or Carer Payment eligibility rules, though access to those payments could be restricted in future.

The 'middle tier' is essentially a compromise between pension and allowance levels of payment. One potential advantage of this model is that many people with disabilities, sole parents and carers could receive a higher payment than the inadequate Newstart Allowance.

The Interim Report also foreshadows a sensible reform of student payments for adults, which would be raised to the same level as Newstart Allowance. This is long overdue. Paying adult students at lower 'youth' rates (that are based on the assumption that their parents would support them financially) was always unrealistic and unfair. It also discourages the many older people on Newstart Allowance who have limited educational credentials from upgrading their qualifications to improve their future job prospects.

However, the Interim Report proposes that youth payments for people who are living independently of their parents should remain lower than Newstart Allowance. This is difficult to justify given a lack of hard evidence to show that their living costs are less than those of older people. The argument that young people can more readily share accommodation, even if true, implies that Rent Assistance should be adjusted rather than the primary income support payment. Yet this has already been done through the lower 'sharer' rates of Rent Assistance which are rightly criticised in the Interim Report. If young people are still dependent of their parents, they already receive lower rates of Youth Allowance to take this into account.

Despite the above advantages, there are three major problems with the Interim Report's proposed 'middle tier' payment:

- Many people, especially people with disabilities, would be financially disadvantaged by moving onto the 'middle tier' instead of the higher pension payments. This would apply at least to new applicants for DSP if that payment was restricted to people with a 'permanent incapacity' as proposed in the Interim Report.
- The extra costs associated with a disability or caring for a child alone would not be properly recognised.
- More fundamentally, the proposed model would fine tune, rather than remove, the pension-allowance distinction. Since qualification for the 'middle tier' would be based on 'work capacity' rather than financial need, it would increase the complexity of the system by introducing finer distinctions between people based on their 'capacity to work'. This would neither improve paid work incentives nor simplify the system as much as the complete removal of different payment levels based on people's future employment prospects.

This last point is illustrated by the proposal to restrict the DSP payment to people with a 'permanent incapacity'. This would send the wrong message by 'writing people off' indefinitely from the labour market. Further, it would be very difficult to assess 'permanent incapacity' in a way that is consistent with modern thinking on disability. On the contrary, this would take us back 23 years to the time when 'permanent incapacity' was the main criterion to qualify for the predecessor payment to the DSP, the Invalid Pension. Over time, the working definition of 'permanent' used by assessors for the Invalid Pension was eased in response to the difficulties in forecasting an individual's employment prospects so far ahead, and to reflect contemporary thinking about disability. As a result, reliance on the Invalid

Pension increased and its ‘permanent incapacity’ test became redundant. It was replaced in 1991 by a ‘work capacity test’ that limited this assessment to the next two years, a formula that is still in use today.

The Interim Report argues that an assessment of work capacity over the next two years cannot properly take account of longer transitions to employment. However, this would not matter if people were no longer ‘pensioned off’ on the DSP. The common income support payment proposed in this submission would make room for a more graduated system of activity requirements and supports for people with disabilities as they transition to employment.

The Interim Report also proposes that the adequacy of single rates of allowance payments be reviewed, as they were for pensions in the Harmer Review in 2008. This raises the possibility that the base rate of Newstart and other allowance payments might be raised for single people generally, which was the outcome of the Harmer Review of pensions. While an increase in single allowance payment rates would be overdue and welcome, as discussed previously we believe that there is no need for a further review to justify an immediate $50 a week increase. Four years ago the Henry Report recommended an increase of this order for single allowees to bring payment relativities for singles and couples in the allowance system into alignment with the new arrangements for pensions that followed in the wake of the Harmer Report.

There is, however, a need for a review of the overall adequacy of income support payments and supplements (as distinct from the relativities between singles and couples) to set proper benchmarks for a reformed social security system for people of working age.

First steps on the path to reform

As a first step towards reform, we propose the following five measures be adopted in the 2015 Federal Budget. These are detailed in the summary and recommendations:

1. An increase of $50 per week in maximum single rates of Newstart and other allowance payments, including student payments and payments for young people living independently of their parents, so that they receive the same increases granted to pensioners in 2009:

2. A further increase of $48 per week, in student payments for single adults over 24 years of age (Austudy and Abstudy Payment), to reach the same level as other allowance payments such as Newstart Allowance. This reform is foreshadowed in the Welfare Review’s Interim Report.

3. An increase of $22 per week in Family Tax Benefit Part B for sole parents with school age children, so that that payment no longer falls when the youngest child reaches 5 years. Together with the $50 increase in allowance payments, this would restore maximum payment levels for those sole parents affected by recent decisions to transfer them from Parenting Payment to the lower Newstart Allowance.

4. Increase Rent Assistance for those paying the highest rents by 30% ($20 per week for a single person living alone) and index it to national movements in median rents.

These recommendations are consistent with the analysis and proposals contained in the Interim Report.

5. A Taskforce should be established to undertake a comprehensive simplification review of eligibility requirements for existing income support and supplementary payments over the next 12 months, in consultation with community stakeholders. This would examine such issues as residence requirements, waiting periods, and income and assets tests, which currently vary among different payments in ways that defy policy logic. This could bring substantial administrative savings.

Budgetary implications

The proposed payment reforms have budgetary implications. They would require investment in the short to medium term in order to reap future gains from system simplification and workforce participation. Given the inadequacy of the lowest payments and the modest level of the highest payments, a simpler and fairer system could not be introduced on a revenue-neutral basis. If that constraint was imposed, then many people on low incomes would inevitably lose. Instead, we advocate the removal of wasteful expenditure programs and strengthening of the revenue base to pay for this and other necessary reforms [26].

The costs of reform could be moderated in the short term by:

- Prioritising easing of the worst poverty and removal of the worst anomalies, including increases in allowance payments for single people, family payments for sole parents, adult student payments, and Rent Assistance for those in the greatest housing stress, as proposed above.

[26] See our Budget Priorities Statement and Submission to the National Commission of Audit for details.

- Reforming the indexation of income support payments as proposed (by indexing allowance payments to wage movements), to prevent payment gaps from widening further.
- Progressively implementing a series of minor reforms developed by a Simplification Task Force which should yield administrative savings.
- Phasing in other elements of the reforms such as the common income support payment and new supplements.

3. Reform of employment and support services (pillars two and three)

Prolonged unemployment has profound economic and social costs. It wastes resources, undermines people's health and self-esteem, and harms families and communities. It also brings substantial costs for Government, not only in unemployment and other social security payments but health, housing and community services as well.

As the population ages and growth in the paid workforce declines, Australia has an opportunity to reduce poverty and promote economic growth at the same time by bringing more disadvantaged jobseekers into secure employment. This will not be easy, however, given the disadvantaged profile of most people reliant on working-age income support payments (as described in Attachment 1) and the need for fundamental changes in the operation of the labour market and employer recruitment practices.

It will require the systematic application of an 'investment approach' to employment and support policies and services for people who are disadvantaged in the labour market.

