

A New System for Better Employment and Social Outcomes

Interim Report of the Reference Group on Welfare Reform to the Minister for Social Services

EXECUTIVE SUMMARY



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A New System for Better Employment and Social Outcomes

INTERIM REPORT RELEASED FOR COMMENT

An Interim Report by the Reference Group on Welfare Reform to the Minister for Social Services has been released to encourage public debate and discussion.

The Reference Group will develop its Final Report based on feedback from consultations and discussion about the proposed future directions.

The Reference Group has reviewed the broad range of payments and services available for people of working age.

The aim is to identify improvements to ensure the social support system is sustainable, effective and coherent, and encourages people to work to their capacity.

The Interim Report proposes four pillars of reform:

- Simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity

The Reference Group comprises Mr Patrick McClure AO (Chairperson), Mr Wesley Aird and Ms Sally Sinclair.

The Interim Report is available at www.dss.gov.au/welfarereform

Pathway to final report

For its Interim Report the Reference Group has taken stock of the information available from a range of reviews and public debates on welfare reform over the past decade and has tested this through discussions with selected stakeholders.

It is important that the Reference Group now engage more extensively with the public in order to develop its Final Report.

The launch of the Interim Report marks the start of a six week period of public consultation. This includes a call for public submissions and round tables in capital cities.



Executive Summary

Government cash transfer payments to individuals and families represent the most significant component of Australia's social support system in expenditure terms. The Department of Social Services has policy responsibility for income support payments and supplements worth around \$100 billion in 2012–13. This is a significant investment with a wide reach across the community.

Changes to Australia's income support system over time have resulted in unintended complexities, inconsistencies and disincentives for some people to work. The system is also out of step with today's labour market realities and community expectations. The income support system is in need of major reform to deliver better outcomes for all Australians now and into the future.

Long-term reliance on income support increases the risks of poor health, low self-esteem and social isolation. It can also have intergenerational effects. Children who grow up in households with long periods on income support are more likely to have poor education, employment and social outcomes. In contrast, employment generates clear financial, health and social benefits for individuals, families and communities.

To maximise employment and social outcomes, and to remain sustainable over the longer term, Australia's income support system needs to have a stronger employment focus. It should provide adequate support while encouraging more people to work to their capacity. It should also be simpler and more coherent.

While reforms in recent decades have increased participation expectations for income support recipients, a more fundamental reform of the architecture of the system is needed to better capture evolving labour market and social changes such as the growth in part-time work and the increased labour force participation of women.

The broader social support system should work in tandem with the income support system to assist those most in need. This includes well-functioning employment services, housing assistance, child care, and early intervention and integrated services for people and families with complex needs, such as homelessness, mental health conditions and drug or alcohol addiction.

Reform needs to take account of recent developments such as the system of lifelong care and support for people with disability being introduced through the National Disability Insurance Scheme, the expansion of paid parental leave and the opportunities offered by new technology. It should also take account of effective interventions to support people who are vulnerable in the labour market, such as people with mental health conditions and people with disability.

This report proposes four pillars of reform:

- Simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity

Simpler and sustainable income support system

A properly functioning income support system should have an employment focus that encourages people to work to their capacity.

Reforms are required to simplify the architecture of the income support system to make it easier for people to identify their pathway to participation. The system should be easy to access and understand and able to be delivered efficiently and effectively.

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. It should be affordable and sustainable now and across future economic cycles.

Future directions

Future directions to achieve a simpler and sustainable income support system should involve a simpler architecture, a fair rate structure, a common approach to adjusting payments, a new approach to support for families with children and young people, effective rent assistance, and rewards for work and targeting assistance to need. These future directions are set out below, together with questions on which the Reference Group is seeking feedback.

Simpler architecture

Fewer primary payments

The Reference Group considers there should be a simpler architecture for the income support system consisting of the following payment types: a tiered working age payment; a Disability Support Pension; an Age Pension and a child payment.

Tiered working age payment

A simpler architecture should include a working age payment.

