

ACTU Submission

Review of Australia's Welfare System

8 August 2014



Contents

Introduction.....	2
The process.....	3
The context.....	4
The level of spending	4
The projected level of spending	8
The targeting of welfare payments	8
Direct taxes, cash transfers, and inequality	9
Effect of the 2014-15 Budget measures	12
The state of the labour market	14
The regional spread of unemployment	14
Labour market outcomes by level of educational attainment	16
Job vacancies and the efficiency of matching	17
The role of the ageing population in declining labour force participation	18
Pillar One: A simpler and sustainable income support system	20
Simplicity	20
A tiered payment system	20
Sustainability	21
Adequacy	22
Encouraging workforce participation	31
Indexation	32
Means testing	32
Free areas	33
Other issues: data sharing and IT infrastructure	33
Pillar Two: Strengthening individual and family capability	35
Ensuring adequate resourcing	35
Mutual obligation is resource intensive	36
Sanctions	36
Training linked to jobs	37
Support for disadvantaged job seekers	38
Foundation Skills	39
Learn or Earn	39
Pillar Three: Engaging with employers	41
Replicating successful demand-led employment initiatives	41
Enhancing transition pathways for disadvantaged job seekers	42
Embedding an employment focus across services	42
Enhancing job matching and effective assessment of income support recipients	43

Introduction

The Australian Council of Trade Unions (ACTU) is the peak union body representing 46 affiliated unions and the interests of almost 2 million members across Australia.

The ACTU welcomes this opportunity to provide this submission to the Review of Australia's Welfare System ('the Review'). Unions and working people have a direct interest in ensuring that Australia has a robust social safety net. The 'social wage' that is provided through the social security system is just as important to the living standards of workers as the wages paid by employers. Measures that would undermine the social safety net affect all working people.

The scope of this Review is very broad. It encompasses a number of policy areas in which unions and working people have an interest. However, the time available for submissions in response to the Interim Report does not permit a comprehensive response to each of the pillars. This submission therefore does not address all the important issues raised in the Interim Report.

This submission:

- Provides relevant contextual information about Australia's social security system;
- Provides additional information about changes in the labour market that are relevant to the design of Australia's future welfare system; and
- Addresses some areas where there is clear need for reform.

The submission expresses the ACTU's strong support for a social security system that protects Australians from poverty and social exclusion and helps people engage with the workforce where they are able to do so.

The process

The ACTU welcomes the holding of a comprehensive review of Australia's social security system. We called for such a review in our submission to the 2013 Allowances Inquiry of the Senate Education, Employment and Workplace Relations Committee.

However, we have some concerns regarding the current review. We do not believe the Reference Group has been given sufficient time to undertake such a significant task. As a result, organisations and interested parties have not been given enough time to provide submissions. The social security system is not in crisis; there is no need for urgent reform. Instead, there is a need for a detailed process that gives all interested parties ample chance to contribute their views.

It would be highly desirable for a review process to extensively consult frontline staff at the Department of Human Services, who are knowledgeable about the income system and interact with social security recipients daily. A social security review should also hear the views of recipients themselves. We understand the Reference Group has convened some focus groups with recipients, but we fear that this is insufficient to truly hear the voices of a wide range of the people who live on social security payments.

We recommend that the Reference Group asks the government for extra time to complete its review. If the Government grants the Reference Group extra time, we ask that organisations including the ACTU be given additional time to make submissions.

Key point:

- The Review has not been given ample time to complete its task. The ACTU and other organisations need more time to properly respond to the issues raised in the Interim Report. We recommend that the Reference Group seeks additional time from government.

The context

Part of the Reference Group’s task is to provide advice about how Australia’s welfare system can “be affordable and sustainable both now and in the future and across economic cycles.” The premise of this “guiding principle” for the Review appears to be that Australia’s system is not affordable or sustainable in its current form. The ACTU does not agree with this premise.

This section of the ACTU’s submission sets out some key facts about Australia’s welfare system that are relevant to this review.

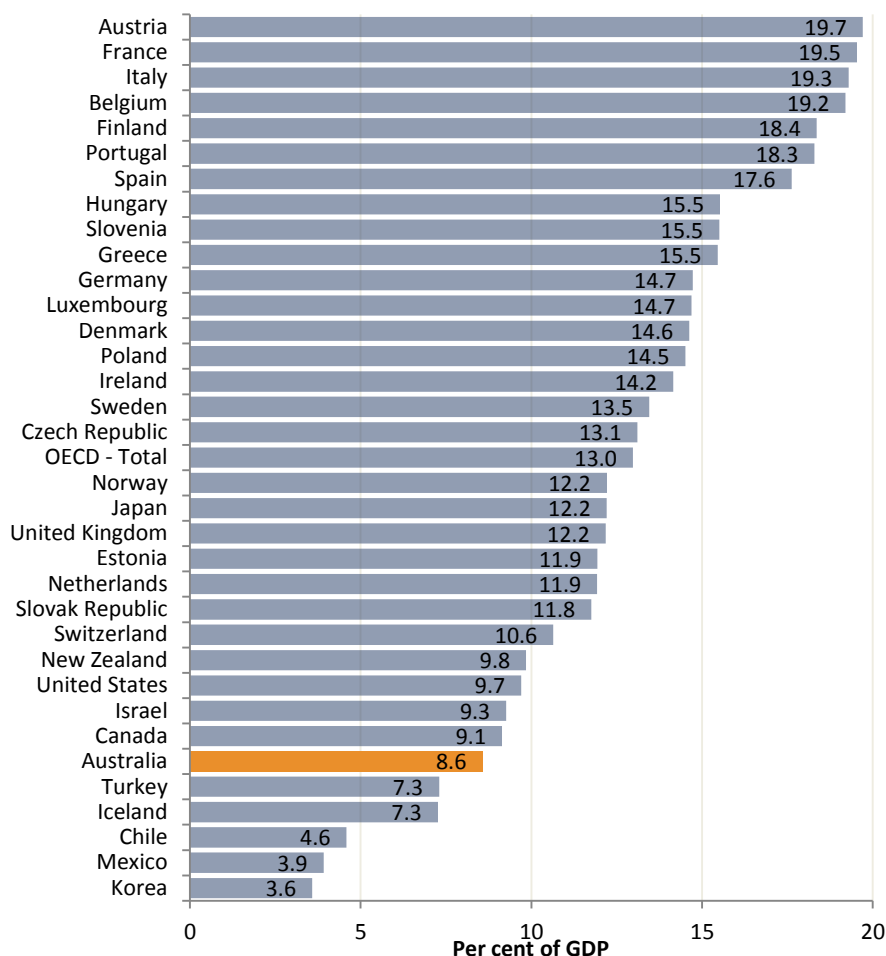
Key points:

- Australia spends less on cash benefits than almost any other advanced economy;
- Our spending has fallen a little over time;
- The proportion of the working-age population receiving income support is around its lowest level in thirty years;
- Our cash benefits spending is projected to be the same in 2049-50, as a proportion of GDP, as it was in 2009-10;
- Our cash benefits spending is by far the most targeted of any country in the OECD;
- Despite the fact that our spending is very well targeted, our relatively low level of spending and taxation means that we do less to reduce income inequality through the tax and transfer systems than most OECD countries;
- The extent to which Australia reduces income inequality through taxes and transfers has fallen over time;
- The 2014-15 Budget would disproportionately affect low-income earners and would increase income inequality in Australia.

The level of spending

Australia spends 8.6% of its gross domestic product (GDP) on cash benefits to households. That is lower than almost any other OECD advanced economy, and lower than all the economies with which we typically compare ourselves (including Canada, the US, the UK, and New Zealand). Australia’s cash benefits system is modest and affordable. These OECD cash benefits spending figures include income support and other benefits such as family payments.

Figure 1: Australia spends less than almost all other advanced economies on cash benefits
(Spending on cash benefits as a percentage of GDP in OECD countries)

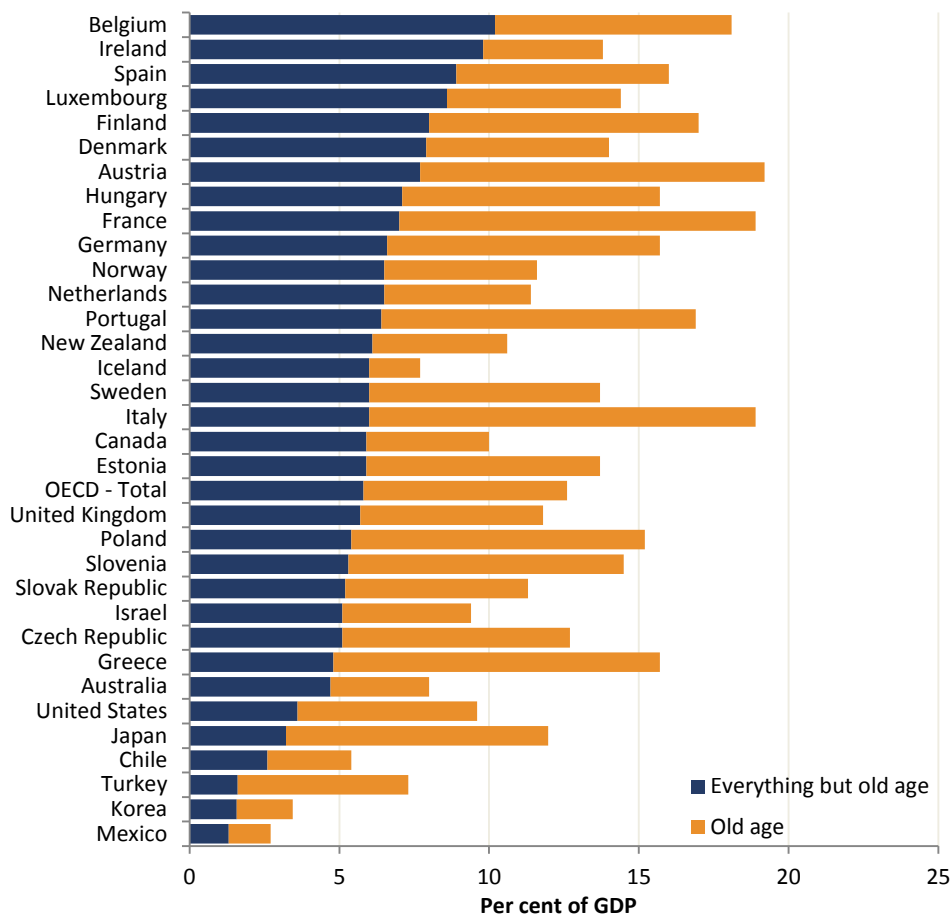


Source: OECD Social Expenditures Database. Data pertains to the latest year available, which is 2013 for most countries. 'OECD – Total' is the average for OECD countries.

Much of the difference in cash benefit spending among OECD countries is due to different models of age pensions. Australia has a flat-rate, means-tested pension, while many other countries have contributory systems in which the benefit is proportional to the retiree's earnings when they were working. However, this is far from the only difference between countries. Australia also spends less on working age payments¹ than most other OECD countries. The modest size of our benefits spending is not just a function of our age pension system.

¹ Total cash benefits less old age benefits, as defined by the OECD. Includes family payments.

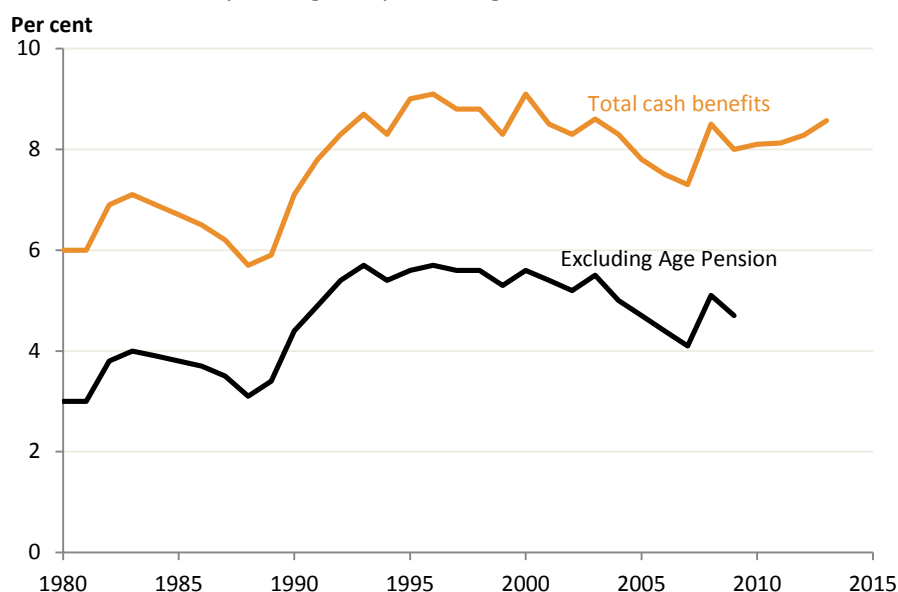
Figure 2: Australia's cash benefit spending remains one of the lowest when age pensions are removed
(Spending on old age cash benefits and all other cash benefits in OECD countries in 2009)



Source: OECD Social Expenditures Database. 'OECD – Total' is the average for OECD countries.

Australia spends less than most other OECD countries on cash benefits, and our spending has fallen slightly over time. Australia's cash benefit spending is a little lower, as a share of GDP, than it was in the late 1990s and early 2000s. This is true whether the Age Pension is included or excluded, as shown in Figure 3. It is not the case that cash benefit spending in Australia is on an unsustainable upward trajectory.

