



Ground Floor
River Tower
20 Pidgeon Close
West End Q 4101

PO Box 3482
South Brisbane BC
Q 4101

p: 07 3004 6911

f: 07 3004 6999

tw: @FCAupdate

ABN: 67 073 167 361

By email: welfarereview@dss.gov.au

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Welfare System Taskforce
Department of Social Services
PO Box 7576
Canberra Business Centre ACT 2610

Dear Taskforce Members

Financial Counselling Australia welcomes the opportunity to provide a submission in response to the Taskforce's interim report on Australia's welfare system.

Financial counsellors provide free, confidential and independent advice to consumers in financial difficulty. We see many clients who are in receipt of various welfare payments and we are well placed to respond to the report.

We support welfare reform and believe that the current system requires change. The system is complex, confusing and, as pointed out in the report, the source of considerable unfairness, particularly in the way different levels of payments are available to different groups. There are also a number of inconsistencies associated with the way in which increases are calculated, how asset tests are applied and the eligibility criteria for payments and allowances.

We make the following specific comments about various elements of the review. Some of the points below address issues not covered in the review, but which we believe are worth raising in looking at the welfare system as a whole.

Our overriding concern is that the system provides an adequate safety net

Our overriding concern is that the welfare system provides an adequate safety net. Payment levels need to be sufficient so that people are not living in poverty and support services, such as opportunities for re-training, need to be available. The current system does not meet these criteria. For example:

- Newstart aims to encourage people to find work, however the payment barely supports living expenses without taking into account other costs, for example, job search costs.
- The drop in single parenting payments when children reach the age of eight (and again at 16) is a major cause of financial hardship. The financial needs of single parents do not change, and the pension is not

enough to support most families to meet their expenses including schooling and medical costs.

We therefore welcome the recognition in the interim report of the current large gaps in payment rates and the report's finding that these gaps need to be "reconsidered". The report also notes that there are two main policy reasons for differential payments - equity and providing incentives to work.¹ We are very concerned that a new simplified system, with its working age payment, will not adequately balance these policy considerations. The starting point must be to provide an adequate standard of living as the primary policy consideration. From that basis, there may be reasons for differential payments as incentives to work, but in a country such as Australia, leaving people in poverty is simply immoral.

As financial counsellors, we see too many people who cannot make ends meet because the level of income support is too low. Many people have turned to credit in order to pay their bills, but eventually this becomes unsustainable. The direct costs are then borne by emergency relief services and creditors. The broader community bears the indirect costs as financial difficulty can lead to mental and physical health problems, relationship breakdown and sometimes homelessness or family violence.

The proposed changes to the welfare system should not leave anyone worse off than they currently are. For example, this could be the case if people are shifted from a Disability Support Pension to lower working age payments.

A simplified system

While we support a simplified system, which will be easier to understand, we are concerned that eligibility criteria may be tightened or restricted. This would mean that the number of people requiring assistance, but not receiving it, would increase. The current system already results in a number of people falling through the cracks. This will put further strain on individuals and families and the NGO sector and lead to social problems within our community.

Specific comments on various payments/eligibility criteria

Supplementary Payments

A reduction in the number of supplementary payments will reduce confusion and simplify the system. Although we note that the interim report says that supplementary payments would be absorbed into a new payment hierarchy, it is very unclear how this will work and we are concerned the change may lead to an overall reduction in income support levels. Payment supplements are often important sources of additional income, relied upon to bolster inadequate levels of pensions and allowances.

Simplifying and reducing payments and supplements may also have a roll on effect for public housing rent assessments, which may see some people's rent payments alter. This

¹ Page 53.

may force more people into the private housing system, which is unaffordable even with current rent assistance levels.

In a simplified system, there will still be a need for each payment to be assessed not just in relation to its adequacy in meeting ordinary living expenses, but also in relation to the additional requirements the payment imposes, for example, in job search costs.

Family Tax Benefit B

Whilst Family Tax Benefit B is a significant payment received by many families, there are problems with people having to estimate their income before they can receive the payment. This payment could usefully be reviewed, or alternative means be found to provide the assistance.

Comments in relation to eligibility and ongoing compliance

Assets Test

The assets test for savings needs to be revised. At present, potential welfare beneficiaries are expected to deplete any savings before they are eligible for assistance. Savings should be allowed to be maintained at such a level that realistic emergency expenses can be met without forcing a person into financial hardship. Examples of emergency expenses include unexpected car repairs, the need to buy new white goods as old ones break down, the requirement to relocate and unforeseen medical expenses. Setting the savings level so low that there is no buffer for these emergencies does not provide any incentive for people to have good financial planning and places greater reliance upon government and NGO sectors for financial assistance. In order to encourage and empower people the savings asset threshold need to be readjusted.

Attending Appointments

The current system also sometimes unfairly penalises people when they do not attend appointments due to circumstances beyond their control. Examples include not being notified of the appointment or being notified too late to make arrangements to attend, for example, not having enough time to change work commitments. Sometimes people are labelled as “difficult” and are “failed” by the system - payments are then suspended or terminated due to “non-compliance”.

Wages Reporting

The current system of wages reporting is difficult to understand and often results in considerable problems. People generally attempt to comply with requirements, however this can be difficult in some circumstances. For example, if a person is working casually and experiences increases and decreases in fortnightly income this is very hard to manage. This is further compounded when reporting days are not in line with work payment days. There are further issues when a person begins working, but they will not be paid until the following pay period, resulting in an estimated income (due to a lack of payslip and

knowledge of pay), a reduced benefit and no income from wages that fortnight. This puts people in considerable financial distress, sometimes unable to afford basic living expenses, and occasionally resulting in debt which must be paid back, due to no fault of the individual.