Within the working age payment, different tiers of payment could take account of individual circumstances, such as partial capacity to work, parental responsibilities or limitations on availability for work because of caring.

People with disability who have current or future capacity to work could be assisted through the tiered working age payment to better reflect different work capacities.

Requirements, services and other supports could be individualised to each recipient's circumstances, including current or future capacity to work.

Disability Support Pension

A Disability Support Pension would be reserved only for people with a permanent impairment and no capacity to work.

Child payment

To simplify payments to families, a simpler child payment structure could bring together Family Tax Benefit Part A, Youth Allowance, ABSTUDY and other payments for dependent children and young people.

Age Pension

People of Age Pension age should generally receive the Age Pension, subject to eligibility.

Fewer supplements

There should be fewer supplements with more clearly defined purposes for specific additional costs, for example, supplements to contribute to the costs of participation and rents.

Other supplements could be absorbed into the basic payments.



What is the preferred architecture of the payment system?

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

How could supplements be simplified? What should they be?

What are the incremental steps to a new architecture?

Fair rate structure

Reconsider gap in rates

In moving towards a new working age payment, consideration should be given to reducing the current gap between pensions and allowances, particularly for people with limited work capacity, or with significant labour market disadvantages.

Targeting higher working age payment rates

Within a tiered working age payment structure, consideration should be given to when a higher rate should be paid. Recipients of higher rates could include single parents, people with disability and a partial capacity to work, and others with a significant barrier to full time employment. Recipients of the lower payment rates could include students and single unemployed, particularly those of younger age.

Review single rates

The single rates in the allowance system should be reviewed taking account of the costs of living alone compared with sharing accommodation as well as the costs of meeting participation obligations.

Income support for families with children

Work should also be undertaken to establish appropriate payment rates for income support recipients with children. This would consider more consistent rates for single parents compared with the rates for couples with children, and rates paid as children get older but remain dependent on their parents for housing and other support.

Further consideration should also be given as to how to best deliver the additional assistance currently provided through Family Tax Benefit Part B to ensure it is received in a timely way to assist families with children.



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

Common approach to adjusting payments

There should be a common approach to adjusting payments to ensure a more coherent social support system over time. It is important to ensure that any approach to adjusting payments balances sustainability of the income support system, fiscal flexibility for governments and changes in community living standards as the economy grows.



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

Support for families with children and young people

Simpler payments

The complex mix of different payments should be replaced by a new child payment for the costs of children and young people to complete education and transition to work.

- Payment rates in a new child payment should increase progressively to recognise the increasing costs as children grow up.
- Supplements could be paid to recognise additional costs in particular circumstances, for example, living away from home to study and the costs of living across more than one household.

Clearer policy

A clearer policy framework should be developed for when children and young people can access income support in their own right. This needs to ensure sufficient incentives for education and transition to work.



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

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

Effective Rent Assistance

Rent Assistance should be reviewed to determine appropriate levels of assistance and the best mechanism for adjusting assistance levels over time. Rent Assistance for parents should recognise their role in supporting young people beyond school to independence.

Consideration could be given to moving away from the current system of income based rents towards the use of Rent Assistance as the preferred rent subsidy scheme across both private and public tenures.



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

Rewards for work and targeting assistance to need

More consistent rules

Income and asset test free areas, taper rates, income banking arrangements and waiting periods should be reviewed with a view to moving towards more consistent rules which provide appropriate rewards for work.

Consideration should also be given to how income from work could be more favourably treated than income from other sources.

Tax and transfer interaction

A new simpler system should take account of interactions between tax and income tests.

Over the long-term, consideration should be given to better integrating the administration of tax and transfer systems to improve incentives to work.

Simpler means testing for families

Simpler income testing for families should provide more certainty of assistance and clearer rewards for working.



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

At what income should income support cease?

What would be a simpler, more consistent approach to means testing income and assets?