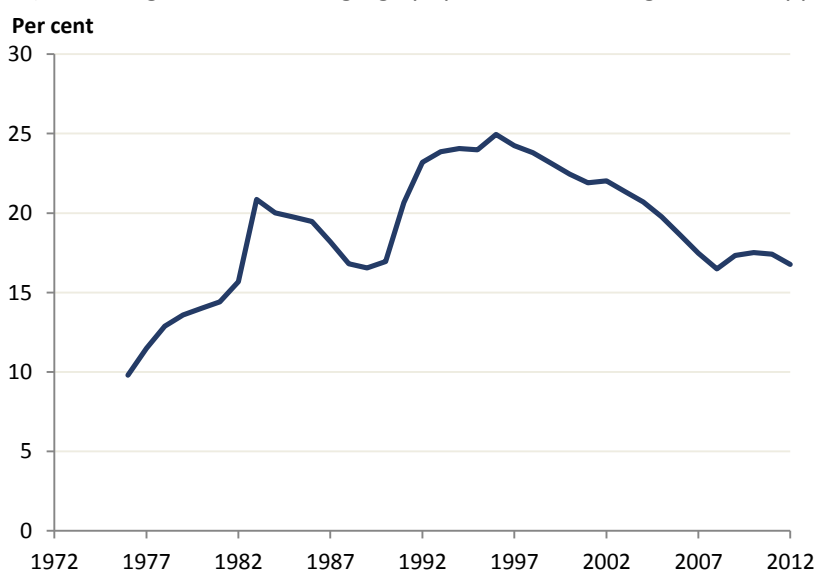
Figure 3: Australia spends less on cash benefits than it did in the late 1990s and early 2000s
(Cash benefits spending as a percentage of GDP in Australia over time)



Source: OECD Social Expenditures Database. Data by payment type for 2010 to 2013 are not available. There has been no policy change to working-age payments since 2009 that would have caused them to rise as a share of total benefits.

Spending on cash benefits has fallen a little from its peak around 2000, as shown above. But the proportion of the working-age population receiving income support has fallen much more sharply.² In 1996, 25% of the working-age population was receiving an income support payment. In 2012, that had fallen to 16.8%. This is around the lowest level of income support receipt in the past thirty years. Australia's income support system is not experiencing unsustainable growth in "welfare dependence". Figure 1 in Appendix G of the Interim Report also makes this clear, using data from 1996 to 2013.

Figure 4: Income support receipt is near its lowest level in thirty years
(Percentage of the working-age population receiving income support)



Source: Professor Peter Whiteford (ANU), personal correspondence.

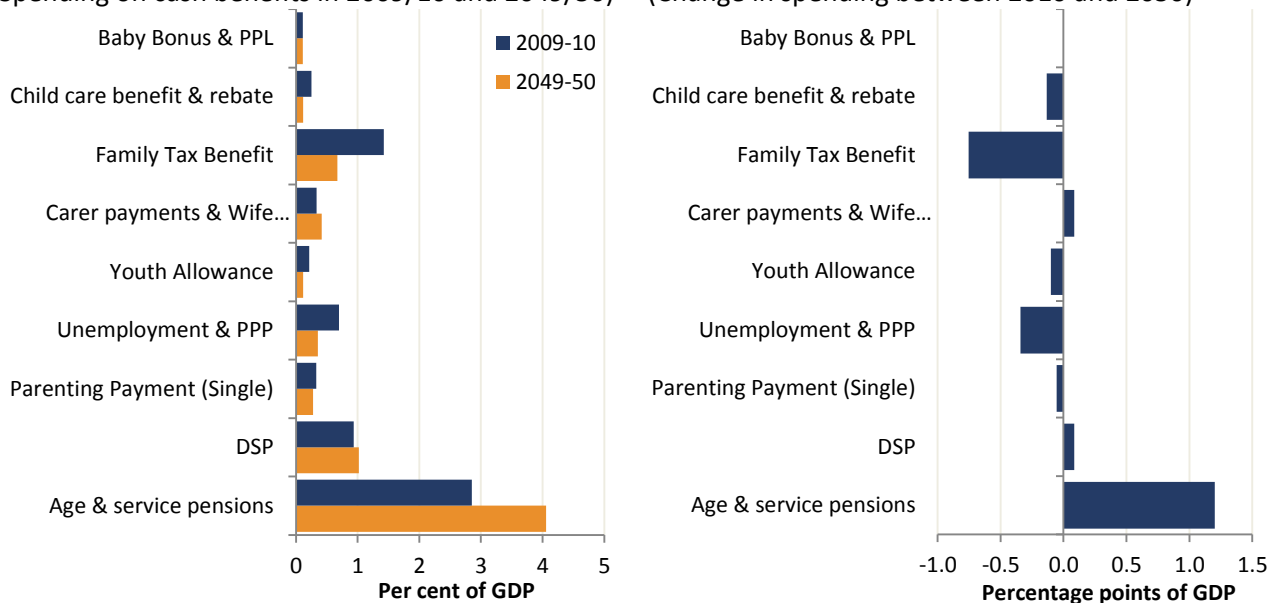
² Note that 'income support' here does not include Family Tax Benefit.

The projected level of spending

Australia's spending on cash benefits is low by advanced economy standards (Figure 1) and is a little lower than it was in the late 1990s and early 2000s (Figure 2). It is also not projected to rise, as a share of GDP, over the next four decades.

The latest *Intergenerational Report* (released in 2010) projects cash benefit spending out to 2049-50. It shows that spending in some areas is projected to increase. The ageing of the population means that age and service pensions were projected to rise by about 1.2% of GDP over the 40 years. But most other benefits are projected to remain around the same level as a percentage of GDP (such as Disability Support Pension) or to fall significantly (Family Tax Benefit and unemployment benefits). The fall in spending on these payments is expected to offset the increase in spending on age and service pensions. Overall cash benefits are projected to represent the same percentage of GDP in 2049-50 as in 2009-10. There is no looming crisis of affordability for the Australian welfare state.

Figure 5: The Intergenerational Report projects no change in total cash benefits spending by 2049-50
(Spending on cash benefits in 2009/10 and 2049/50) (Change in spending between 2010 and 2050)



Source: *Intergenerational Report* 2010.

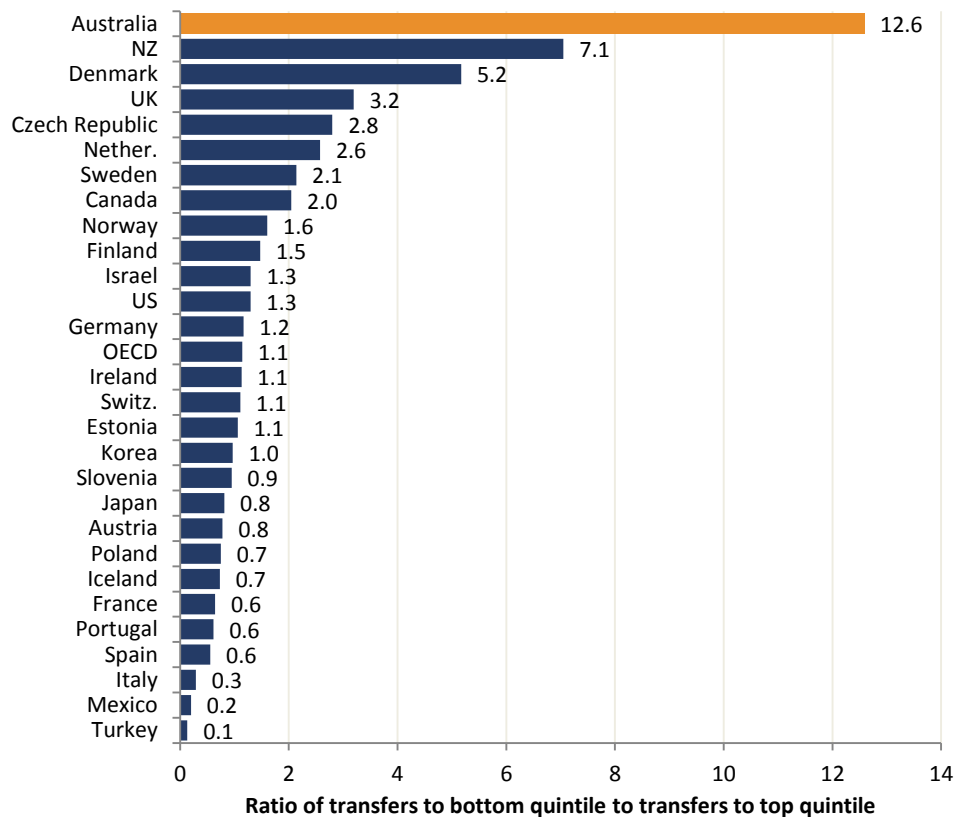
One of the guiding principles for this Review is to advise on how Australia's welfare system can "be affordable and sustainable both now and in the future and across economic cycles." There is no evidence that the current system is failing to achieve this goal.

The targeting of welfare payments

Australia's cash benefit system is by far the most tightly targeted in the OECD. Households in the bottom 20% of the income distribution receive 12.6 times the cash benefits paid to the top 20% of the distribution.

This ratio is by far the highest in the OECD, as shown in Figure 6.³ Australia's benefit system remains the most tightly targeted in the OECD when other measures of targeting are used, such as the concentration coefficient of cash benefits, and if working-age (rather than total) benefits are considered. Australia's welfare spending is far more tightly means tested than spending in other advanced economies.

Figure 6: Australia's cash benefit system is by far the most targeted in the OECD
(Ratio of transfers received by bottom quintile to transfers received by top quintile – 2010 or latest year)



Source: ACTU calculations based on Tables 3 and 5 from Causa, et al. 2014, 'Economic Growth from the Household Perspective: GDP and Income Distribution Developments Across OECD Countries', OECD Economics Department Working Paper No. 1111, Paris. Available from: http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en.

The popular misconception that Australia has a poorly targeted social security system – one in which there is a large amount of 'middle class welfare' – does not stand up to scrutiny.

Direct taxes, cash transfers, and inequality

Taxes and cash transfers are one of the primary means by which countries reduce their level of income inequality. Figure 7 shows the level of income inequality in OECD countries, before and after direct taxes and cash transfers. The chart shows that Australia's pre-tax, pre-transfer inequality is slightly lower than in most OECD countries, but our post-tax, post-transfer inequality is higher than most OECD countries.

³ This chart does not include all OECD countries, as data for some is not available for 2010. Data from 2005 that includes all OECD countries shows that Australia's cash benefit system was by far the most tightly targeted at that time, with a similar ratio as in 2010.

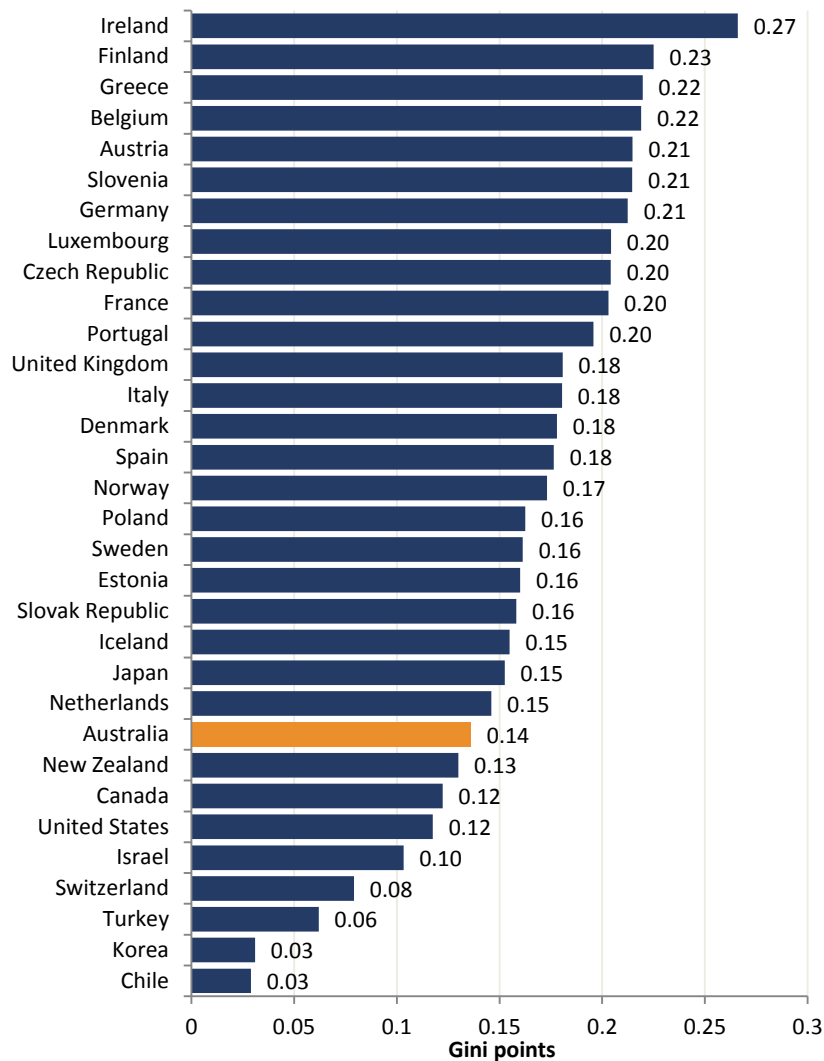
Figure 7: Inequality of market incomes in Australia is slightly below average, but inequality after taxes and transfers is above average
(Gini coefficient before and after direct taxes and transfers)



Source: OECD Income Distribution Database.