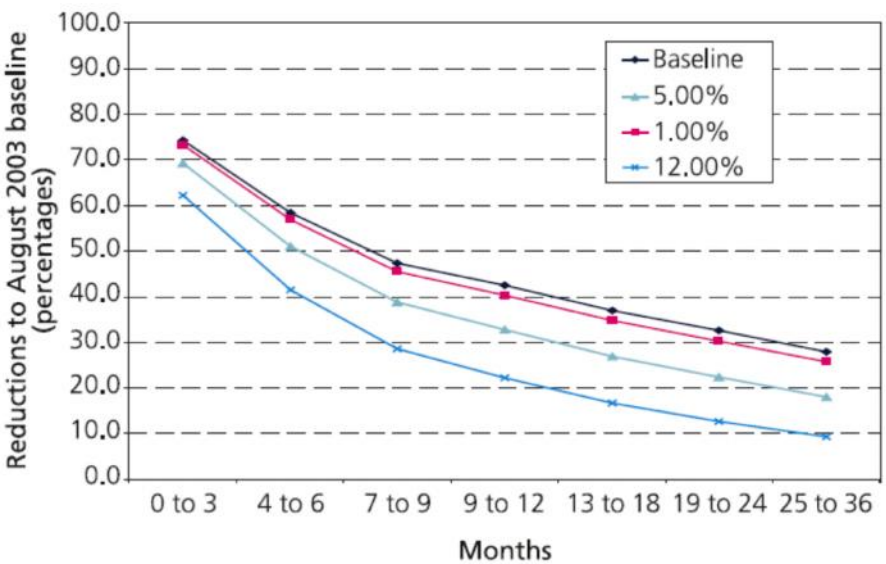
An investment approach to employment participation policies: international experience

In recent years Governments across OECD countries have paid greater attention to the fiscal costs and benefits of employment and related supports for people who are disadvantaged in the labour market. In the past these services have generally been treated simply as a cost item. As we argue later in our discussion of the New Zealand 'investment model', benefits other than budget savings should also be systematically measured and accounted for, including employment gains, poverty reduction and improved social and health outcomes. The focus should also be broadened from employment assistance services towards the housing, transport, health and social services that underpin effective labour force participation – especially for the most disadvantaged minority of people receiving income support who are effectively excluded from the labour market and society.

In 2004, The Danish Economic Council, an independent statutory body, undertook a cost-benefit evaluation of labour market programs for unemployed people using detailed administrative data, to estimate the average fiscal impact of different programs[27]. It found that most programs had positive medium term impacts on public budgets. This was a significant finding given that Denmark spent more than any other OECD country on labour market programs.

In 2010, a landmark report on employment participation policy in the United Kingdom, the 'Freud report', argued that the fiscal benefits as well as costs of employment assistance programs should be constantly and systematically evaluated. The report estimated that even a modest reduction in the proportion of income support recipients who leave the system each quarter would yield substantial Budget savings. This is illustrated in the graph below, which examines the impact on exits from the former Invalidity Benefit.

Figure 18: Hypothetical reductions in the proportion of people with disability receiving Invalid Benefit in the UK due to investment in employment assistance (2010)



Source: Freud D (2010), 'Reducing dependency, increasing opportunity: options for the future of welfare to work', Report for the Department for Work and Pensions, P73.

[27] Jespersen S, Munch J, & Skipper L (2004), 'Costs and benefits of Danish active labour market programs.' Copenhagen: Danish Economic Council.

Note: Proportion *remaining* on benefits at each point in time (this is the opposite statistic to figure 6 in Attachment 1, which shows the proportion of people with disability *leaving* Australian social security payments over time).

The Report estimated that a five percentage point reduction in the likelihood of remaining on benefit from one-quarter to the next without increasing existing 'return to benefit' rates would yield a potential annual saving to the UK Government budget of £225 million. These savings would come from improved employment outcomes, not transfers from higher to lower income support payments. The report undertook similar analysis of the potential impact of investment in effective employment assistance for sole parents and people receiving unemployment payments.

A quarterly reduction of 5% in reliance on disability pensions is consistent with evaluations of effective labour market programs in Australia and across the OECD [28]. This includes, for example, outcomes achieved by the Australian 'Welfare to Work' policy in 2006 as discussed in detail in Attachment 1. While there is no evidence to suggest that diverting people with a 'partial work capacity' from the DSP to a lower payment (Newstart Allowance) made a significant difference to employment outcomes, the introduction of activity requirements and employment supports for this group increased full time employment outcomes from an almost insignificant 2% of recipients in full time jobs six months after commencing income support, to around 12%[29]. The down-side of the 2006 'Welfare to Work' changes, as ACOSS warned at the time, was that the vast majority of those affected simply ended up receiving a lower payment.

In recent years the New Zealand Government has undertaken a more comprehensive assessment of the costs and benefits of welfare reforms, based on estimates of the future costs of income support for different types of benefit[30].

The New Zealand Government has adopted an 'Investment Approach' to welfare policies since 2011, which aims to direct funding for services where it is likely to have the greatest return on

[28] See for example OECD (2005), 'Employment Outlook.'
[29] However, as shown in Attachment 1, the *increase* in exits from income support due to the policy appeared to 'peak' once those affected received income support under the new rules for about 12 months.
[30] Centre for Social Research and Evaluation, Ministry of Social development (2010), 'Future Liability - Estimating time on benefit and the associated cost.'

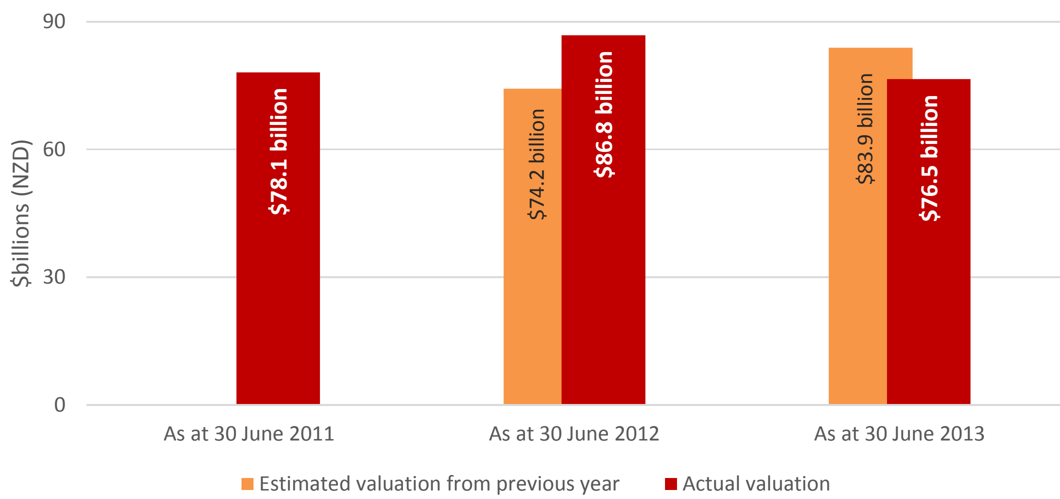
investment in terms of reducing future social security costs. This approach relies on an annual valuation of the total future cost of the social security payments. In simplified terms, this valuation is the amount of money the Government would need to set aside today to make all future welfare payments to current recipients.31

This valuation is designed to help the Government evaluate which groups are most at risk of remaining in receipt of welfare payments for a long time, attracting large costs in terms of future welfare payments. The expectation is that targeting resources towards these groups will result in better employment outcomes and mean they are less likely to receive social security payments in the future.

There have now been three valuations of the future liability of the working-age welfare system, including the baseline valuation of $78 billion at 30 June 2011.32 The result for 30 June 2012 was $13 billion higher than expected. This was largely due to a fall in New Zealand Government Bond returns which is unrelated to the performance of the welfare system.33 The result for 30 June 2013 was $8 billion lower than expected based on the 2012 estimates. This is the first valuation conducted after the reforms began. It includes a reduction of $4 billion because there were fewer people receiving payments than expected and because of resulting changes made to the forecasts.34

[31]Taylor Fry, Actuarial Valuation of the Benefit System for Working-age Adults as at 30 June 2011, page 72.
[32] Taylor Fry, Actuarial Valuation of the Benefit System for Working-age Adults as at 30 June 2011.
[33] Taylor Fry, Actuarial Valuation of the Benefit System for Working-age Adults as at 30 June 2012.
[34] Taylor Fry, Actuarial Valuation of the Benefit System for Working-age Adults as at 30 June 2013.

