



Budgeting for a Better Australia



**National Welfare Rights
Network**

26 November 2013

**Attachment A is about the National Welfare
Rights Network**

**Submission to the
Commission of Audit**

1. Overview and Highlights

The Australian Government faces challenging budget choices including how to meet the reality of an ageing population and address the national infrastructure needs. These challenges must be, while ensuring that the health, welfare and educational needs of our diverse population are met.

According to its Terms of Reference, the Commission is looking at all areas of government expenditure “and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023-24”.¹

The Government has published a set of Principles that will guide the National Commission of Audit. These include that:

- 1) Government should have respect for Taxpayers in the care in which it spends every dollar of revenue;
- 2) Government should do for people what they cannot do, or cannot do efficiently for themselves, but no more; and
- 3) Government should live within its means.²

Total Australian Government expenditure in 2010 amounted to 37% of GDP, placing Australia the third lowest in the OECD.

The size of the structural deficits, according to one respected analysis, could lead to deficits of 4% of GDP, or in excess of \$60 billion in a decade.³

It is concerning that the Commission of Audit was not tasked with and therefore will not undertake a comprehensive examination of all taxation-related expenditures. Tax exemptions and concessions, including some superannuation concessions, capital gains exemptions and negative gearing, are considerable. They act to reduce revenue that otherwise would have been collected and available to address community needs and priorities.

To understand the significance of this issue for the Commission of Audit, consider that Commonwealth tax expenditure in 2011-12 was \$111 billion, while expenditure by the states reached \$28 billion over the same period.⁴

It is worth noting that tax expenditures were explored by the 1996 Commission of Audit.

While Government spending on programs and services is given regular scrutiny (as it should) tax expenditure, in the form of rebated or exemptions through tax law, is the subject of far less interrogation. The Australian Council of Social Service (ACOSS) notes that over the last decade, this type of expenditure has increased from 4.1% of GDP in 2001-12 to 7.6% in 2011-12.⁵ This represents an increase in tax expenditures of 46%.

The National Welfare Rights Network (NWRN) hopes that the promised Government ‘white paper’ on taxation issues must more thoroughly explore all taxation expenditure.

If the Commission of Audit is to be successful it must lead a dialogue about national expectations of what Governments should do and what they should be expected to provide.

Additionally, the NWRN asks that the Commission of Audit learn from the mistakes of 1996, and not set out a ‘shopping list’ for easy savings and cuts to programs that are necessary supports for many people. Similarly, it is important that recommendations from the current Commission of Audit fairly address the structural deficits that underpin the budget.

The last Federal Commission of Audit was initiated by the Howard Coalition Government in 1996. This Audit led to a series of very severe cuts to a wide range of important Federal Government programs and services. The cuts

¹ Treasury, Terms of Reference, *Commission of Audit*, 2013.

² Ibid.

³ Daley, J. Balancing Budgets, *Tough choices we need*, Grattan Institute, November 2012, p. 7.

⁴ Daley, J. Balancing Budgets, *Tough choices we need*, Grattan Institute, November 2012, p. 88.

⁵ Australian Council of Social Services, *Submission to the Commission of Audit, Balancing the Budget*, November 2013.

introduced after the 1996 election were on the scale of 1-2% of all government spending, equivalent to \$15-\$30 billion today.

Some of the changes made by the then new Government included:

- cutting Rent Assistance for people sharing accommodation by a third;
- reducing funding for community legal centres by 40%;
- including superannuation assets under the means test for older unemployed people (later reversed);
- reducing deeming exemptions for pensioners' savings; and
- abolishing the 'earnings credit scheme' (later replaced by 'working credit').

That NWRN notes that many of the decisions in the Budget after the last Commission of Audit were overturned by later Parliaments. Some of the cuts have left large scars, in, for example, dental care and legal assistance programs.

It is essential that the Commission provide opportunities for interested stakeholders and the community to engage in the progress of the Audit. The call for submissions is positive. In addition, we urge the Commission should:

- produce a white paper for community discussion, setting out short, medium and long term options for reform;
- release submissions in a timely manner on a public website; and
- release statistical data on budget program and trends, including expenditure to GDP trends for different direct and taxation expenditure programs, and provide analysis of which population segments benefit from significant programs (including a distributional analysis and impacts statement).

The NWRN understands the economic climate within which these principles are framed. However, the report should not diminish the level of assistance provided to Australians in the greatest need.

NWRN does not support the further roll out of income management, without a proper analysis as to whether any benefits have been achieved by this expensive scheme. Over half a billion dollars has been spent on income management to date without hard evidence to suggest that income management is having a positive impact on people's lives. The cost of income managing some people is over 60% of the basic yearly rate of the Newstart Allowance. In effect, Australia is funding a mini-bureaucracy to micro-manage people's daily spending.