The difference between the pre- and post-tax/transfer level of inequality in each country is a measure of the extent to which the country redistributes income. Australia does relatively little redistribution (Figure 8). While our cash benefits system is highly targeted (Figure 6) and we have a relatively progressive direct tax system, we simply don't spend very much on cash benefits (Figure 1) and we are a low-tax country relative to the OECD. Our taxes fall relatively heavily on those who can most afford to pay, and our cash benefits go overwhelmingly to those who need them most, but the simple fact is that we raise less in taxes and spend less in benefits than most advanced economies.

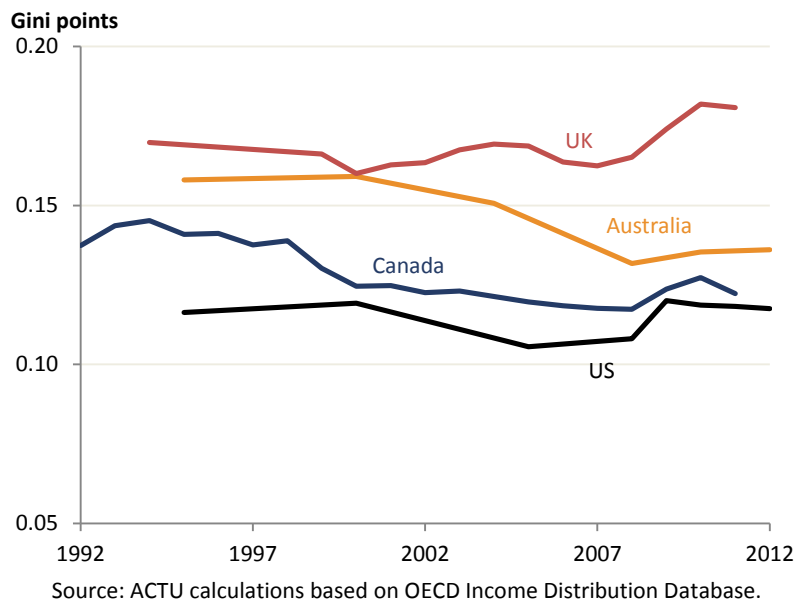
Figure 8: Australia reduces inequality through taxes and transfers less than most OECD countries
(Difference between pre- and post-tax/transfer Gini coefficients)



Source: ACTU calculations based on OECD Income Distribution Database. Uses latest data for each country, which is 2011 in most cases, 2012 in a few cases (including Australia & the US), 2010 for Belgium and 2009 for Japan.

Not only does Australia reduce inequality through taxes and transfers less than most advanced economies, but the extent to which we reduce inequality has fallen over time (Figure 9).

Figure 9: Australia reduces inequality through taxes and transfers less than we used to
(Difference between pre- and post-tax/transfer Gini coefficients)



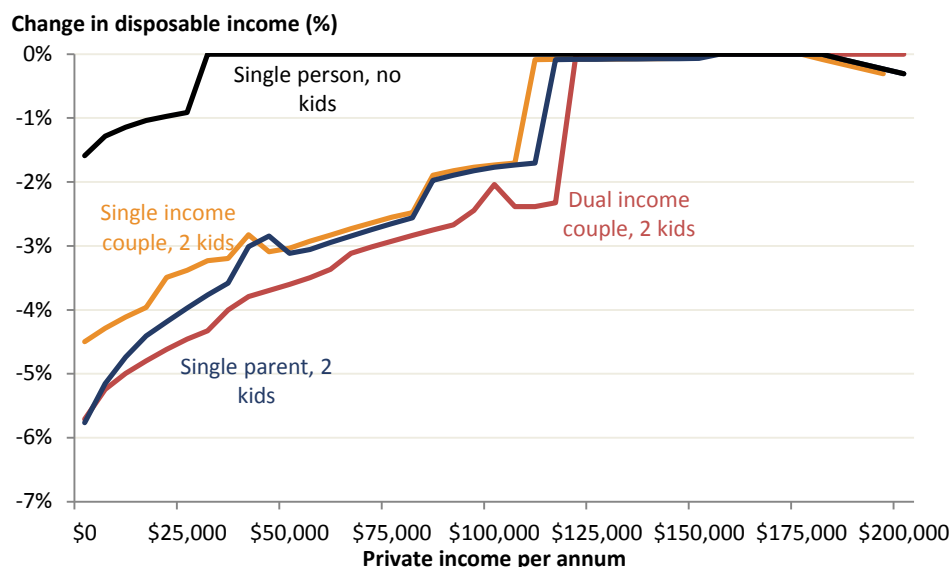
Any measures that would reduce either the level of benefits spending or the extent to which that spending is targeted to low-income households would further erode the extent of redistribution in Australia and thereby increase income inequality.

Effect of the 2014-15 Budget measures

While the current Review is focused on policy reform options for the medium- to long-term, it will naturally take the present policy settings as its starting point. Changes in the recent Budget have undermined the adequacy of the social security system and will have the largest negative effect on households with the lowest incomes.

Given that cash benefit spending is so concentrated on low-income households, it is no surprise that a reduction in that spending will have the largest effect on low-income households. Modelling by the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra confirms that the effects of the 2014-15 Budget will indeed be concentrated on low-income people. Figure 10 shows NATSEM's estimate of the change in disposable income to various household types in the current financial year that would occur if the Budget measures were implemented. For all household types, the largest impact is on those with the lowest incomes. The small reduction in the disposable incomes of high income households as a result of the "Temporary Deficit Levy" pales next to the reduction in the disposable incomes of low- and middle-income households as a result of the proposed changes to cash benefit spending.

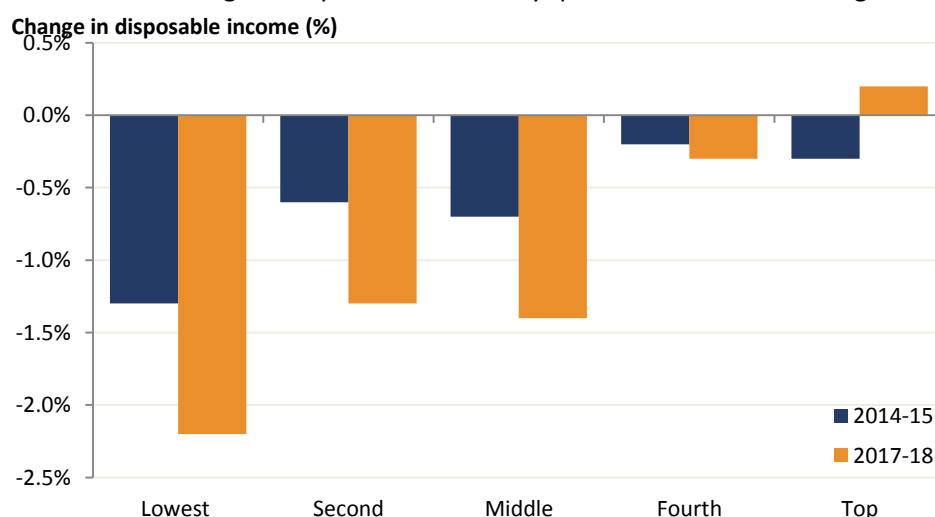
Figure 10: Measures proposed in this Budget would disproportionately hurt low income people
(Modelled change in disposable income in 2014-15 by private income for various households types)



Source: NATSEM 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online:
<http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf>

The impact of measures that affect low-income households, such as pauses in the indexation of payments, will grow over time. By contrast, the “Temporary Deficit Levy” is temporary. As a result, the inequitable effect of the Budget measures will compound over time. Figure 11 shows NATSEM’s estimate of the average change in disposable income for each income quintile as a result of the budget. In 2014-15, the average incomes of the lowest quintile are expected to be reduced by 1.3%, while those of the top quintile will be reduced by 0.3%. By 2017-18, it’s estimated that the average incomes of the bottom quintile will have been reduced by 2.2%, while those of the top quintile will be 0.2% higher.

Figure 11: The inequitable impact of the Budget will grow over time
(Modelled mean change in disposable income by quintile as a result of Budget 2014-15)



Source: NATSEM 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online:
<http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf>

The Review’s recommendations must include reversing the harsh and inequitable cuts to social security that were made in the 2014-15 Budget.

The state of the labour market

It is important that the Review is cognisant of the ways in which the Australian labour market has changed over time. The Interim Report contains some information about changes in the Australian economy and labour market (Appendix E). This section of the ACTU's submission provides some additional information about issues raised in the Interim Report. There are many more trends in the Australian labour market that are relevant to the Reference Group's task that it has not been possible to provide information about in this submission.

Key points:

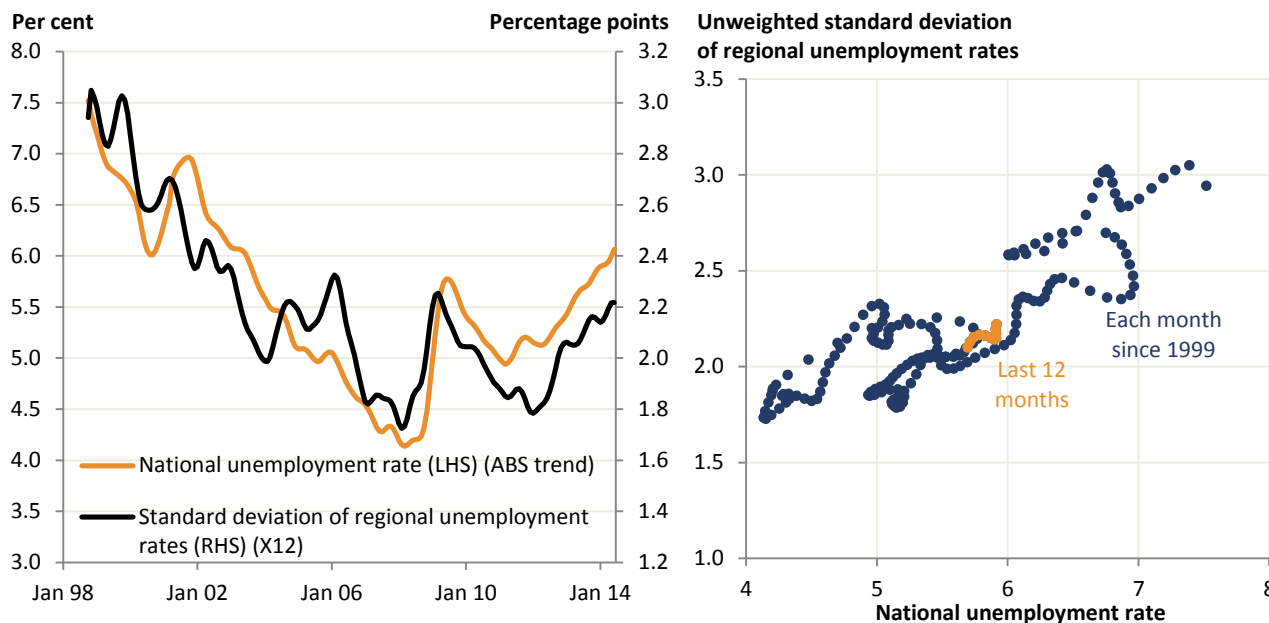
- The dispersion of unemployment rates across Australia's regions rises and falls in line with the overall unemployment rate, and is currently at a typical level;
- People with lower levels of educational attainment tend to have higher unemployment rates, but the gap has narrowed;
- There has been no adverse change in the efficiency with which the unemployed are matched to vacancies, as indicated by the Beveridge Curve; and
- Declining labour force participation in recent years has been largely driven by the ageing of the population.

The regional spread of unemployment

The Interim Report (p. 151) accurately notes that "the labour markets of some geographic regions have been adversely affected by structural economic changes." While this is true and important, it is not the case that unemployment is more concentrated in particular regions than it has been in the past.

Figure 12 shows that the dispersion of unemployment rates across the 87 regions of Australia (SA4s) is correlated with the overall unemployment rate. When the unemployment rate falls, so does the dispersion of unemployment rates among the 87 small regions. The current level of dispersion, as measured by the standard deviation in regional unemployment rates, is at around the level that would be expected given the overall unemployment rate.

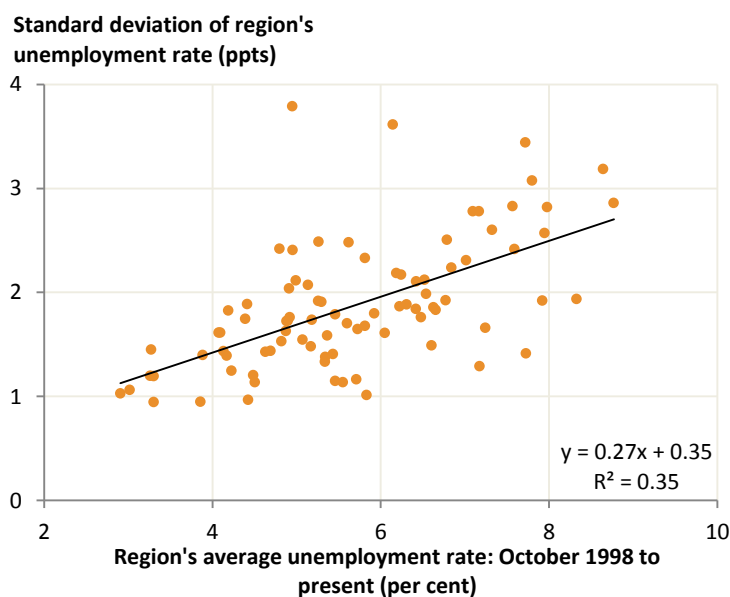
Figure 12: As the overall unemployment rate falls, so does the dispersion of rates across the country
National unemployment rate and the standard deviation of unemployment rates across 87 regions



Source: ABS 6291.0.55.001 and ACTU calculations.