Figure 19: Valuations of New Zealand's working-age welfare system, 2011 to 2013



The New Zealand Ministry of Social Development has been given greater funding flexibility to allocate resources where they are most effective and may in the future be able to reinvest its savings.35

The investment approach has much potential, especially in areas of public expenditure such as employment services which can substantially reduce unemployment and future reliance on income support and where outcomes can be measured with reasonable accuracy. Even if it is hard to predict the future outcomes of investment in a program, it should be possible to develop a system of accounting that quarantines expenditure savings from successful programs for investment in the same or similar schemes. This would help overcome the present bias towards 'crisis management' in response to acute economic and social problems such as prolonged unemployment, and against programs that prevent those problems from becoming entrenched in the first place.

The New Zealand Government and its agencies have made considerable improvements in data collection and analysis (especially longitudinal administrative data on benefit receipt and the outcomes of participation in programs). This in itself will improve the cost effectiveness of programs and should be undertaken with or without the 'investment approach'.

[35] http://www.treasury.govt.nz/downloads/pdfs/b13-info/b13-2604152.pdf

The main concern with the New Zealand investment approach is its narrow focus on future fiscal savings. The Child Poverty Action Group warned in May 2012 that it was 'a fundamental shift away from the social goals which underpin the provision of social welfare in New Zealand'.36 Other experts have been critical of using valuations of 'forward liability' to measure the performance of the welfare system. This is because of the significant impact of economic and methodological factors and uncertainties on the results, and the treatment of a reduction in 'forward liability' as a proxy for improved employment outcomes.37

A further risk with New Zealand's 'investment approach' is an inbuilt bias in favour of investment in supports for younger people and against support for people in middle or mature age. Older people already face a risk of being 'written off' in the labour market and this would be exacerbated if policies simply shift investment in employment services towards younger people in order to maximise future budget savings.

These risks can be minimised if a broader view is taken of the goals of public investment. This should include employment opportunity as well as reduction in reliance on social security, poverty reduction as well as employment, and measureable social and health outcomes. This kind of assessment inevitably requires political and ethical judgements, which should be transparent and negotiated with stakeholders, especially the individuals and communities directly affected by reforms. The starting point should be an emphasis on reducing the most prolonged, entrenched and socially harmful forms of economic and social disadvantage. If properly managed, programs developed with this goal in mind are also likely to have the greatest impact on future unemployment, reliance on social security, and fiscal costs.

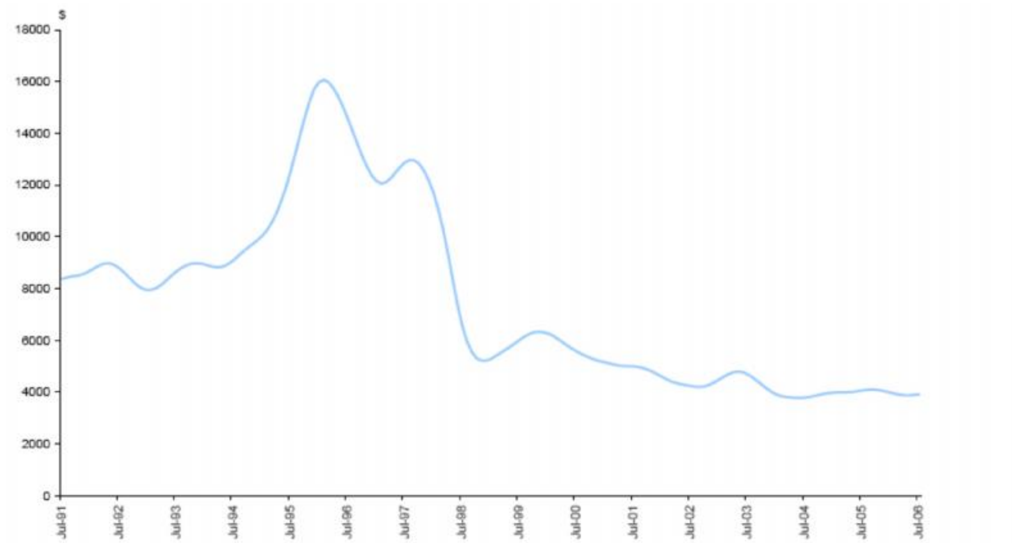
The investment approach: Australian experience

The most significant step Australian Governments have taken in recent years to systematically compare the costs and benefits of employment programs was the 'cost per net impact' statistic published from time to time by the employment department. This estimated the average cost of achieving an employment outcome (defined as being in employment three months after program participation) for all unemployed people assisted by employment programs such as the former Job Network (see graph below):

[36] http://www.cpag.org.nz/news/business-focused-investment-approach-for/

[37] Simon Chapple, Forward Liability and Welfare Reform in New Zealand, *Policy Quarterly*, Volume 9, Issue 2, May 2013, pages 56-62.

Figure 20: Cost of employment services per net impact on employment



Source: DEEWR (2007), 'APM evaluation'.

Note: Calculated as average unit cost of program divided by the proportion of participants employed 3 months after exit.

While this appears at first sight to show that the cost effectiveness of the Job Network increased steadily after it was introduced in 1998, there is a basic flaw in these data: it assumes that an improvement in the job prospects of one unemployed person is worth exactly the same as an improvement in everyone else's. If we compare the effects of assisting a person who has been out of paid work for three years (or a person with severe disabilities) into a secure job with that of helping someone with few barriers to work who has been unemployed for three months, it is clear that employment outcomes are not equal. Every employment services consultant knows this. Yet is not captured in the above statistic. This has contributed to a long standing policy bias towards reducing the unit cost of employment assistance on the assumption that this the most cost effective approach.

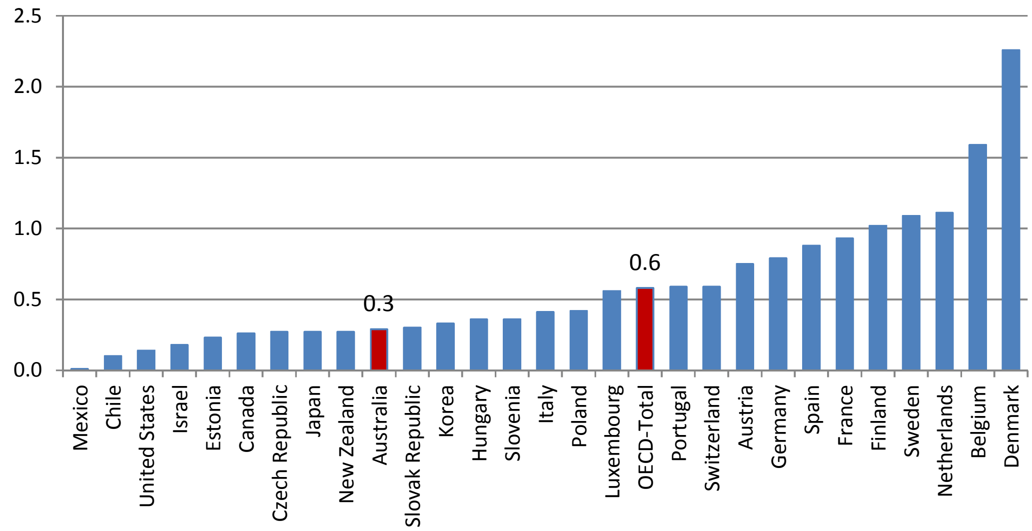
At the least, the economic and fiscal benefits of assisting unemployed people into sustained employment should be measured in a way that takes account of the greater benefits of reducing prolonged and entrenched unemployment[38]. The Government now has a long run of administrative data suitable for this purpose, including the Employment Department's Research and Evaluation data base, and this should be made available more widely for use by independent researchers.