Strengthening individual and family capability

Reforms are needed to improve lifetime wellbeing by equipping people with skills for employment and increasing their self-reliance. The social support system should help people build the capacity they need to participate economically and socially, to the extent they are able. This will require targeting people at the highest risk of long-term income support reliance, and for whom early intervention has the greatest likelihood of return on investment.

Mutual obligation needs to be aligned with labour market opportunities. It should also reflect broader community expectations that those who can work should do so, in order to become more self-reliant, and that people should care for their children.

The social support system should assist people, especially young people, to attain the education and skills they need to find and retain work. It should also include integrated models of support and employment assistance that are effective for people with complex needs.

Future directions

Future directions to strengthen individual and family capability are proposed in the areas of mutual obligation, early intervention, education and training, improving individual and family functioning and evaluating outcomes. These are set out below, together with questions on which the Reference Group is seeking feedback.

Mutual obligation

More tailored employment obligations

Participation in employment should be a priority across the whole social support system.

Individually tailored requirements rather than the current categories would recognise the diversity of people receiving income support.

Arbitrary exemptions from participation requirements should be avoided. For people who are not currently available to work, such as carers and parents of young children, the participation focus could simply involve a discussion about future plans. For some people who are already working, it may involve preparing a plan to increase work over time.

In a new system, requirements need to be balanced with appropriate and timely sanctions if expectations are not met. The system of sanctions should be progressive, with timely, lighter measures first. The strongest sanctions should be reserved for serious non-compliance. Application of sanctions should take into account the likely impact on children where applicable.

Personal and family responsibility

Consideration should be given to broadening mutual obligation to include building life skills, promoting parental responsibility and improving outcomes for children, particularly for jobless families dependent on income support.

Income management and support services

Consideration should be given to incorporating income management as part of a package of support services available to job seekers who need to stabilise their circumstances and develop a pathway to work or study.

Income management could also be used to build capabilities as part of a case-management approach to assist the large number of disadvantaged young people not fully engaged in either education or work.



How should participation requirements be better matched to individual circumstances?

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

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

In what circumstances should income management be applied?

Early intervention

Implement an investment model

Risk-based analysis to target early intervention and investment should be a feature of a new social support system. This would include examining the potential for actuarial analysis of the long-run costs in social security outlays and the benefits of addressing these cost drivers for individuals and the system.

Investing in children

Ongoing support should be given to policies and programmes that target children at risk and provide good outcomes and a positive return on investment for government funds.



How can programmes similar to the New Zealand investment model be adapted and implemented in Australia?

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

Education and training

Young people need to be encouraged to complete Year 12, or alternatively a Certificate III or IV or higher qualification which is linked to available jobs. There should be a stronger focus on foundation skills in both schools and vocational education and training, and on transitions from school to work.



What can be done to improve access to literacy, numeracy and job relevant training for young people at risk of unemployment?

How can early intervention and prevention programmes more effectively improve skills for young people?

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

Improving individual and family functioning

Consideration should be given to cost effective approaches that support employment outcomes by improving family functioning.

For people with complex needs, such as people with severe and persistent mental health conditions, there should be wrap around services that assist them to stabilise their lives and engage in education, work and social activities.



How can services enhance family functioning to improve employment outcomes?

How can services be improved to achieve employment and social participation for people with complex needs?

Evaluating outcomes

It is important that support services funded by government are targeted to those most in need and that they are achieving the intended outcomes.

Monitoring and evaluation of programmes that aim to increase individual and family capability should focus on whether outcomes are being achieved for the most disadvantaged. Design of monitoring and evaluation frameworks should take account of the need to minimise the compliance burden on service providers.



How can government funding of programmes developing individual and family capabilities be more effectively evaluated to determine outcomes?

Engaging with employers

Employers play a key role in improving outcomes for people on income support by providing jobs. Reforms are needed to ensure that the social support system effectively engages with employers and has an employment focus.

Future directions

Future directions to effectively engage with employers are proposed in the areas of making jobs available, improving pathways to employment and supporting employers. These are set out below, together with questions on which the Reference Group is seeking feedback.