While it's true that some areas feature persistently high unemployment, the level of unemployment in these areas is responsive to overall macroeconomic conditions. When the overall unemployment rate falls, it tends to fall faster in these high unemployment regions, thus narrowing the gap between the high- and low-unemployment regions. Unemployment in the low unemployment regions is more stable over time. This can be seen in Figure 13, which shows that regions with higher average unemployment rates over the period 1998-2014 also tended to have more volatile unemployment rates over the same period. Each 'dot' in the chart is one of the 87 labour force regions in Australia.

Figure 13: Regions with higher unemployment tend to have more volatile unemployment rates:
Average unemployment rate 1998-2014 and standard deviation in unemployment rates for each region



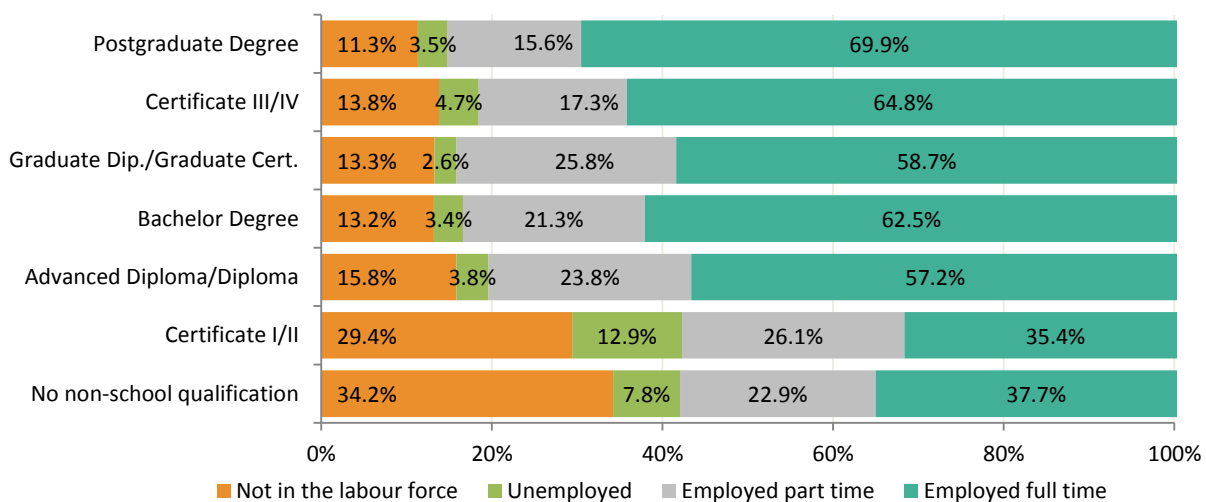
Source: ABS 6291.0.55.001 and ACTU calculations.

Location-based disadvantage is an important phenomenon. We welcome the Interim Report's focus on it. However, we submit that the best thing for high-unemployment regions is a strong macroeconomy – in other words, an increase in the number of available jobs. We do not accept that high unemployment in some areas should be taken as an indication of a need for reform to the income support system.

Labour market outcomes by level of educational attainment

The Interim Report also notes that people with higher levels of educational attainment tend to have higher rates of employment and lower rates of unemployment. This is an important observation and lends weight to the need for widespread access to education and training.

Figure 14: People with higher levels of educational attainment are less likely to be unemployed:
Labour force status by level of highest education attainment, 2013



Source: ABS 6227

However, in the context of this Review, it is important to note that the disparity between labour market outcomes for people with different levels of educational attainment has not worsened over time. In fact, the gap between the unemployment rates for people with no post-school qualification and people with a bachelor degree has narrowed, from around 8 percentage points in the early 1990s to 4.5 percentage points in 2013.

Figure 15: Unemployment rate by educational attainment

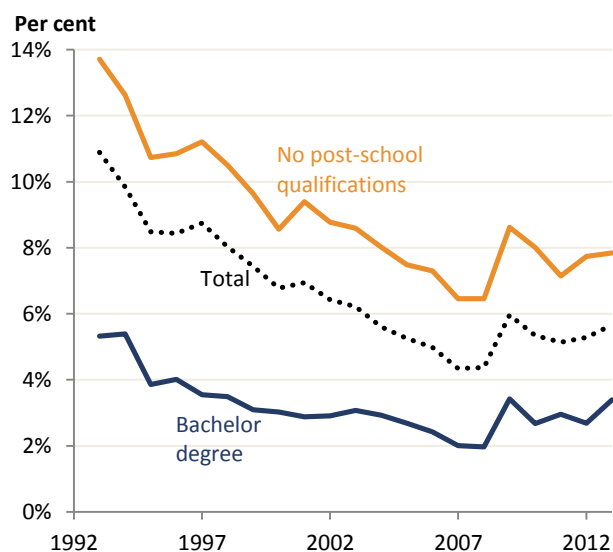
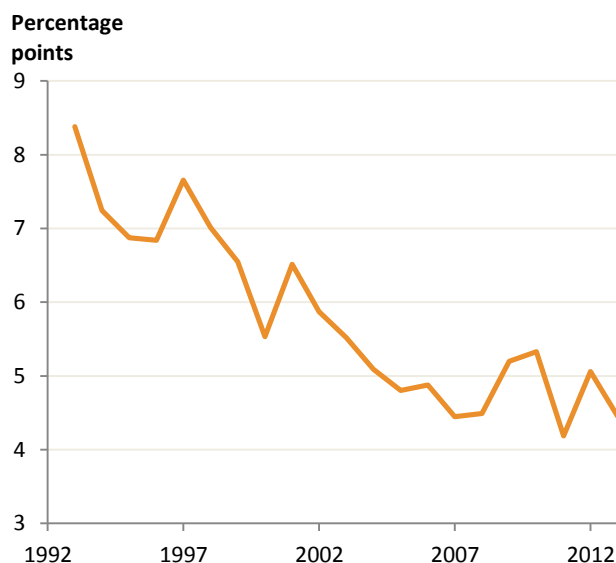


Figure 16: Gap between unemployment rate for people with no post-school qualifications and people with a bachelor degree



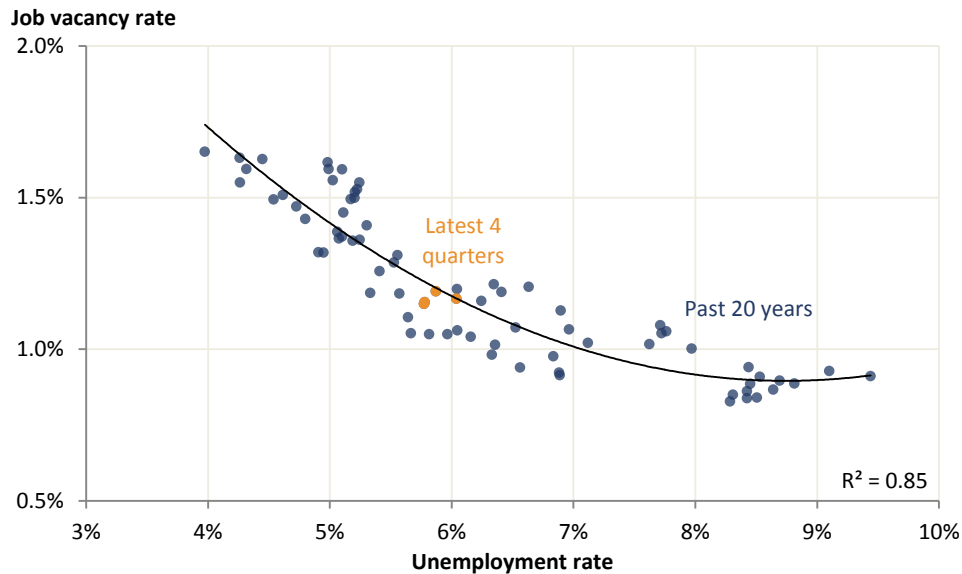
Source: ABS 6227 and ACTU calculations.

This is relevant to the Reference Group's task. People with lower levels of educational attainment continue to have higher levels of unemployment. This is a concern. However, the fact that the disparity in unemployment rates by educational attainment has narrowed over time supports the view that the income support system (and associated systems) have improved in their ability to support and assist people to find paid work. There has been a relative improvement in labour market outcomes for people with lower levels of educational attainment.

Job vacancies and the efficiency of matching

There has been no deterioration in the efficiency of matching unemployed people to job vacancies, as measured by the Beveridge Curve. A shift along this curve – for example, if the unemployment rate falls and the vacancy rate rises - is typically interpreted as a cyclical change in the labour market. A shift in the curve – ie. a change in the number of unemployed people at a given vacancy rate – is typically interpreted as a change in the efficiency with which unemployed people are matched to job vacancies. There has been no shift in the Beveridge Curve in Australia since the early-1990s recession, as shown in Figure 17.

Figure 17: No change in the relationship between vacancies and unemployment in the past two decades:
Beveridge Curve for 1994-2004



Source: ABS 6354, ABS 6202 and ACTU calculations

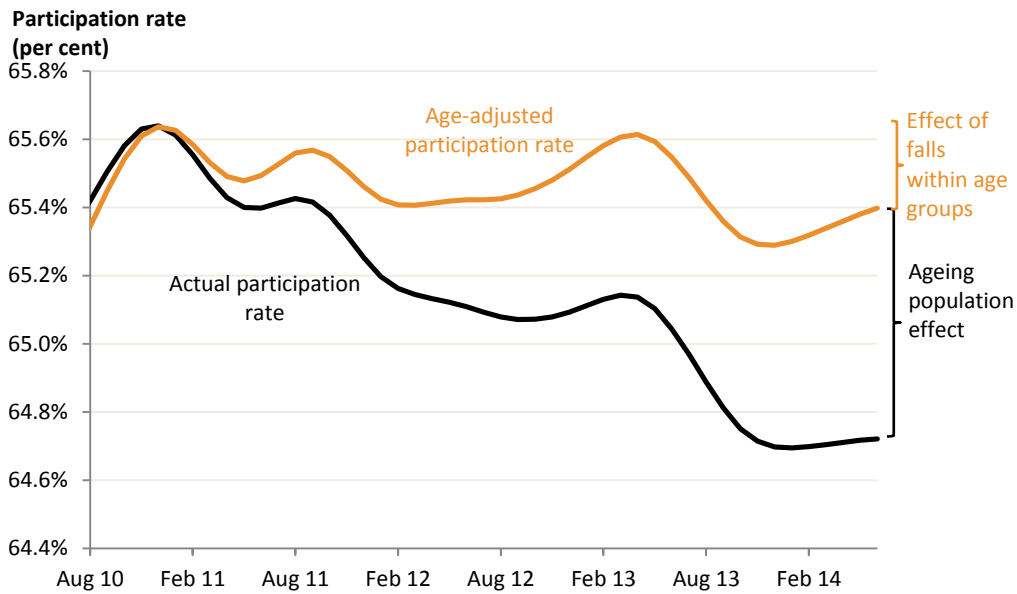
The role of the ageing population in declining labour force participation

The issue of workforce participation is important for this Review. The Issues Paper correctly notes that Australia has a relatively high rate of labour force participation compared to most OECD countries. However, the participation rate has fallen a little in recent years. In the ACTU's view, the role of the ageing population in dragging down the overall participation rate must be taken into account.

The overall participation rate for people aged 15+ has fallen from 65.6% in late 2010 to 64.7% in June 2014. It is possible to decompose this fall into two elements – the fall that is due to a decline in participation within particular age groups; and the fall that is due to demographic change. We estimate that if there had been no demographic change since late 2010, the population rate would have been 65.4% in June 2014. Almost all of the decline in the participation rate for people aged 15+ is therefore due to the ageing of the population.

Figure 18: The ageing population is responsible for most of the decline in the overall participation rate:

Actual participation rate and an age-adjusted rate



The decline in overall participation is largely due to the ageing of the population. It is not due to a decline in participation *within* individual age groups. We submit that the decline in participation cannot therefore be taken as evidence that people of working age have become less likely to participate in the workforce.

Pillar One: A simpler and sustainable income support system

This section contains the ACTU's response to some of the matters raised under 'Pillar One' in the Issues Paper. The focus of this Review is on developing recommendations for a new social security system, to be implemented in the medium- to long-term. This is an important task. However, the brief consultation period for this Review has not enabled the development of a comprehensive set of recommendations from the ACTU. Instead, this section of the submission highlights some deficiencies of the existing system and provides some recommendations for reform.

Key points:

- The ACTU supports the concept of a 'simpler' system, but not if this entails the reduction of payment rates;
- Payment rates should be based on need, not on the perceived 'deservingness' of particular groups;
- The system is already fiscally sustainable;
- The core purpose of the income support system is to protect people from poverty, and some payments (notably Newstart Allowance for singles) are failing to achieve this purpose;
- Newstart Allowance is so low that it is likely to be inhibiting, rather than promoting, workforce participation;
- Payments should be indexed to wages;
- Lower taper rates encourage workforce participation, and this should be a higher priority than increased targeting of payments; and
- The income free area for Newstart Allowance should be at least equal to 3 hours of work per week at the National Minimum Wage.