The benefits of investment in assistance for people disadvantaged in the labour market have been ignored by a succession of Australian Governments which have steadily reduced funding for employment services - especially for people unemployed long-term - in search of short-term budget savings. Examples include the under-investment in long-term unemployed people during the 'work experience phase' of the Job Services Australia system, and more recent Budget decisions to discontinue the Youth Connections program without replacing it and to save $4 million by prematurely ending the evaluation of place-based strategies to reduce entrenched unemployment as part of the 'Building Australia's Future Workforce' initiative.

The average level of investment in employment assistance for unemployed people across the OECD is 0.6% of Gross Domestic Product (GDP). Australia invests half that amount (see graph below). Under-investment in employment and support services for people who are disadvantaged in the labour market is false economy.

[38] For an accounting framework that sought to achieve this see Chapman B & Piggot J (1995): *Costing the Job Compact* Economic Record 71(4), 313 - 328

Figure 21: Public expenditure on employment assistance in 2011 (% of GDP)



Source: OECD, 'Labour market programs, expenditure and participants.'

Directions for reform of employment and support services

The attached submission to last year's Review of Employment Services outlines our proposals to improve the effectiveness of these services including:

- Higher priority for assistance for people unemployed long-term through a better-targeted Employment Pathway Fund;

- More personalised employment assistance, including giving unemployed people a real say in which provider will assist them and how they do so;

- Greater investment in programs that work, such as wage subsidies and training connected to strong employment prospects;

- More scope for employment, training and community services to collaborate to provide intensive case management for people facing complex and multiple disadvantage (for example, homeless people and people with severe mental illness) in order to improve employment and social outcomes.

The employment services system has neglected the demand side of the labour market – the recruitment practices and needs of employers. The attached joint statement from ACOSS, the Business Council of Australia and Australian Council of Trade Unions outlines the shared views of our organisations on necessary changes to the employment services system that would encourage and support partnerships between employment services, training organisations and employers to assist disadvantaged jobseekers into secure employment.

Attachment 1:

Reliance on social security – the facts: There is no 'welfare crisis' in Australia, but more could be done to help people secure employment

Key conclusions

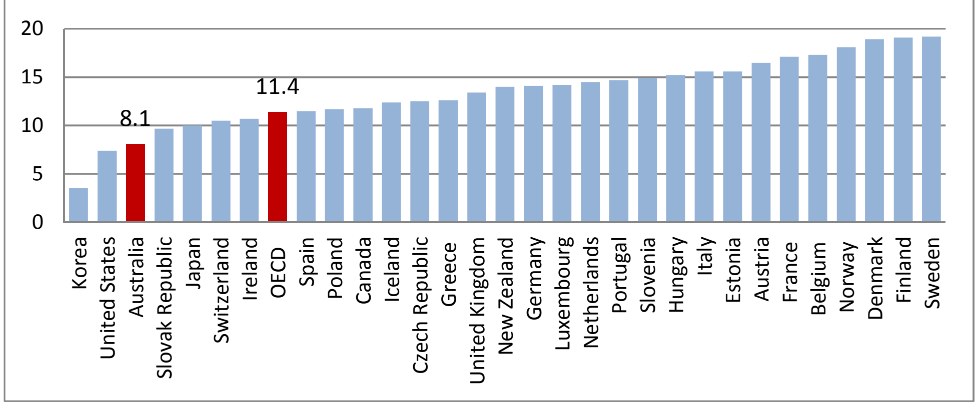
- Good public policy is based on facts and evidence rather than anecdotes and stereotypes. ACOSS welcomes the Welfare Review Panel's efforts to present some of the basic facts on reliance on income support in Australia.
- Australia has a tightly-targeted, low cost social security system with low benefit levels.
- There is no 'welfare funding crisis'. Working-age payments comprise just 37% of all cash benefit spending, and data in the Commission of Audit's report reveals that spending on these payments (as a % of GDP) will fall over the next 10 years.
- Reliance on working-age income support has fallen sharply (as a proportion of all people of working age) over the last two decades.
- Reliance on the DSP has levelled out over the last decade.
- But it is still very hard for people with disabilities to secure paid employment, especially those with a mental illness.

(1) Australia has a tightly-targeted, low cost social security system with relatively low benefit levels

Australia and New Zealand have unique social security systems for people for working age, in which social assistance payments funded from general public revenue are paid by a national Government agency to individuals in low-income households regardless of their previous earnings and employment history.

As a result we have one of the most tightly-targeted and low cost social security systems.

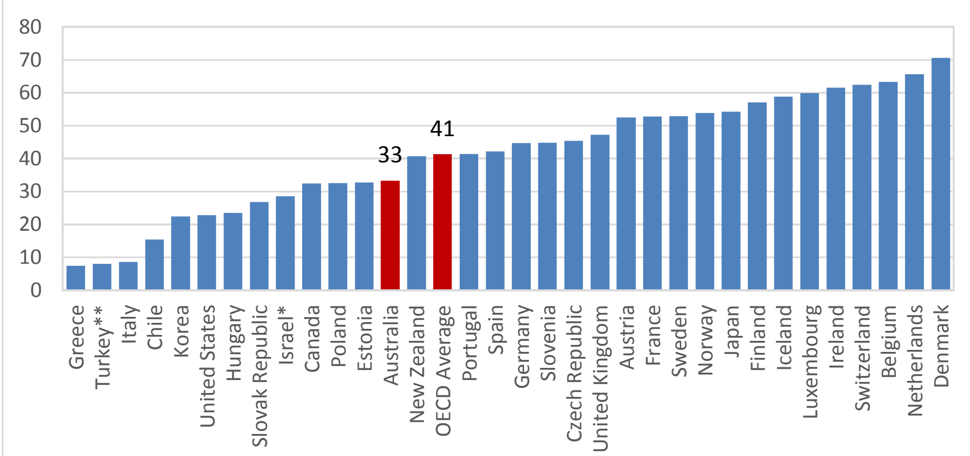
Figure 1: Government expenditure on cash benefits (% of GDP in 2010)



Source: OECD social expenditure data base

Payment rates for unemployed people are among the lowest in the wealthy OECD countries.

Figure 2: Unemployment benefits as a proportion of typical fulltime wages (single adult, 2012)

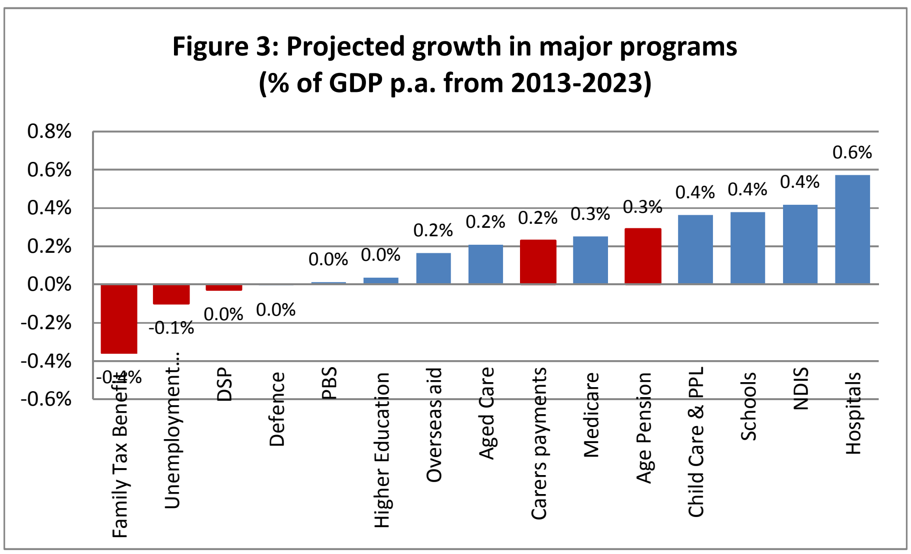


Source: OECD taxes and wages data base. Benefits as a proportion of after-tax wages, averaged over 5 years of unemployment.