Making jobs available

It is important that business, government and civil society organisations are encouraged to take social responsibility for improving employment outcomes for disadvantaged groups.

Business-led covenants could be used to further improve employment outcomes for people with disability and mental health conditions.

Social enterprises have been shown to improve employment outcomes for disadvantaged groups as well as provide long term sustainable employment. Further consideration should be given to how the success of social enterprises can be replicated more broadly.



How can business-led covenants be developed to generate employment for people with disability and mental health conditions?

How can successful demand-led employment initiatives be replicated, such as those of social enterprises?

Improving pathways to employment

The reform of employment services should improve pathways and outcomes for job seekers.

Vocational education and training should focus on the skills that are needed in the job market.

Training of disadvantaged job seekers should focus on the skills that are required for available jobs.

Consideration should be given to how approaches such as Individual Placement and Support can be expanded to assist people with mental health conditions to gain and maintain employment.



How can transition pathways for disadvantaged job seekers, including young people, be enhanced?

How can vocational education and training into real jobs be better targeted?

How can approaches like Individual Placement and Support that combine vocational rehabilitation and personal support for people with mental health conditions be adapted and expanded?

Supporting employers

In the review of Job Services Australia, the following should be taken into account:

- focusing employment services more on employers and their needs
- maximising employment outcomes for disadvantaged groups by improving job matching and more effective upfront assessment of needs
- reducing administrative burdens on employers and job service providers.



How can an employment focus be embedded across all employment and support services?

How can the job services system be improved to enhance job matching and effective assessment of income support recipients?

How can the administrative burden on employers and job service providers be reduced?

Building community capacity

Vibrant communities create employment and social participation for individuals, families and groups. Investments by government, business and civil society play an important role in strengthening communities. Building community capacity is an effective force for positive change, especially for disadvantaged communities.

Future directions

Future directions proposed for building community capacity involve a role for civil society, a role for government, a role for local business, access to technology and building resilience. These are set out below, together with questions on which the Reference Group is seeking feedback.

Role of civil society

Innovative solutions are required to address the multiple issues faced by disadvantaged communities. These solutions need to bring together corporates, philanthropic organisations and individuals, government and the community to address these issues.

Connecting disadvantaged people to their local community is important in building community capacity.

Volunteering is of significant value to both the individual and the community.



How can the expertise and resources of corporates and philanthropic investors drive innovative solutions for disadvantaged communities?

How can the Community Business Partnership be leveraged to increase the rate of philanthropic giving of individuals and corporates?

How can disadvantaged job seekers be encouraged to participate in their community to improve their employment outcomes?

Role of government

The Australian Government funds major initiatives in disadvantaged communities, including Indigenous communities. These initiatives address issues such as unemployment, skills improvement, family dysfunction, community capacity building, school attendance, safety, parenting and transition from school. In addition income management is being rolled out to more communities across Australia.

Ongoing monitoring and evaluation is important to be able to rigorously assess the effectiveness of government intervention in community capacity building to ensure taxpayer funds are well targeted.



How can community capacity building initiatives be evaluated to ensure they achieve desired outcomes?

How can the income management model be developed to build community capacity?

Role of local business

Micro businesses can provide employment for disadvantaged job seekers and contribute to building community capacity.

Mutual and co-operative enterprises can help sustain the economic viability of local communities and build community capacity.



How can communities generate opportunities for micro business to drive employment outcomes?

How can mutuals and co-operatives assist in improving the outcomes for disadvantaged communities?

Access to technology

Access to information and communications technology is an important element in building the capacity of individuals and communities. Increasingly, job seekers require access to information and communication technology to take advantage of employment opportunities.



How can disadvantaged job seekers' access to information and communication technology be improved?

Community resilience

A stronger focus on building resilience could assist communities under stress, including those affected by structural adjustment or natural disasters.



What strategies help build community resilience, particularly in disadvantaged communities?

How can innovative community models create incentives for self sufficiency and employment?