Simplicity

The Interim Report stresses the need for a simpler income support system. This is a worthy goal with which it is difficult to disagree. However, the ACTU's view is that simplicity should be a lower-order priority than the adequacy of payments. Simplification of the system that results in – or serves purely as a euphemism for – some recipients' incomes being cut is not desirable and should not be pursued.

Reducing the number of payments may not necessarily reduce the complexity of the system. For example, the creation of Family Tax Benefit was a simplification that collapsed around 22 payments into 2. However the FTB system still remains incredibly complex to navigate. Another example is the child payment which is also a simplification.

A tiered payment system

The model proposed in the Interim Report involves lower payment rates for people who are expected to seek work, and the highest payment rates for people with no work capacity. The ACTU does not support the proposed model. Rather, we are of the view that payment rates should be based on need.

Payment rates, in all cases, should be adequate to meet a basic cost of living. Additional payments should be made to reflect additional costs that people face, such as the cost of disability, the cost of raising children, or the cost of job search. Payment rates should not be lower to particular groups that are perceived to be less 'deserving'. Whilst it is appropriate that people with the capacity to work are subject to activity tests, it is not appropriate that they are paid an inadequate payment. Differentiated payment rates also create the incentive for people to seek to be paid the higher rate, which could run counter to the aim of promoting workforce participation.

DHS workers have expressed concern to the CPSU at suggestions that DSP would only be for people who have no capacity to work and a permanent impairment. DSP eligibility has changed several times over the last 8 years and the grant rate has dropped significantly. In the CPSU survey conducted in 2012, 61.3% do not believe the current system creates effective incentives to facilitate transitions between work and other activities or in the event of illness or help to overcome barriers to employment.

Members noted that those with a disability who may not be eligible for the DSP often do not have success with job seeking because of their disability and the need for specific working conditions. They face financial hardship. It was the view of CPSU members that taking more people off the DSP would add to the pool of people not able to access the specialised assistance required to actually lead to meaningful employment.

Most people could work in a job suited to them, but people with a disability face significant barriers in the types of work that is available to them. Not being eligible for DSP means missing out on much needed health services that require a person to be on a pension. This person may only be able to work part time & will have the affordability issue of mobility aids without the card or the higher paying pension. This person may already have the stress of dealing with an incurable disease.

CPSU members state that permanent incapacitation versus temporary incapacitation provisions are already in place and changes are likely to have the biggest impact on the mentally ill as they will be the first targeted.

Sustainability

The Interim Report stresses the need for an "affordable and sustainable" social security system. As discussed earlier in this submission, Australia's spending on cash benefits is already one of the lowest in the OECD (Figure 1) and the latest *Intergenerational Report* projects no net change in total spending on cash benefits as a proportion of GDP over the coming decades (Figure 5). This suggests that the current system is

already “affordable and sustainable,” if affordability and sustainability are taken to refer to the fiscal cost of social security.

The ACTU submits that a “sustainable” income support system is also one that meets community expectations. Australians expect that people with the capacity to seek paid work will do so; the current income support system has extensive activity requirements that ensure this is the case. The community also expects that income support payments will be adequate to protect people from poverty. It is not sustainable for the income support system to feature grossly inadequate base payment rates.

Adequacy

The most fundamental purpose of the income support system is to protect people from poverty and social exclusion. Payment rates must be adequate to achieve this purpose. Some current payments clearly fail this test, most notably allowances for single people such as Newstart Allowance. Our comments in relation to adequacy focus on this payment, as an example of where current arrangements are clearly inadequate. We urge the Review to make the adequacy of payment rates a central concern in its final report.

A social security system that does not protect people from poverty and social exclusion is a system that is failing to fulfil its basic purpose. The Review’s task is to establish the principles that should underpin reform of the social security system for the medium- and long-term. The adequacy of payments must be one of those principles.

The adequacy of an income support payment should be assessed in *relative* terms; adequacy can only be measured in the context of living standards generally prevailing in the community, as well as the norms and values of the time. An adequate real income in Australia in 1900 would not be an adequate income today, and nor would the typical income of citizens in a developing country be seen as adequate in contemporary Australia.

Defining adequacy in relative terms is a long-established and accepted approach. Saunders and Wong note that the Pension Review concluded that adequacy must be defined “in the context of contemporary society, and the living standards of others”; they suggest that “the key features of this definition of adequacy are consistent with the approach taken in other reviews of the Australian social security system undertaken over the last three decades”.⁴ This Review should follow the Pension Review and previous reviews and adopt a definition of adequacy that stresses the value of income support payments relative to measures of typical standards of living and community norms.

⁴ P Saunders & M Wong, ‘Pension adequacy and the Pension Review’, *The Economic and Labour Relations Review*, vol. 22, no.3, 2011, pp.7-26.

The Australia's Future Tax System Review ('AFTS', also known as the Henry Review) noted that there are four common measurements of the adequacy of income support payments. These are:

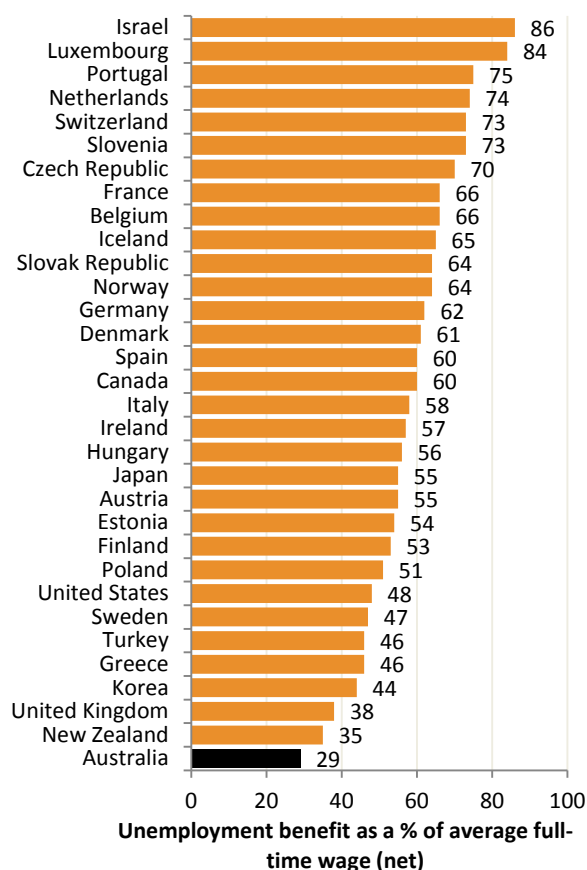
- Replacement rates, which compare the income of a payment recipient with that of a worker (such as a minimum wage worker or the median worker);
- Poverty lines, to which the disposable incomes of payment recipients are compared;
- Budget standards, which estimate the amount of income necessary to sustain a particular standard of living; and
- Financial stress indicators, which enable a comparison of the financial wellbeing experienced by payment recipients with that of the community as a whole.⁵

All four approaches suggest that current payment rates, particularly allowances for singles, are inadequate.

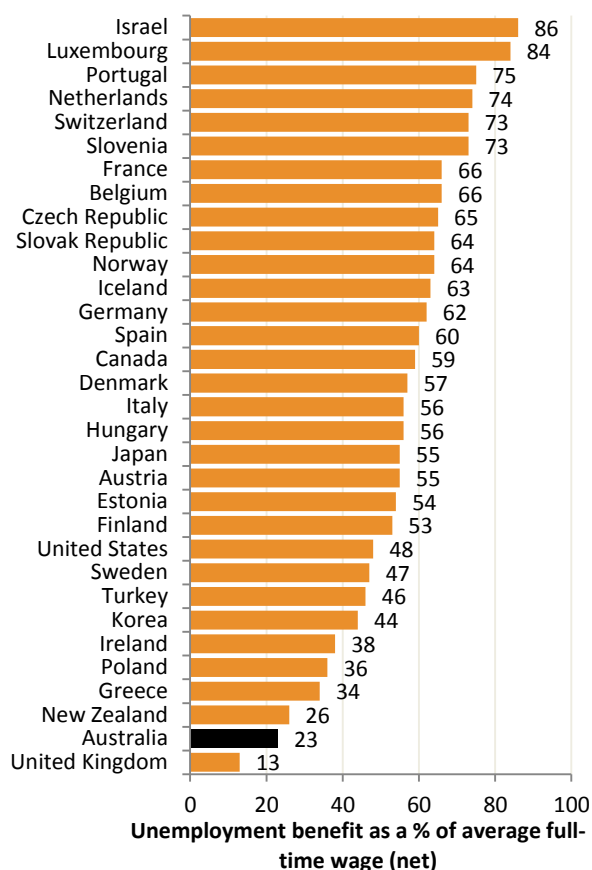
The replacement rate of Australia's unemployment benefit is the lowest of any advanced economy. An Australian worker on average wages who loses his or her job and claims Newstart Allowance will suffer a larger negative income shock than his or her counterparts in any other OECD country.

⁵ Australia's Future Tax System Review, 'Section 7.3: Important impacts of the personal tax-transfer system', *Architecture of Australia's Tax and Transfer System*, Commonwealth of Australia, Canberra, 2009.

**Figure 19: Net replacement rates of OECD countries
– including housing assistance where applicable**



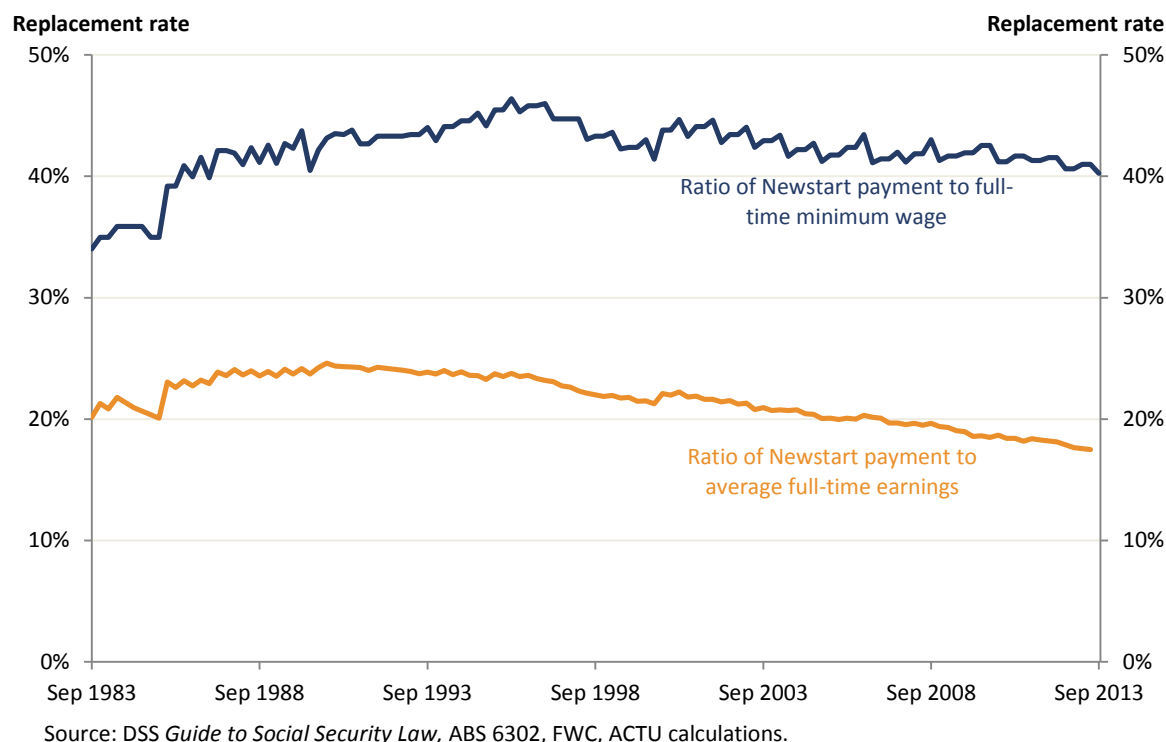
**Figure 20: Net replacement rates of OECD countries
– excluding housing assistance**



Source: OECD Tax-Benefit Models 2012: <http://www.oecd.org/els/benefitsandwagesstatistics.htm>. Charts show the net replacement rates for the first year of unemployment.

The Australian replacement rate is also at its lowest level in several decades. The indexation of allowances to CPI, while wages rise in real terms, ensures that these replacement rates will continue to fall.

Figure 21: The replacement rate for Newstart is at its lowest level in decades:
Newstart Allowance for singles as a percentage of average and minimum full-time wages



Evaluating payment rates relative to poverty lines is another key measure of adequacy, as noted by Whiteford and Angenent:

Given that alleviation of poverty is one of the primary objectives of the Australian income support system, it should be regarded as a key measure of the success or otherwise of social security spending.⁶

Researchers in Australia, as in other advanced economies, tend to use relative poverty lines.^{7 8} Two particular lines are used most often: the Henderson Poverty Line (HPL) and the 50% of median income poverty line. The income of a single, adult Newstart recipient is now more than \$100 per week below each of these lines, as shown in Figure 22.

In the mid-1990s, Newstart was equal to the 50% of median income poverty line; now, a single adult reliant on Newstart has an income that is barely two-thirds the level of the poverty line. The decline relative to the Henderson line has been of a similar magnitude. Figure 23 shows the Newstart payment rate as a proportion of these two poverty lines.