(2) Working-age payments comprise just 37% of all cash benefit spending, and spending on these payments (as a % of GDP) is projected to fall over the next 10 years

Working age income support payments such as Disability Support Pension, Carer Payment, Parenting Payment, Newstart Allowance and Youth Allowance comprise 37% of overall expenditure on cash benefits in Australia ($101 billion), while age and service pensions comprise 39% and Family Tax Benefits 19%.

Data from the National Commission of Audit indicates that future growth in the cost of working-age payments will be modest and spending on some payments such as Newstart Allowance and Disability Support pension will *decline* as a proportion of GDP. On the other hand, expenditure on age pensions, carer payments, and health services is projected to grow (as it should) due to population ageing.

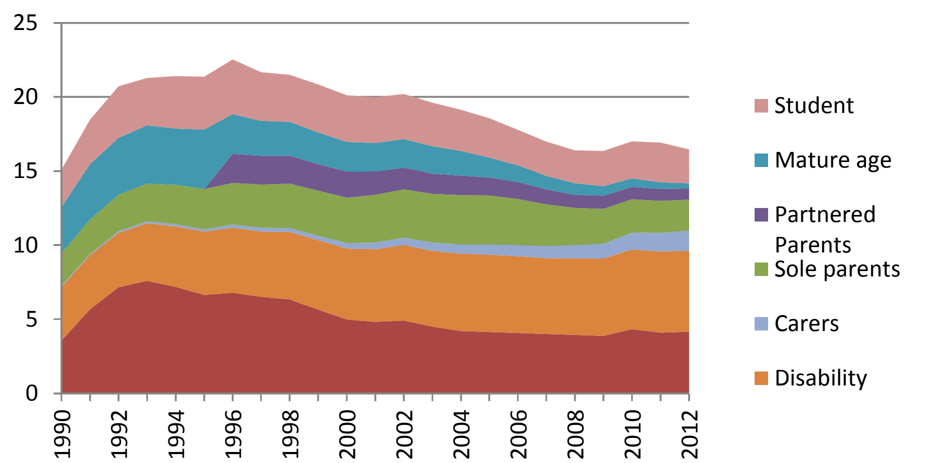


ACOSS calculations based on National Commission of Audit Report (2014)

(3) Reliance on working-age income support has fallen sharply over the last two decades

Over the past decade and a half, the recipiency rate of working-age income support payments has fallen by one-third from a peak of 25% to around 17%, as noted in the Review's Interim Report[39]. Two decades of economic growth, together with rigorous employment participation (activation) policies have led to one of the fastest reductions in reliance on working age payments in the OECD.

Figure 4: Income support recipients (% of people of working age)



Source: DSS, Statistical summary of social security payments.

(4) Reliance on the DSP has plateaued over the last decade

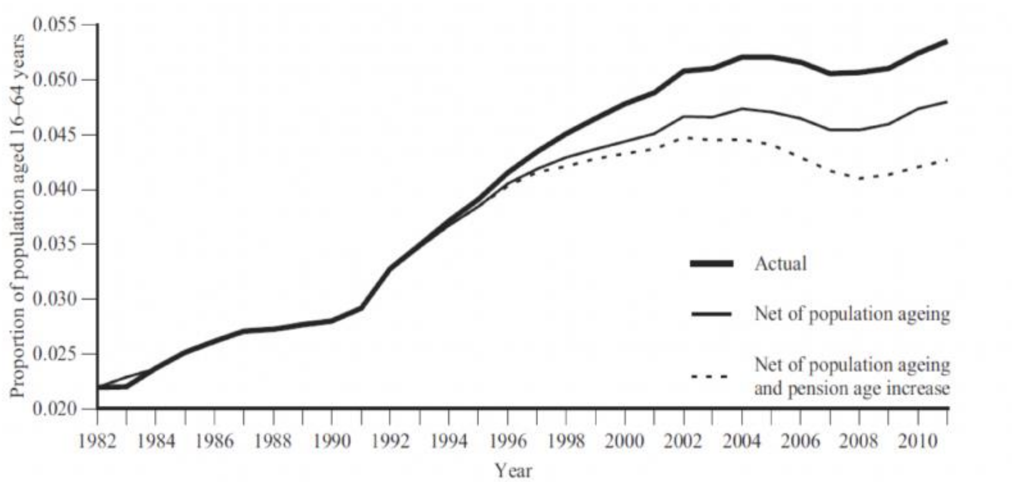
Contrary to recent media reports (which usually report growth in the numbers on the DSP payment rather than comparing this with growth in the working age population), the Interim Report points out that:

[39]The graph below does not include age pensions for those under 65 years, as in the Interim Report.

'The proportion of working age people on the Disability Support Pension has remained generally steady over the last decade after increasing by around ten per cent in the late 1990s. Much of this growth is from older women due to the closing of dependency based payments to new entrants (Wife Pension, Widow B Pension and Partner Allowance) and the raising of the Age Pension age for women from 60 to 65 years.'(Interim Report p163).

This 'flattening out' of growth in reliance in the DSP is illustrated by the following graph from a recent study by the Melbourne Institute. This also shows the temporary increase in DSP reliance (which has since abated) that followed the economic downturn of 2008-09.

Figure 5: Number of Disability Support Pension recipients as a Proportion of the Population Aged 16-64 Years, 1982 – 2011, Net of Impacts of Population Ageing and Increases in the Pension Age



McVicar D & Wilkins R (2013), 'Explaining the Growth in the Number of Recipients of the Disability Support Pension in Australia.' The Australian Economic Review, vol. 46, no. 3, pp. 345–56.

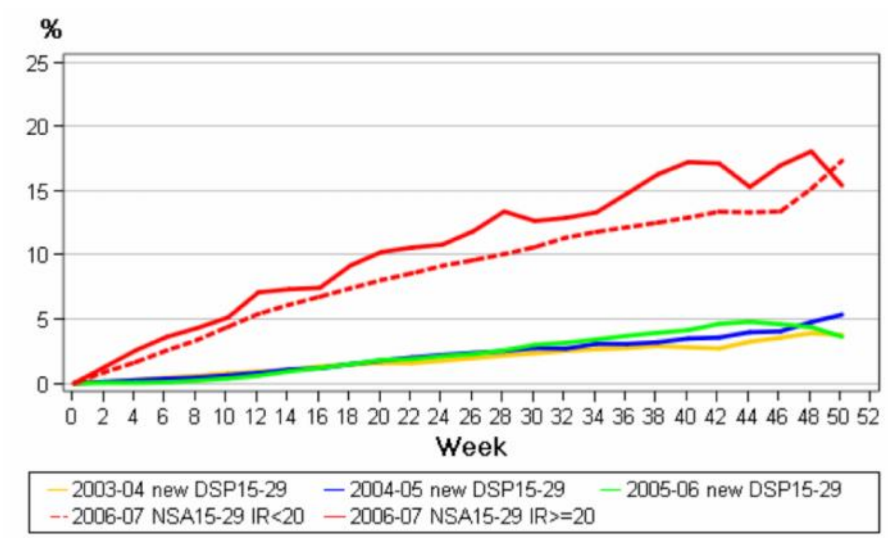
(5) But it is still very hard for people with disabilities to secure paid employment, especially those with a mental illness.

The 'Welfare to Work' policy introduced in 2006 imposed job search requirements for new applicants for social security with a 'partial work capacity', and provided employment assistance through the Job Network and Disability Employment Services. The graph below, from the official evaluation of this policy, shows the proportion of these people who left income support during the first year of the reform.