Employment Issues

Opportunities for training

The report rightly recognises the need for an increased focus on assisting people gain skills and education while looking for work, for example through retraining or TAFE courses. This training needs to be worthwhile and related to an individual's ability, skills, interests and the availability of real jobs. The current system does not always do this. For example, a number of individuals have completed Certificate I and II in retail, without arguably increasing their employability or empowerment – although the training does provide an income source for training providers. Tailoring training and support for work to an individual's needs, rather than the current universal system, would also increase empowerment and achieve better outcomes in the long term. Financial counsellors sometimes encounter situations where highly educated and articulate individuals are on Newstart due to job loss, and are being required to attend training on resume writing and how to dress for interviews.

We also note that the system needs to take the availability of jobs into account. There are very few jobs in regional and remote areas and even in more populous locations, the employment market is becoming tighter and tighter (as evidenced by the recent increase in the unemployment rate in Australia to 6.4%).

Interaction between mental health issues and employment

In many cases employment assists an individual to recover from mental health issues, and the report's suggested increased support and incentives recognises this. We have concerns, however, that the real impact of mental health may be underestimated in some cases leading to people being denied government assistance whilst they are legitimately unable to work. This would lead to increased financial hardship and an exacerbation of mental health problems.

Young people

Clearer rules are required to set out when a young person can be paid adult rates, as well as the circumstances where families receive assistance for dependant young people. There are considerable issues in the current system, where young people who have had to flee their home are largely dependent upon their parents (whom they are trying to legitimately escape) to sign paperwork saying they are no longer dependant. Similar problems also arise for students attending tertiary education who are independent from their families, but do not meet the criteria and as such are not eligible for payments. These individuals are often not eligible for scholarships (due to one of the major criteria often being receipt of Centrelink benefits) and have to work multiple jobs in order to support themselves, without being acknowledged they are independent.

A fairer system would more equitably share payments for youth and young people wanting to attend tertiary education, especially where this requires them to leave home, and also take into account the higher education and other expenses of raising children as they progress through primary and secondary school. It should be noted that government assistance in the past has attempted to provide additional help to these students who have to relocate to attend tertiary education and with schooling expenses, assistance which has provided significant assistance to rural and remote people and those from low socioeconomic backgrounds.

Issues related to renting

Increases in rent have consistently and continuously outpaced the CPI, a major problem which financial counsellors see in their casework. This means that more and more of a person's income is used to pay rent, and their overall standard of living reduces. This is coupled with many public housing organisations reducing their housing stock and more people previously in public housing being forced into the private rental system. A system which linked amounts and increases in rent assistance with real market rent would overcome these problems.

A further complication however, is the disparity between states, and indeed towns, in rental costs. For example, mining towns are notorious for having rents considerably above market rates. These disparities between states and territories in particular, may need to be addressed in any system which is developed in order to ensure equity and fairness.

It is not correct to say, as the interim report does, that many people consider public housing more attractive than private rental. This is for a variety of reasons, including that the properties held by public housing agencies are not always in desirable locations, often being known for high incidences of violence and/or crime, with people living in these suburbs sometimes being victimised and blamed for their problems inappropriately.

Income management

We support the concept of voluntary income management or a trigger-based system (for example where there is evidence that children are at risk). We do not support compulsory Income management for a number of reasons. Compulsory income management undermines the empowerment of individuals, a fundamental value of a financial counselling interaction. We start from a strength-based approach, rather than an assumption that our clients are somehow unable to manage money. We also note that evaluations of income management are mixed at best and the whole system is incredibly costly to administer. Many income-managed people also report feeling stigmatised by the use of the Basics Card.

Restricting how people can spend welfare payments undermines financial independence. This policy seems to assume that low income people are poor money managers, when this is often not the case. There are also issues in rural and regional areas, where the Basics Card may not be accepted by local businesses, leaving people with restricted choice and unable to buy some goods. Further issues are created where people are only able to buy from

certain shops, making them potentially prey to higher prices and unable to exercise good budgeting skills by finding the best prices. This undermines autonomy and disempowers people further. Services such as financial counselling are better placed to offer assistance to people requiring support than mandatory income management. Where income management is voluntary, financial counsellors can play a useful role in helping clients prioritise debts and establish money plans.

Centrepay

Centrepay is a voluntary, free bill-paying system for people in receipt of Centrelink benefits. It is an excellent budgeting and money management tool and the financial counsellor sector strongly supports it. The interim report does not refer to Centrepay and we mention it in this submission for two reasons.

First, wider usage of Centrepay, for expenses such as rent and electricity, achieves some of the aims of income management but without the comparatively large administrative costs and loss of financial autonomy inherent in income management.

Second, even though Centrepay is a very effective tool, we are very concerned about the usage of the system by some businesses whose products can leave consumers worse off. These include businesses selling funeral insurance, which is a particular issue in Indigenous communities and businesses selling consumer leases. FCA's 2012 report "Centrepay: A good idea that has lost its way" has more information. The Department of Human Services has been working to improve the way Centrepay operates, but the issue of which businesses can access the system is still a live one.

Issues in relation to Indigenous people

The interim report recognises the particular disadvantage faced by many Aboriginal and Torres Strait Islander individuals and families. Financial counsellors and financial capability workers work closely with this group of clients, many of whom are in remote areas of Australia. We welcome the report's acknowledgement that this group will continue to require additional and specific support in a range of areas.

We would be delighted to meet with members of the Taskforce, if the group wanted to explore the views of financial counsellors in more detail. Financial counsellors have a unique perspective on the financial needs and capacity of people in receipt of welfare benefits.

Yours sincerely



Fiona Guthrie
Executive Director