⁶ P Whiteford & G Angenent, 'The Australian System of Social Protection – An Overview', Occasional Paper No. 6, Department of Family and Community Services, Canberra, 2001, p.81.

⁷ Department of Family and Community Services, 'Inquiry into poverty and financial hardship', Occasional Paper No. 9, Submission to the Senate Community Affairs References Committee, DFAC, Canberra, 2003, p.77

⁸ For a summary of poverty lines across the world see Figure 2 in M Ravallion, 'Poverty lines across the world', Policy Research Working Paper, The World Bank, Washington, D.C., 2010.

Figure 22: Newstart, the Henderson Poverty Line, and the 50% of median income poverty line

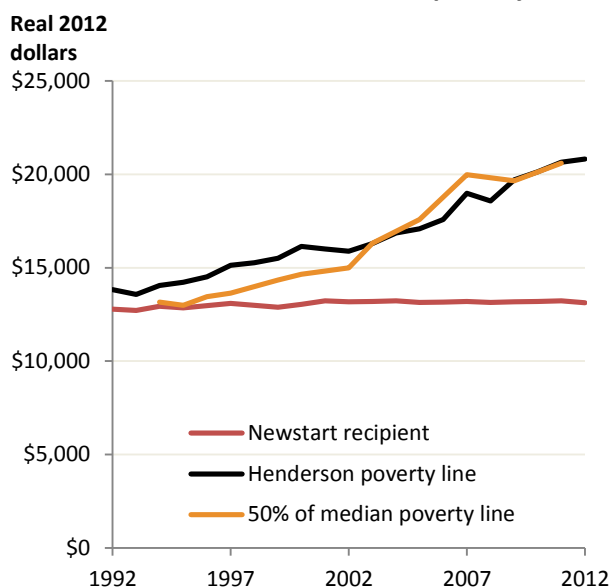
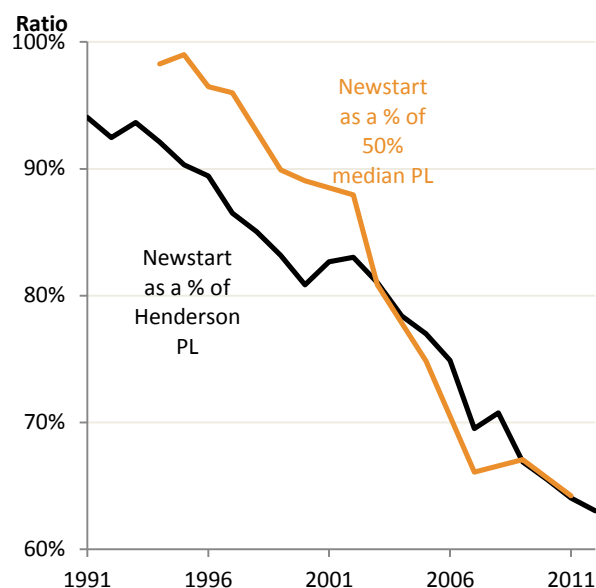


Figure 23: Newstart as a proportion of two poverty lines



Source: Newstart payment rates are from FaHCSIA historical data, deflated using CPI (ABS 6401). Henderson PL is from the Melbourne Institute, *Poverty Lines*. 50% of median PL is an ACTU calculation based on ABS 6523.

The gap between Newstart and the poverty line (be it the Henderson line or the 50% of median income line) is large and growing. This is a strong indication that the payment rate is inadequate. A basic function of the safety net is to protect households from poverty. Although the choice of any particular poverty measure involves some degree of subjectivity and value judgement, a payment rate that is less than two-thirds of the level of either of the main relative poverty lines for a single adult is clearly inadequate.

Relative poverty lines are sometimes criticised on the grounds that they record an increase in poverty if median incomes rise while low incomes remain constant.⁹ While all measures of poverty and deprivation have limitations and involve the exercise of judgement on the part of researchers, alternative approaches to measuring standards of living have been developed to guide decisions about income support payment adequacy. The budget standards approach involves quantifying the level of income that is required to obtain a particular material standard of living. Budget standards are still necessarily measures of relative living standards, as their construction takes into account the prevailing community standards of the time, but they are not necessarily fixed to a particular point in the income distribution in the same way as a relative poverty line.

⁹ For example, see M Ravallion, *op. cit.*

Saunders, et al., undertook the laborious task of rigorously constructing budget standards for Australia in the mid-1990s, after receiving a commission to do so from the-then Department of Social Security.¹⁰ The authors describe their task as:

*[A]n attempt to apply the budget standards methodology to produce a set of indicative standards that can inform decisions regarding standards of adequacy—absolute and relative. The budget standards approach involves specifying what households need in a particular time and place, to attain a particular standard of living. It involves working out the cost of living by pricing a typical 'basket' of goods and services that corresponds to the underlying living standard. The level at which the standard itself is set can be varied so that, in principle, budget standards can be derived at different levels.*¹¹

The report quantified two budget standards, summarised in Table 1. The ACTU has referred to the 'modest but adequate' standard in submissions to reviews of minimum wages, whereas the low cost standard is seen to be more appropriate for setting income support payment rates. The "primary motivation for developing a low cost budget was to guide the setting of income support payments".¹²

Table 1: Budget standards

Modest but Adequate Budget Standard	Low Cost Budget Standard
"One which affords full opportunity to participate in contemporary Australian society and the basic options it offers... lying between the standards of survival and decency and those of luxury as these are commonly understood... (falling) somewhere around the median standard of living experienced within the Australian community as a whole."	"A level of living which may mean frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community... corresponding to a standard of living which is achievable at about one-half of the median standard."

Source: Saunders, et al., 'Development of Indicative Budget Standards for Australia', p.438.

The 'low cost' standard was \$302.80 in February 1997 for single adults in the private rental market.¹³ If this figure is inflated by the growth in the CPI over the period to the June quarter 2012, this suggests that the current low cost budget standard for a single private renter is around \$481 per week.¹⁴ A single adult would currently be eligible to receive around \$318 per week in Newstart Allowance and Rent Assistance (at the maximum rate of each); this therefore leaves a single Newstart recipient with an income equal to only around two-thirds of the low cost budget standard. The ratio of Newstart to the low cost budget standard is around the same level as the ratio of Newstart to the 50% of median poverty line.

¹⁰ P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', Research paper No. 74, Social Policy Research Centre, University of New South Wales, March 1998.

¹¹ *Ibid.*, p.3.

¹² P Saunders, 'Updated Budget Standard Estimates for Australian Working Families in September 2003', SPRC Report 1/04, Social Policy Research Centre, University of New South Wales, February 2004.

¹³ Based on the updated figures used in P Saunders, 'Updated Budget Standard Estimates for Australian Working Families in September 2003', *op. cit.* An average of the male and female household types has been used.

¹⁴ ACTU calculations based on ABS 6401.

This adds weight to the conclusion that the Newstart Allowance payment rate is inadequate to sustain an acceptable standard of living. However, it is not possible to draw firm conclusions from the updated budget standards. The original SPRC report provided three means of updating the standards over time: conducting the entire exercise again; repricing the elements of the baskets of goods on a regular basis; or inflating the standards using a measure such as the CPI. The third approach has been used in this submission (it was also used in the Pension Review and in a 2004 report for the ACTU by one of the original study's authors).^{15 16} However, updating the standards using the CPI is not preferable, particularly some fifteen years after the original analysis was conducted. The ACTU understands that the Social Policy Research Centre has obtained funding from the Australian Research Council to fully update the standards, although this will take several years.

Despite this caution about the use of the updated standards, it should be noted that alternative methods of updating them would likely result in higher, rather than lower, estimates of the income required to sustain a 'low cost' living standard. For example, Professor Saunders has proposed an alternative approach that relies on 'anchoring' the standards to a particular point in the income distribution.¹⁷ Given that incomes have risen in real terms since 1997, this approach would be likely to yield a higher estimate of the 'low cost' standard. Despite the caveats around their use, the updated budget standards confirm that the incomes of Newstart recipients are not sufficient to obtain an acceptable 'low cost' standard of living.

Another means of assessing the adequacy of income support payment is to compare the incidence of financial stress and deprivation among recipients to that of other groups. This approach adds further weight to the conclusion that the Newstart Allowance is inadequate.

As with all measures of adequacy, deprivation indices are not without their theoretical or practical difficulties, but they avoid "many of the major criticisms that have been levelled at poverty line studies... there is no need to set a policy line or rely on the judgements of 'experts'".¹⁸ The findings of studies of deprivation and financial stress confirm the conclusion suggested by replacement rates, poverty lines and budget standards: the current Newstart payment rate is inadequate.

A recent study of deprivation among different population groups was conducted by Saunders and Wong.¹⁹ They surveyed a representative sample of Australians and asked which items they deemed essential, not just for themselves, but for people in general. Further work was then done to assess the extent to which various groups (like low-wage workers, disability pensioners, and Newstart recipients) were deprived of these essential goods. On both measures of deprivation used by the researchers, Newstart recipients had

¹⁵ J Harmer, *op. cit.*, p.18.

¹⁶ P Saunders, *op. cit.*

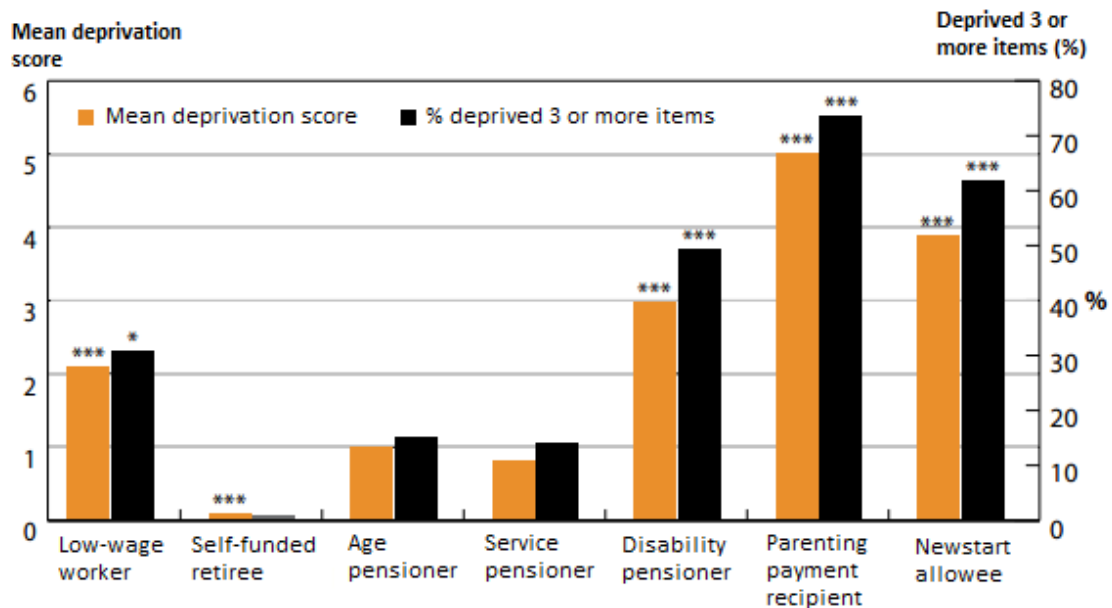
¹⁷ G Watson & S Richardson, 'Measuring the Needs of the Low Paid: Report to the Minimum Wage Panel', Fair Work Australia, December 2011, paragraph 19.

¹⁸ Saunders & Wong, *op. cit.*, p.14.

¹⁹ *Ibid.*

higher levels of deprivation than pensioners and low-wage workers; a result that is to be expected given the relative incomes of these groups.

Figure 24: Rates of deprivation among different groups (2006)



Source: Saunders & Wong 2011, Figure 1. Asterisks indicate that the difference between the group measures and those for the age pensioner group was statistically significant: * denotes significance at the 10% level; ** denotes significance at 5%; *** denotes significance at 1%.

Analysis of the latest ABS Household Expenditure Survey also suggest that people receiving Newstart are more likely to experience financial stress than people who receive other forms of payments. Table 2 shows the proportion of people in households that experienced various forms of financial stress in the 12 months prior to the survey. On all indicators, people who receive unemployment and study payments are more likely to have experienced financial stress than recipients of other forms of assistance, who in turn are more likely to experience stress than people in households that do not receive pensions or allowances.