The evaluation estimated that the policy increased the probability of exits from income support among people with partial work capacity (mainly to employment) from 2% to 12%, six months after first receiving payments. The policy increased the probability of employment by around ten percentage points after six months, but off a very low base. The remaining 88% of these people with disabilities affected by the Welfare to Work policy were still on income support – and most received Newstart Allowance instead of the higher Disability Support Pension. So, in 10% of cases the policy boosted incomes as people moved into fulltime employment, but in over 80% of cases it shifted people to a lower payment.

This shows that 'welfare to work' policies for people with disabilities can be beneficial *provided* they do not divert people to lower payments.

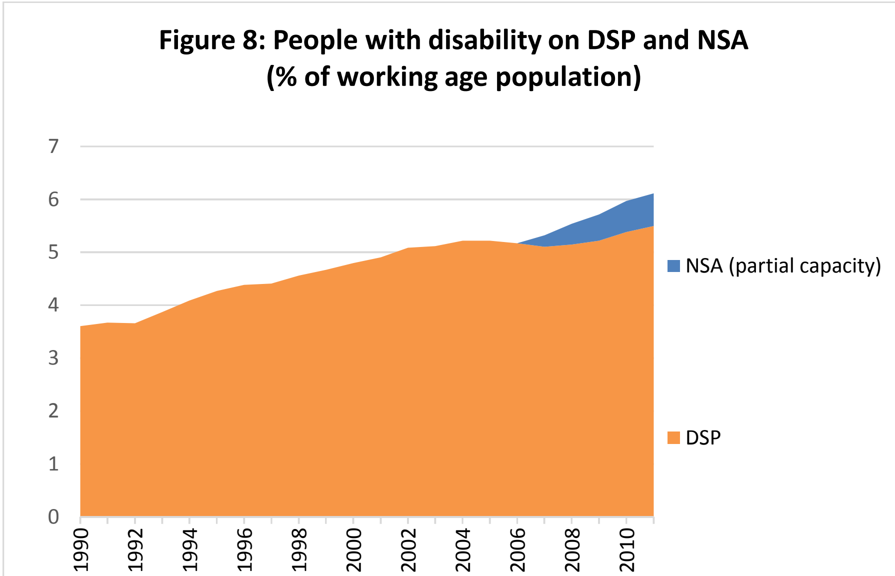
Figure 6: Proportion of people with a 'partial work capacity' who left income support before and after the 2006 Welfare to Work policy



Source: DEEWR 2009, 'Welfare to Work evaluation report', p51.

Note: the impact of the new activity requirements is represented by the gap between the continuous top line (post-welfare to work) and the bottom lines (pre-welfare to work).

The graph below shows how reliance on DSP decreased after the 2006 Welfare to Work Policy, but this was to a large extent offset by an increase in reliance on the lower Newstart Allowance (NSA) among people with disability.



Source: DSS, 'Statistical summary of social security payments' and responses to Senate Estimates questions.

On average, the employment prospects of *people whose primary disability is a mental illness* are much weaker than those with physical disabilities. A research study by the Melbourne Institute found that:

'an NSA recipient with a mental illness has about one-third the probability of being employed relative to an equivalent person with no mental illness or other disability.[40]'

The researchers found that in each year from 2005 and 2007, just 9-11% of DSP recipients who had a mental illness *only* were employed, compared with 15-16% of DSP recipients with a physical disability *only*[41].

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[40]Black D & Lee W (2009), 'Experiences of Income Support Recipients with a Mental Illness,' Melbourne Institute, p4.
[41] Black & Lee (ibid) p43.

This reflects the reluctance of many employers to take people on once a mental illness is disclosed, a lack of consistent encouragement and support for people with mental illness to seek employment, and the direct impact of the illness on employment capacity[42].

[42]Bloom, W et al. (2008), 'Employer attitudes to employing people with mental illness', Department of Education, Employment and Workplace Relations, Canberra.

Attachment 2:

Essential items from the 2010 SPRC deprivation survey

Item	Per cent of respondents considering it 'essential'
Warm clothes and bedding, if it's cold	99.9
Medical treatment if needed	99.9
Able to buy medicines prescribed by a doctor	99.5
A substantial meal at least once a day	99.4
Dental treatment if needed	98.4
A decent and secure home	97.1
Children can participate in school activities & outings	95.8
A yearly dental check-up for children	94.9
A hobby or leisure activity for children	92.7
Up to date schoolbooks and new school clothes	92.8
A roof and gutters that do not leak	91.3
Secure locks on doors and windows	92.4
Regular social contact with other people	91.6
Furniture in reasonable condition	89.0
Heating in at least one room of the house	87.0
Up to $500 in savings for an emergency	81.4
A separate bed for each child	81.3
A washing machine	77.7
Home contents insurance	72.4
Presents for family or friends at least once a year	71.4
Computer skills	72.6
Comprehensive motor vehicle insurance	59.9
A telephone	59.7

A week's holiday away from home each year	53.9

Source: Saunders P & Wong M (2012), ‘Promoting inclusion and combating deprivation, recent changes in social disadvantage in Australia’. SPRC, University of New South Wales.

Attachment 3:

International experiences with welfare reform

(1) United Kingdom

The British Government is reforming its social security system for people of working age broadly along the 'common base rates and supplements' model. It is replacing the main income support payments for people of working age, and a tax credit for low paid workers called the Working Tax Credit, with a single income support payment called the '*Universal Credit*'. This has been legislated and will be implemented from 2013 to 2017. More information is available at www.cpag.org.uk/universalcredit/. Recent social security changes in the UK extend well beyond Universal Credit, including a new assessment and activity regime for people with disability that has attracted widespread criticism, and cuts to other payments and services[43]. These changes are often conflated with Universal Credit, although they are not inherent features of the Universal Credit model.

Current income support system

Presently there are three main payments for people of working age: Job Seekers Allowance (equivalent to Newstart Allowance), Income Support (mainly paid to sole parents) and the Employment and Support Allowance which is progressively replacing the Incapacity Benefit (equivalent to our Disability Support Pension),following changes legislated by the previous Government.

The Employment and Support Allowance applies to new applicants for social security who have disabilities and is being phased in for those already on Incapacity Benefit. It is expected that the majority of new applicants will receive the 'employment component' element of this payment, which has work related requirements (mainly attendance at job centre interviews and relevant work preparation activities rather than active job search). A minority of applicants with more severe barriers to work will instead receive the 'support component' which has no activity requirements. These reforms have proved controversial because the

[43] United Kingdom House of Commons Work and Pensions Select Committee (2014), 'Employment and Support Allowance and Work Capability Assessments', at: www.parliament.uk/workpencom.

majority of people with disabilities who would previously have qualified for Incapacity Benefit are being transitioned onto the ‘employment component’, the changes have been poorly implemented, and the assessments undertaken by a private agency were often inaccurate.

A ‘Working Tax Credit’ is currently paid through the tax system in place of income support payments for individuals employed for more than 16 hours a week. This dual system of payments through the social security and tax systems is administratively complex and has created problems for people who move in and out of casual employment (who must cycle between the two systems). Further, there are few financial incentives for people to undertake less than 16 hours a week of employment because the income support payments (unlike their Australian counterparts) are reduced Pound for Pound by earnings above a low threshold.