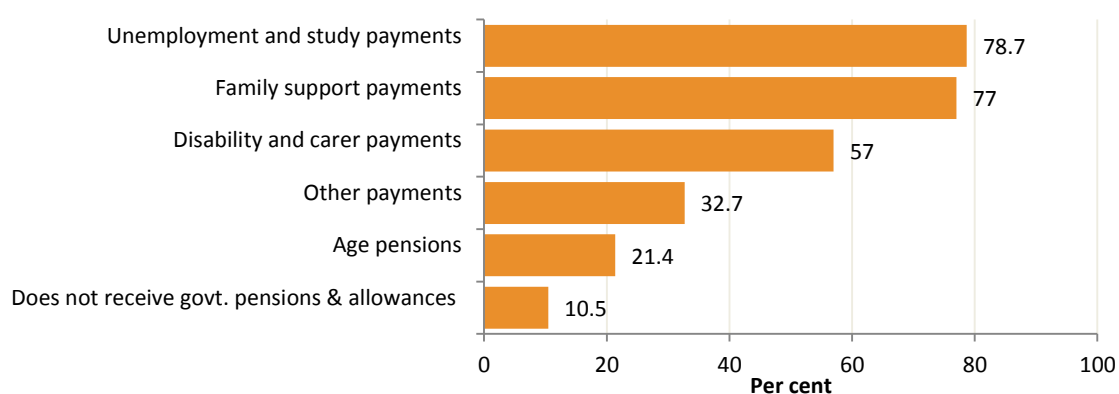
Table 2: Proportion of persons in household that experienced financial stress in last 12 months (2009-10)

	Receives unemployment and study payments (%)	Main source of income is government pensions and allowances (%)	Does not receive pensions and allowances (%)	All persons (%)
Unable to raise \$2000 in a week for something important	56.8	34.5	6.1	15.4
Spent more money than received	36.7	21.6	11.3	16.4
Could not pay electricity, gas or telephone bills on time	40	23.6	7.6	14.4
Could not pay car registration or insurance on time	15	8.6	2.9	6
Pawned or sold something	*12.3	6.8	1.3	3
Went without meals	*13.0	7.4	1.4	2.8
Unable to heat home	*10.0	5.6	*0.4	1.7
Sought assistance from welfare/community organisations	14.1	8.8	*0.4	2.9
Sought financial help from friends or family	27	15.6	4.8	8.4
Could not afford holiday for at least one week a year	75.3	49.8	13.6	27.1
Could not afford a night out once a fortnight	63.2	40.8	9.2	21.2
Could not afford friends/family over for a meal once a month	34.7	19.3	2.9	7.6
Could not afford a special meal once a week	41.6	29.6	6	13.1
Could only afford second hand clothes most of the time	46.1	27.8	4.5	11.6
Could not afford leisure or hobby activities	51.7	29.3	4.5	12.1

Source: ABS 6530.0.

Nearly 80% of households for which the main source of income is unemployment and study payments experienced three or more indicators of financial stress in the 12 months before the survey. This was the highest level of multiple indicators of financial stress of any type of household.

Figure 25: Proportion of households that experienced three or more indicators of financial stress in a 12 month period, by payment type (2009-10)



Source: ABS 6530.

The very high levels of financial stress and deprivation experienced by recipients of Newstart strongly suggest that the payment is inadequate. This confirms the analysis of the inadequacy of Newstart based on replacement rates, poverty lines, and budget standards.

It is clear, based on the analysis above, that Newstart Allowance is inadequate, particularly for singles. Improved adequacy of payments must be a part of any future reform. We call upon the Review to both acknowledge this inadequacy and recommend an improvement in the adequacy of payments.

Encouraging workforce participation

Newstart Allowance is now so low that it may inhibit, rather than promote, workforce participation.

The smaller the replacement rate, the greater the amount by which an individual can increase his or her income by becoming employed, thus the greater the immediate financial incentive to seek employment. The replacement rate therefore embodies the trade-off that is said to exist between adequacy and incentives.

However, the relationship between the adequacy of the replacement rate and the effectiveness of recipients' job search activities is not monotonic. Increasing the replacement rate to 100 would eliminate the immediate financial incentive to seek work, but reducing the replacement rate to 0 (ie. abolishing unemployment assistance) would leave unemployed people socially excluded, unable to subsist, and unable to meet the costs of searching for work. Unemployed people need a sufficient income to allow them to maintain a stable home, meet all necessary costs of living, purchase appropriate clothing for interviews and employment, and pay for transport to and from job interviews and potential places of employment. Very low incomes can also lead to a decline in physical and mental health that can reduce a person's likelihood of finding employment.

The replacement rate that best balances the competing policy objectives is therefore somewhere between 0 and 100; there is no *prima facie* reason to suppose that the current replacement rate adequately reconciles the competing policy ends.

The idea that the effectiveness of job search can be eroded by low payment rates has been widely noted. For example, the OECD made the following observations in its 2010 survey of Australia:

*The low level of the unemployment allowance (Newstart Allowance) has raised concerns about its adequacy.... The relatively low net replacement rate in the first year of the unemployment spell raises issues about its effectiveness in providing sufficient support for those experiencing a job loss, or enabling someone to look for a suitable job.*²⁰

²⁰ Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Australia 2010*, OECD Publishing, Paris, 2010, pp.127-128.

The OECD identifies two related, but distinct, concerns that arise from a replacement rate as low as Australia's: the first is the adequacy of the payment (in terms of the standard of living it affords to recipients); the second is the effectiveness in supporting people to find employment. This suggests that the usual trade-off between adequacy and effective work incentives can break down at low replacement rates. Increasing the payment would both improve its adequacy and better support unemployed people to find work.

This point was made by DHS workers in response to a CPSU survey. They identified financial disincentives created by the Newstart allowance:

The system does not result in significant incentives to gain and maintain work and in some instances if clients have to travel significant distances for employment it can be a financial disadvantage to undertake low paid work.

The minimal level of payment means that most recipients are concentrating on living expenses and reducing expenditure not looking for employment.

One customer I spoke to had spent his fortnightly NewStart Allowance on rent, food, electricity & phone plus food for his dog. He had 4 job interviews organised but had no money left over for petrol. His job employment provider could not give him assistance for fuel as he had 'not been on the books long enough'.

Indexation

The inadequacy of allowances has largely come about as a result of their indexation arrangements. Allowances rise only in line with the CPI, while pensions have been pegged to MTAW. The 2014-15 Budget proposes to reduce the indexation rates on pensions, so that all payments will be frozen in real terms.

The ACTU strongly opposes the proposed Budget measures. We urge the Reference Group to recommend indexing all payment rates to a measure of wages. This will ensure that social security recipients' living standards keep pace with those of the broader Australian community.

Means testing

The Interim Report identifies the following future direction (p.78):

Means testing should target assistance to people most in need. For those able to work, income testing rules should provide appropriate financial returns for working.

There is a tension between the principle behind the first sentence (assistance should be targeted) and the principle behind the second sentence (there should be appropriate financial returns for working). More targeted assistance implies higher taper rates on payments, such that assistance cuts out more rapidly as

private income rises. However, higher taper rates reduce the financial return from work. The higher the taper rate, the less a recipient retains out of each extra dollar they earn from work.

The reform priority should be to ensure that people are encouraged and assisted to work. A vital element of this is to make work pay. High taper rates work against this objective. Australia already has an extremely tightly targeted social security system. Income support payments should not be tightened further at the expense of workforce participation.

Free areas

Income support recipients are generally able to earn a certain amount of private income before their payment begins to be reduced. This amount is known as the 'free area'. The ACTU recommends that the free area be equal to at least three hours work per week at the National Minimum Wage, ideally including the casual loading. This is the 'minimum engagement' period in many awards. The free area should then be indexed to a measure of wages, such as the National Minimum Wage.

The value of the free area has been eroded over time. An increase in the 2013-14 Budget restored some of the lost value, but this will again be eroded if the free area is not indexed.

Figure 26: Weekly minimum wage and Newstart Allowance free area

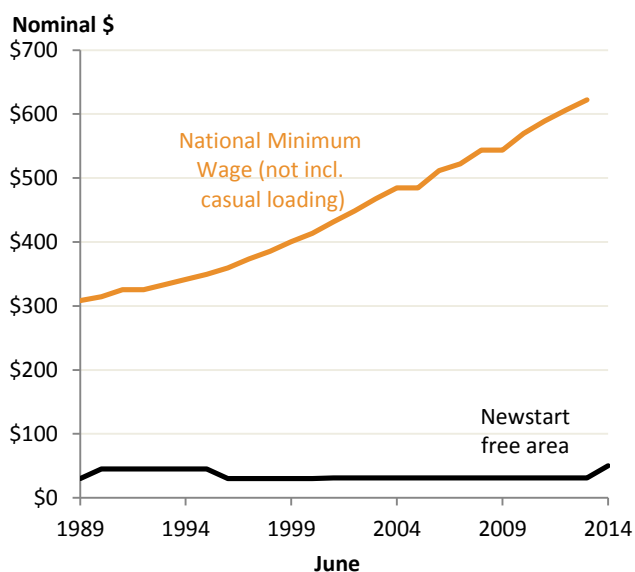
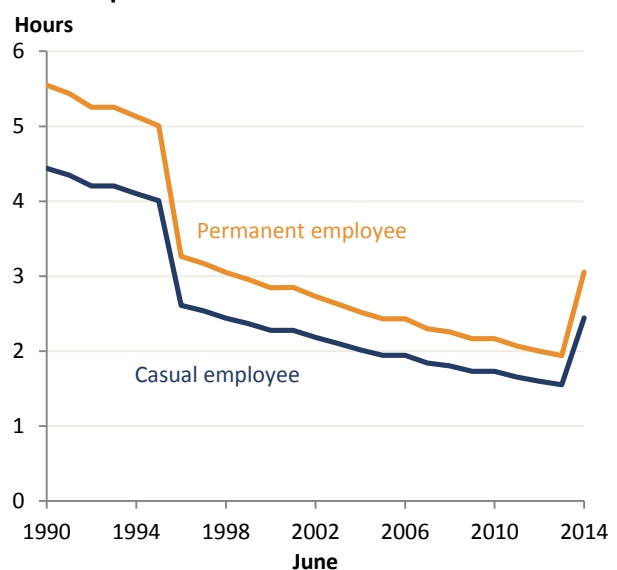


Figure 27: Weekly hours of work at the NMW required to exhaust Newstart free area



Source: ACTU calculations based on FWC, DSS *Guide to Social Security Law*.

Other issues: data sharing and IT infrastructure

There is a need for better integration and data-sharing across government. Already there are insufficient links between DHS program areas (Centrelink, Medicare and Child Support Agency) despite DHS being a single agency. For example, a formal request is required before data can be shared between Centrelink and the Child Support Agency. Some parts of DHS share information directly with the ATO while others have

complex approval processes before various components of the tax and welfare system can be lined up. CPSU members have indicated that it is easier to get information from the Department of Immigration than between the different program areas of DHS.

It is acknowledged by Government that a comprehensive overhaul of the DHS payment systems is required.²¹ Insufficient investment, the integration of multiple platforms with the merger of Medicare and Centrelink, an expanding client based and rapid technological change have all contributed to an IT infrastructure that does not meet the needs of clients and staff. A significant investment is required to achieve this.

It is the strong view of the ACTU that this expenditure should be invested in building a platform that is owned and operated by government. On the day that this submission is due the first stage of a scoping study into the privatisation of Medicare and DHS services was advertised. This has been done without any consultation with staff affected or their union representatives. This appears to be the first stage of a longer term process to privatise government payment processing, including welfare payments.

Given the timing of this announcement a full assessment of the potential impact in this submission is not possible. However it has been the experience both here²² and overseas that this type of large scale outsourcing results in significant cost blow outs. Taking these processes out of government hands also increases the risk of privacy breaches and reduces the capacity for further whole of government integration. Large scale public sector job losses would also result and there would be the potential for this work to be easily offshored in the future. Improved payment systems would be of a great benefit to welfare recipients but the investment in this should be used to develop an in-house government run capability.

²¹ The Australian 2014, 'Centrelink computer broken: Hockey' m 25 April. Available from: <http://www.theaustralian.com.au/national-affairs/welfare-computer-broken-hockey/story-fn59niix-1226895359866?nk=1f38a462acad1ab336530e90ed7b7502#mm-premium>

²² Gershon, P. 2008, *Review of the Australian Government's Use of Information and Communication Technology*, Department of Finance and Deregulation, <http://www.finance.gov.au/publications/ICT-Review/chapter3.html>

Pillar Two: Strengthening individual and family capability

This section briefly addresses some of the matters that fall within 'Pillar Two' of the Interim Report. This section draws upon responses provided to the CPSU by its members in surveys it has conducted.

Key points:

- The administration of the system must be adequately resourced;
- Increasing mutual obligation requirements necessitates increased investment in the DHS workforce;
- A more progressive system of sanctions is welcomed;
- Training must be better linked to jobs;
- Improved support for disadvantaged job seekers is needed; and
- A punitive approach to ensuring young people 'learn or earn' is not appropriate.

Ensuring adequate resourcing

The ACTU agrees that improving employment participation should be a priority. However, adequate resourcing and staffing is required. In a 2012 survey of CPSU members, 69.1 per cent stated that they did not believe sufficient resources were provided to adequately support clients who interact with the income support system.

Since then, DHS has gone through a process of Service Delivery Reforms, towards more online transactions and greater self-servicing. This, however, has not been without problems. The take up rate for online transactions are slower than forecast and service and responsiveness for online services is slow. There is also insufficient back of house processing and the backlog is significant. One example provided to the CPSU was that a client applied online for an aged pension which took her over an hour. She then had to go to the office in Bondi Junction twice for about 3 hours each time to get the paperwork sorted out.

Insufficient staffing and training is also affecting the quality of service provided to income support recipients. Many call centre staff are now casuals or non-ongoing employees who have limited training. Members have informed the CPSU that the training provided is basic and does not cover all areas of work. It means these staff are not in the position to answer or deal with many matters, creating far more work and duplication. It also leads to increased customer aggression as they are not able to have their enquiry dealt with at the first point of contact.

It is also important to note that to ensure the integrity of the payment system, enforcement activities must be properly resourced.

Mutual obligation is resource intensive

Creating the capacity for DHS employees to individually tailor participation and obligation requirements means more staffing, adequate resourcing and training. This is what would be required under a shift towards increased mutual obligation. The current workload pressures make it difficult to provide the support and assistance needed. In the 2012 survey of CPSU members, 79.5 per cent said their workload affected the quality of assistance they were able to provide to those who interact with the system.

Under staffing means we do not have enough time to discuss options with customers or encourage them into new and more meaningful areas.

Staffing levels, as per usual, make it very difficult for people to be seen as soon as their problems arise. Breaches, of course, lead to more financial problems for clients, which can then turn into even more visits to Centrelink, already under-staffed.

Centrelink are always understaffed, especially at Customer Service Centres. This means staff do not have enough time and resources to adequately assist customers fully. There are too many people waiting to be seen in the queue, and I know that staff are pressured by managers to hurry up. There is the same situation with Call Centres. Lots of mistakes and errors are being made due to being high workload, being rushed and inadequate training.

More money is being directed to online services for customers to communicate but there are less staff at offices. The ability for staff to interact and support clients who have been on payments for a long periods of time is not occurring. More face to face time, going through a customer situation with a customer needs to be funded, if the Government wants customers to be assisted with finding employment and for staff to identify barriers to employment.

This issue would be further exacerbated if the government's proposal to require jobseekers to apply for 40 vacancies month is implemented.

More staff and resources are required to ensure clients will get the quality support they need to help get back into employment. It requires an investment in the DHS workforce, supplemented with properly funded face-to-face or call center support, not just in self-service telephones and online services. It also requires a sensible approach to mutual obligation expectations, not the blanket application of punitive measures such as the 40 applications a month requirement.

Sanctions

The ACTU welcomes the Review calling for a more progressive system of sanctions with the strongest sanctions only being reserved for serious non-compliance. As one CPSU member stated:

What is the best way of insuring that people on income support meet their obligations? Don't shame or bully them. Allow dignity over one's circumstances that have lead them here & ensure social inclusion & community engagement.

Compliance arrangements need to be flexible to take into account individual circumstances. It is also evident from feedback from DHS staff that early assistance on job seeking skills such as resume and application writing, interview techniques and where and how to look for work would be of benefit to many jobseekers. Early intervention in these areas may assist many people in moving through the system quickly.

Training linked to jobs

The interim report reflects the growing consensus that vocational education and training, as well as employment services, should be better linked to available jobs and the skills that are needed in the job market.

The ACTU supports this emphasis and has been making this point strongly in other forums, including through ongoing collaborative work with ACOSS and the BCA that is focused on the needs of disadvantaged job seekers. We refer the Reference Group to the recent joint proposal issued by our respective organisations on this subject.²³ Among our joint recommendations is:

Ensuring access within the Vocational Education and Training system to training up to AQF3 level for jobseekers in receipt of income support payments, while ensuring that the training matches the jobseeker's interests and skill sets and aligns with current skills shortages and labour market needs.

However, the interim report fails to appreciate that the capacity of the VET system to better fulfil this role of delivering 'skills for jobs' is being undermined by current policy settings.

There is first a need to address fundamental problems with the way VET is organised and delivered through a 'contestable' training market. This market-driven approach to VET has led to the rapid growth of private, for-profit, training providers attracted by the ready availability of government funding for high-volume, low-cost training. In too many cases, this training has been skewed more towards courses that are commercially viable, rather than those addressing areas of genuine skill need. As a result, students and workers have been left with qualifications that have little value in the labour market.

Problems have also been caused by so-called entitlement funding models in some states that limit government support to a once-only certificate III qualification. This has had the effect of denying access to publicly funded training for those looking to re-enter the workforce, change career, or develop new skills, by virtue of the fact they have existing qualifications at that same level. The rationale may have been to prevent individuals churning through a number of different lower level qualifications - which is a legitimate concern - but there are a range of circumstances outlined above that can justify doing a qualification at the same level. Mechanisms also need to be in place – caps and quotas for example – to ensure entitlement-funded training is linked to identify industry skill needs and jobs outcomes.

The ACTU has made a detailed submission on these matters to the VET Reform Taskforce that is referred to in the interim report.

²³ Available from:

<http://www.actu.org.au/Images/Dynamic/attachments/8263/Partnerships%20to%20secure%20jobs.pdf>

Support for disadvantaged job seekers

As the interim report notes, it is vital that job seekers get an up-front assessment of their training and other needs. However, support for disadvantaged job seekers should not be solely a question of identifying skills gaps and deficits.

In our submission, there should also be a renewed focus on the use and application of Recognition of Prior Learning (RPL) as a way of capturing the existing skills profiles of job seekers. The thinking behind this is that the effort associated with re-engaging injured workers, people with disabilities, recently retrenched workers, and those out of work and marginally attached to the labour market, is usually aimed at what those people cannot do and overcoming the difficulties in employing these groups. This prompts a range of remedial training in literacy and numeracy, as well as 'employability skills'. However, while this training is important, it can overshadow the skills these people have already.

Skills profiling and proper RPL, and, where appropriate, credentialing of skills, can build confidence, identify latent capabilities and streamline training effort. This should form the basis of an entitlement for those who are currently disengaged from the workforce, together with improved linkages between VET and the employment services system and training linked to identified jobs. The benefits of this would include improved workforce participation from a range of equity groups, and the ability to match the skills of individuals with job vacancies.

It is also important VET funding models reflect the true cost of providing quality training along with 'wrap-around support services' that can assist disadvantaged job seekers complete their course and find a job - services such as counselling, and job resume preparation. TAFE is particularly well-placed to provide these sorts of services and has a proven track record of doing so, but it continues to be buffeted by the combined impact of state budget cuts and the market contestability policies referred to above.

We also note the impact of TAFE funding cuts on students from lower socio-economic backgrounds. Course cuts and campus closures have affected a number of students who have to bear the cost of travelling to a more distant campus for their training. Increases to course fees and other charges have an even more direct impact on the affordability and accessibility of VET and TAFE, particularly for disadvantaged students, and can often mean the difference between a person starting and successfully completing VET study and a person forced to drop out or not start in the first place.

Greater support for the position of TAFE as the public provider of VET is vital to any agenda of increasing the skills and workforce participation of those most disadvantaged in the labour market.

Foundation Skills

The ACTU supports the focus in the interim report on foundation skills and the need to improve language, literacy and numeracy. Poor language, literacy and numeracy can act as a key barrier to more successful participation in VET by low-skilled workers and to their prospects of finding sustainable employment. The OECD work in this area highlights the importance of these foundation skills.²⁴

The danger that needs to be guarded against is that students will be churned through endless foundation programs which are not linked to work and vocational outcomes. There is overwhelming evidence that learning in context works; a priority for unions is to ensure that foundation skills training is closely tied with vocational learning, wherever possible, rather than as stand-alone training.

The decision in the budget to remove funding for the Workplace English Language and Literacy program is difficult to fathom in these circumstances. One initiative that unions believe can have practical benefits in dealing with LLN issues in the workplace is to develop a network of dedicated workplace learner representatives or workplace champions.

A program of Workplace Learner Representatives has operated successfully in both the UK and New Zealand for some years, providing employees with individual support to improve their literacy and numeracy and help overcome the stigma attached to these problems.²⁵ We note that the tripartite National Panel for Economic Reform in 2013 endorsed a similar concept of Workplace Champions. Consideration could be given to pilot programs in selected workplaces and industries, possibly through the Government's proposed Industry Skills Fund or similar mechanisms.

Learn or Earn

The interim report asks how a focus on 'earn or learn' for young Australians can be enhanced. The critical point we make here is while no one objects to the basic principle that young people should, where possible, be working or studying with an eye to future employment, the punitive approach proposed by the Government through the Budget and related measures is counter-productive. In particular, measures such as removing access to income support for periods of up to 6 months at a time, requiring up to 40 job applications a month, and forcing people onto "Work for the Dole" projects will only force the unemployed further into poverty, not help them find work or develop real skills and may ultimately place them in need of further assistance.

²⁴ Better Skills Better Jobs Better Lives: Highlights of the OECD Skills Strategy, OECD 2012, pp. 2-3.

²⁵ for further information, see Bill Lee and Catherine Cassell (2009), "Learning organisations, employee development and learning representative schemes in the UK and New Zealand", *Journal of Workplace Learning*, Vol. 21, no. 1, p. 11; and Bill Lee and Catherine Cassell (2009), Learning representative initiatives in the UK and New Zealand: A comparative study', *unionlearn*, Research Paper 10, November, pp. 4-14.

The Budget has also axed a number of skills programs that support the capacity of people to 'learn or earn', such as mentoring, advice and assistance for apprentices, financial support for apprentices to purchase tools, and language, literacy and numeracy programs.

Pillar Three: Engaging with employers

This section provides some brief responses to themes raised in Pillar Three of the Interim Report.

A well-functioning social support system with a focus on employment should have the flexibility to meet both the needs of unemployed people as well as the needs of employers and the labour market.

What is required to achieve this is a deliberate move away from the current structure of the employment services system. The central feature of the current system is the contract model, where providers tender for contract to deliver particular services in a competitive environment and are tightly bound by these arrangements.

The system instead should move to an accreditation model where a wide range of providers, social ventures, and community organisations can apply to be accredited to deliver a range of support and employment services, secure in the knowledge that can develop medium and long term strategies to better meet the needs of employers and job seekers.

A move towards a simpler funding and contracting system would allow for a greater focus on demand-led programs that address job seeker and employer needs. An accreditation model which frees providers from having to constantly tender for employment services work and focus instead on meeting their obligations and delivering quality outcomes for job seekers would allow for a more responsive and simpler system that offers opportunities for job seekers and employers.

Key points:

- An accreditation model for employment services could help to better connect jobseekers with jobs;
- Improving information flows could help to improve outcomes for disadvantaged jobseekers;
- The employment services system should be structured to reward placement of jobseekers into permanent, ongoing work, rather than encouraging churn through labour-hire arrangements; and
- Allowing enough time for the initial assessment of job seekers is crucial.

Replicating successful demand-led employment initiatives

In order for demand-led employment services initiatives to be developed there needs to be an employment services system that recognises and supports these initiatives.

An accreditation model removes the competitive elements of the system encouraging providers to work together to provide specialist services that can meet the specific needs of job seekers. An accreditation model would change the criteria by which contracts and funding are awarded and also remove the regulatory burden of large scale tendering processes occurring every three or four years.

Employers are important stakeholders in the employment services system. The key to raising awareness of the system and building strong partnerships with employers is understanding their needs.

On a practical level the role of intermediaries, such as brokers and business development managers, is key to facilitating the engagement of employers in the employment services system and facilitating demand-led initiatives. Often Job Services Australia (JSA) providers may not have the resources or capacity to build relationships with a wide range of employers and a third party can be an effective way to promote employment services, identify potential employers for partnerships and facilitate collaboration.

Enhancing transition pathways for disadvantaged job seekers

Employment and support services can play a vital role in ensuring that job seekers are placed in work that allows them to meet their personal goals and aspirations. This can only be achieved if employment services providers work with employers to find ongoing employment opportunities.

Closer relationships between employment services providers and training providers would facilitate better outcomes for job seekers. Central to building these relationships is improving the flow of information between education and training providers, employers and JSA providers. This would make the process of identifying training opportunities that exist, jobs linked to those training opportunities and also the job seeker most suited to receive the of training, this would reduce the occurrences of job seekers receiving training that doesn't improve their employment prospects and meet employment demand.

Greater flexibility in the system to recognise other types of outcomes as employment services such as training and mentoring all have an important role to play in transitioning people from unemployment into ongoing work. This requires greater flexibility in the system to recognise that there are many avenues to employment and utilising the vocational education system to provide job seekers with the opportunity to access a wide variety of education and training delivers better outcomes.

Embedding an employment focus across services

The main focus of employment services should be moving job seekers into sustainable ongoing work. This cannot be achieved if providers are placing job seekers with labour-hire agencies or in short term contract positions. An employment focus can be embedded by a commitment to permanent employment placement by structuring government support services to reward ongoing employment and ensuring that any training occurring meets a job need.

There should be greater rewards and support for providers to place job seekers in permanent secure employment. Labour hire and churn strategies should not be the central focus of employment services model. There is evidence to suggest that insecure, casual or other forms of temporary work are not

necessarily gateways to ongoing employment. In fact certain factors like age and gender or living in a disadvantaged locality make it very difficult for individual to move beyond casual work once they are in it²⁶.

Enhancing job matching and effective assessment of income support recipients

The first step in finding people training and employment is the assessment process, that is how individuals are referred to JSA providers, and includes an assessment of their capacity to work, level of experience and education. Better information and more time is needed to place people on the right path and to ensure that they are matched with the most appropriate JSA provider and receive the training and support they need. Allowing for more time and increasing funding for staff numbers would ensure that the assessment process was thorough and effective.

Further to this a simpler and more responsive mechanism for revaluation of the initial assessment is also needed, if the circumstance for the job seeker changes. Improving the flow of information between providers and the government is improved to ensure that re-assessments can be made quickly, following a change in circumstances for job seekers.

Improving the matching of job seekers with available jobs again goes to the role of intermediary organisations and JSA providers being able to have the scope and resources to work with employers and training providers to share information, form partnerships, develop strategies all to create clear pathways to real jobs for unemployed people. An integrated, flexible, well-resourced job services system is the way to meet the needs of job seekers and employers alike.

²⁶ Ian Watson 'Bridges or Traps? Casualisation and Labour Market Transitions in Australia' available at http://www.ianwatson.com.au/pubs/watson_bridges_traps_casualisation_jir_sept2012.pdf



level 6 365 queen street
melbourne victoria 3000
t 03 9664 7333
f 03 9600 0050
w actu.org.au