Universal Credit

In 2007, a report on welfare reform commissioned by the previous Government - the Freud Report - advocated replacing these payments with a single base rate of income support payment. The Report suggested that activity requirements would range from active search for fulltime work to search for part time employment (for parents whose youngest child is over 12 years) and work preparation activity (for many people with disabilities). Supplements would continue to be paid to assist with the direct costs of a disability, housing costs, and the costs of caring for people with disabilities.[44]

Reform of income support payments along these general lines is a bipartisan commitment. The *Universal Credit* is replacing all of the above payments with a single payment with a common base rate and a more liberal income test than the current income support payments. Activity requirements vary according to whether the recipient has a disability or is caring for a dependent child or person with disability. The proposed system more closely resembles the Australian income support system than the status quo in the United Kingdom, except that there is no distinction between ‘pension’ and ‘allowance’ payments.

A range of supplementary payments including Housing Benefit and a ‘Disability Living Allowance (a ‘costs of disability’ supplement), will remain in place on top of the Universal Credit (see graph below).

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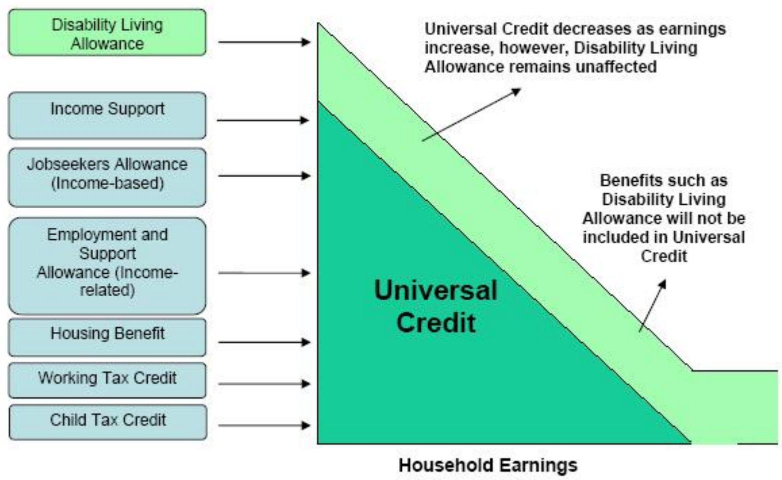
[44] Freud D (2007), ‘Reducing dependency, increasing opportunity,’ Report for Department for Work and Pensions.

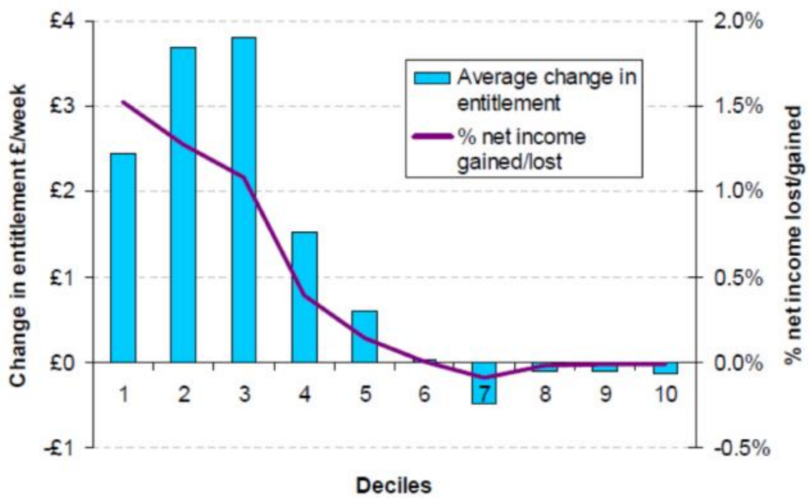
The British Universal Credit payment



Although we do not agree with all aspects of the Universal Credit, it is a major simplification of the structure of the British income support system broadly consistent with the framework for reform proposed in this submission.

The Universal Credit is projected to increase income support for households on the lowest incomes (see graph below).

Average impact of introduction of Universal Credit on British households, by income decile (2010)



Source: Department for Work and Pensions (2010), 'Impact assessment of Universal Credit,' P9.

The Department for Work and Pensions estimates that full implementation of Universal Credit will lift approximately 150,000 children and 300,000 working age adults out of poverty. It also argues that the new payment will improve work incentives by reducing effective marginal tax rates for social security recipients undertaking part time employment.

The main problems with Universal Credit have been in detailed administrative design and implementation. Policy makers assumed that they could achieve significant budget savings by paying this benefit on a monthly basis and sharply reducing face to face interaction with clients. This proved to be a mistake. The reform was implemented too quickly, with too little attention paid to the challenge of redesigning the information technology platform for social security payments. Nevertheless, these problems confront any major structural reform of social security and it is likely that the simpler payment structure will greatly reduce long-term administrative costs.

(2) New Zealand

The Minister for Social Services, the Hon Kevin Andrews MP, and the Interim Welfare Review Report have identified elements of New Zealand's reforms which they argue may work here. These include:

- Proposals to simplify the system of working-age payments and replacing several existing payments with a new work-focused Jobseeker Support payment;

- An ‘investment approach’ to employment assistance and supports, which measures the performance of the welfare system by looking at the total future cost of individuals receiving payments throughout their lives ('forward liability').

Another feature of the social security and support system in New Zealand that has attracted interest in Australia over many years is the system of local service delivery. In the absence of State and Territory Governments, and with strong local service networks, it has been easier for the public social security and employment service agency (Work and Income New Zealand) to collaborate with other service providers to provide case management and well-integrated services for people facing multiple economic and social disadvantage.

The most controversial elements of recent social security changes in New Zealand, as in Australia, are attempts to use the income support system for ‘social engineering’ purposes by imposing ‘social requirements’ such as the care of children, drug testing, and income management.

Welfare Working Group.

The New Zealand Government announced an independent ‘Welfare Working Group’ in 2010 to look at improving work outcomes for people at risk of long-term receipt of welfare payments, including young people, single parents and people with disability.

Following several workshops with key stakeholders, the Welfare Working Group released an issues paper on long-term welfare dependency followed by an options paper. The final report released in 2011 made 43 recommendations, including simplifying the payment system.[45]

The Government’s response to its recommendations has been delivered in three stages, beginning with youth payments in August 2012.

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[45] Information about the Welfare Working Group, including the final report, issues paper, options paper and submissions received, is available at http://ips.ac.nz/WelfareWorkingGroup/Index.html . Various community organisations commissioned an ‘alternative welfare reform working group’ to ensure that people receiving support and providing services were included in the discussion about welfare reform, see: http://www.caritas.org.nz/sites/default/files/Welfare%20Justice%20in%20NZ%20What%20We%20Heard.pdf

Major welfare changes in New Zealand since 2012

August 2012

Youth

Existing payments replaced with:
- **Youth** Payment (16-17)
- Young Parent Payment (under 19 with children).

New Youth Service provides education, training and work preparation.

Income management. Recipients get up to $50 in cash. The rest goes to pay bills or on a card that can be used to buy food and groceries.

October 2012

Parents

Parents with children under 14 years need to look for part-time work (or get ready for work if child is under 5 years).

Current recipients are discouraged from having more children while on payment. Existing jobsearch requirements resume 12 months after a new child is born.

July 2013

Simplification

Several working-age payments replaced with three payments:
- Jobseeker Support
- Sole Parent Support
- Supported Living Payment

Obligations

Several new conditions in which payment can be stopped or reduced.

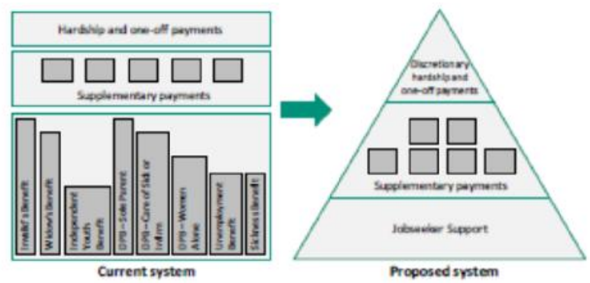
Need to reapply for Jobseeker Support after 12 months.

Payment rates and structure

The Welfare Reform Working Group recommended that existing income support payments for people of working age be replaced by a common income support payment called 'Jobseeker Support' and a new set of supplements to cover extra costs faced by sole parents, people with disabilities, and carers. Both the previous payment structure in New Zealand, and these reform proposals, closely resembled their counterparts in Australia. The proposed 'base rate and supplements' structure is very similar to that recommended by the Australian Government's previous Welfare Review in 2000, together (see graph below). The Group proposed:

'a tiered system with a first tier which consists of a common main payment that is made to all welfare recipients. It also comprises a second tier of supplementary payments that are responsive to individual circumstances and that reinforce the work focus. There is a third tier of payments that provide hardship support to those people who temporarily need additional financial assistance to avoid hardship. The following diagram illustrates the proposal for a new, work-focused system of financial assistance.'

Pre-2011 New Zealand payment structure and reform proposed by Welfare Reform Working Group



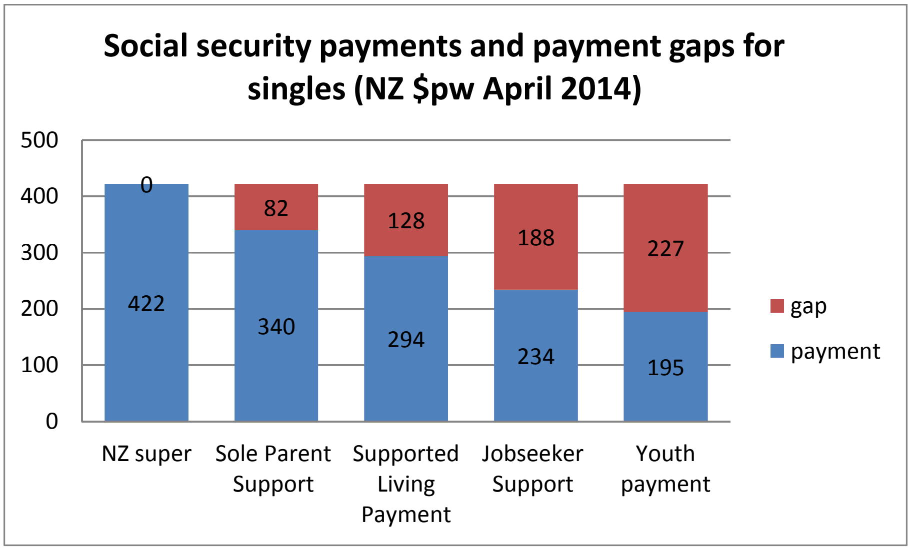
Welfare Reform Working Group (2011) 'Reducing long-term benefit dependency: recommendations', p9.

The Working Group also noted that:

'Our Terms of Reference precluded consideration of rates of payment in the welfare system. Therefore, with the single Jobseeker Support, we propose that additional payments to reflect personal circumstances that are currently in the main benefit (for example, for sole parents, people caring for the sick and infirm, Widow's, Women Alone and for people on the Invalid's Benefit) would become supplementary payments. Taking these payments out of the basic benefit rates and paying them as separate supplementary payments would make them more transparent.' Welfare Reform Working Group (2011), ibid, p10.

Regrettably, this proposed reform was not implemented. While the proposal had major flaws - including no increase in the base rate of payment and the assumption that the common base income support payments was for 'jobseekers' – the proposed payment structure had the potential to simplify the system and reduce payment anomalies and work disincentives. It could have shifted the logic of the system away from the 'deservingness' of different groups and towards addressing real differences in their living costs.

The 'new' payment structure announced by the Government instead retained separate income support payments at different rates for different groups, which appear to be based on their future employment prospects rather than financial needs (as in Australia). As with the Howard Government in the mid 2000s, the New Zealand Government failed to implement the recommended structural reform of social security payments. New Zealand is still burdened with an inequitable and inefficient payment model with large gaps between payments that are not based on financial need (see graph below). This structure is very similar to Australia's (shown previously) and carries the same set of problems.



Source: Work and Income New Zealand http://www.workandincome.govt.nz/documents/brochures/benefit-rates-april-2014.pdf

Rates are as at 1 April 2014, before tax, and do not include Accommodation Supplement or other additional payments. Supported Living Payment is for people with disabilities and their carers, Jobseeker Support (JS) is for unemployed people.

As in Australia, there are widespread concerns about the adequacy of payments, which are linked to increases in the CPI but not to wage movements. The New Zealand Treasury has acknowledged this means that:
'people who receive only one of the main benefits will see their incomes decline relative to average wages, leading to a likely increase in relative inequality'[46.]

Unfortunately, as noted above, the Welfare Reform Working Group was not permitted to examine payment adequacy.

[46] The Treasury, Affording Our Future: Statement on New Zealand's Long-Term Fiscal Position, July 2013.

Investment approach

The New Zealand Government adopted an 'Investment Approach' to welfare policies since 2011, which directs funding and resources where it is likely to have the greatest impact (return on investment)[47]. This approach, which relies on an annual valuation of the total future cost of the welfare system, is discussed in more detail in the body of this submission.

Paternalistic policies

A new set of social obligations have been linked to receipt of income support, in the absence of clear evidence that social security recipients often fail to meet such social responsibilities (such as good parenting and budgeting) and the cost effectiveness of the measures.

New obligations introduced in July 2013 include stopping or reducing payments for recipients who have an uncleared arrest warrant, fail to pass a pre-employment drug test, or leave New Zealand without a special reason (such as a funeral). Parents need to ensure their children are enrolled with a GP or medical centre, are up to date with core health checks and are enrolled in and attending early childhood education or school. Policies have also been introduced to discourage sole parents from having more children while on income support.

The introduction of compulsory income management, known as Money Management, for young people has been criticised as a deterrent to receiving needed support rather than a response to evidence of individuals not being able to manage their budgets.[48] The Salvation

[47] Centre for Social Research and Evaluation, Ministry of Social development (2010), 'Future Liability. Estimating time on benefit and the associated cost.'

[48] Michael Fletcher, Kirsten Hanna and Danae Anderson, 'The Introduction of Compulsory Income Management into New Zealand's Social Security System: The Case of the Youth Service Package', in *Labour, Employment and Work in New Zealand*, 2013.

Army described it as "paternalistic and heavy handed" and warned that it would undermine the relationship between recipients and service providers.[49]

Service delivery reforms

A major service delivery reform was a new 'Youth Service' that integrated employment assistance, career advice and social support for young school leavers. There are similarities between this service and the Australian 'Youth Connections' program which is being discontinued.

An evaluation of Youth Services was delivered in June 2014, with a more comprehensive assessment due in 2015.[50] The headline results were in educational attainment. Recipients of Youth Payment and Young Parent Payment in their first 12 months of Youth Service were more likely to increase the number of credits they had towards the National Certificate of Educational Attainment Level 2, the main national qualification for secondary school students. The report suggests that fewer Youth Payment recipients are transitioning to a working-age benefit. The number of people receiving Young Parent Payment is too small to see any changes yet. The evaluation report did not examine the impact of introducing compulsory income management for young people.

[49] The Salvation Army, Submission to Social Development Select Committee on the Social Security (Youth Support and Work Focus) Amendment Bill 2012, April 2012. See this and other submissions here.

[50] Insights MSD, Ministry of Social Development, Youth Service: Evaluation Report, June 2014.

Attachment 4

OFF THE COUCH

Daily Telegraph, 2014

EXCLUSIVE DSP overhaul to force thousands into workforce

DISABLING RORTERS

Samantha Maiden, Daily Telegraph, 2014