The NWRN opposes any downgrading of Centrelink services. In particular, it should be noted that the purpose, culture and structure of Australia Post are markedly different from Centrelink. In those circumstances a merger (or acquisition) of Centrelink services has the potential to greatly diminish services to people in need. Similarly, the risk management processes required to not only administer but also determine social security payments are significant and would need to be rebuilt in the context of Australia Post's structure and operating model.

Consideration could be given to an expansion of basic Centrelink 'footprint' with limited services like those currently performed through Centrelink Agents such as lodgement of documents and access to basic information. The NWRN would welcome increased accessibility to important Centrelink services in regional, very regional and remote areas.

Lifting people out of desperate poverty should be a national priority. As a start the Government needs to support the call from people and organisations across Australian public life to increase the base rate of Newstart Allowance by \$50 per week.

The Government has committed to meeting the costs of the National Disability Insurance Scheme (NDIS) and funding school improvements. These programs have wide community support and are good examples of nation-building reforms. The Commission of Audit process should not impede either the National Disability Insurance Scheme (NDIS) or the school improvements program.

2. Australia's welfare model

Australia has a highly targeted, means-tested social security system. The targeting increases both administrations costs and increases complexity, making the system difficult to negotiate.

Documents released under Freedom of Information reveal that the 'vision' of the Department of Human Services is to achieve a 90% penetration and take-up of 'self-service' options by 2016.⁶

Looking more broadly than specific payments to families, Australia has one of the world's most tightly targeted social security systems in the OECD, with 42% of transfer spending going to the poorest 20% of the population, and only 3% to the richest 20%.⁷ The OECD found in its analysis of the redistributive effects of OECD nations welfare systems that Australia was the second most effective in achieving this task.⁸

The Minister for Social Services, Kevin Andrews, has announced a review of income support payments. The Minister is reported as saying that the system too ad hoc, is comprised of too many payments which have been included in the absence a holistic strategy and approach.⁹

Also being reviewed is the Disability Support Pension, though it is unclear exactly what form any review will take. The 2012 new impairment ratings are scheduled for review, and NWRN is discussing its concerns with the September 2011 'program of support' rules with Government departments.

With respect to the Disability Support Pension, the NWRN's on the ground experience is that people with disabilities, where their medical conditions allow, want and seek paid employment. Our advice to the Government is to proceed carefully regarding Disability Support Pension changes and ensure that, overall, any welfare changes do not make the situation worse for people, their families and the economy.

The issue should not be about Government's forcing people with disabilities to live below the poverty line on the Newstart Allowance. Instead, it is about the proper support structure to help people with disabilities into ongoing employment. The most difficult aspect of this support may be changing the cultural attitudes of employers including governments.

Unfortunately, the unemployment benefit in Australia is now at such an abjectly low rate that successive federal governments have moved to push people who need welfare onto it. We must not repeat the mistakes of 2006 and 2013, where welfare reform was little more than shifting people with disabilities and then single parent families onto lower payments, without sufficient supports to improve their chances of finding work.

With 53 %of disability pension recipients aged over 50 an effective approach would be targeted wage subsidies that could transition mature age workers back into employment. In June 2007, a year after the Howard Government's 'welfare to work' reforms there were just 31,458 people on Newstart and Youth Allowance (unemployment benefits) with a partial capacity to work. By March this year, this number had soared to 124,247. Next year, 1-in-5 people on the Newstart Allowance will have a significant disability

3. Unemployment, poverty and payment indexation arrangements

In November 2012 a Senate Committee looked into the adequacy of the Newstart Allowance (NSA). It reported that just at just under \$250 per week, NSA was inadequate to live on. The Senate Committee received compelling arguments and evidence on the benefits that would flow from increasing this payment. One in six of all NSA recipients are principal carer's raising children. The data also shows that, 1 in 10 are Indigenous, 1-in-3 are aged over 45 and 1-in-7 have a disability, while a third have a diagnosed or undiagnosed mental health condition

⁶ Department of Human Services, *Technology Plan 2012-16*, p. 14.

⁷ Grattan Institute, *Balancing Budgets: Tough Choices We Need*, p. 74.

⁸ *Ibid*, p. 74.

⁹ Karvelas, P. *Single mums priority in welfare overhaul*, *The Australian*, 27 September 2013,

The overall number of unemployed people has grown by 55% since 2007, from 417,793 in July 2007 to 646,414 in March 2013. The largest proportional growth being in the long-term unemployed group, which increased by 38%. The number of NSW recipients who have been receiving benefits for three years or more has grown from 160,640 in March 2007 to 269,562 in March 2013. Some of this growth is attributable to single parents moved onto the Newstart Allowance as of 1 January 2013. The numbers of people aged over 50 in receipt of the Newstart Allowance has increased by 28% since 2010.

There is an urgent need to review the adequacy of the entire payment system to ensure that people are provided with sufficient money on which they can meet basic costs of living and of looking for work. Any review should consider the recommendations of the 2009 Henry Tax Review which suggested in effect that the Newstart Allowance be increased, and that the indexation formula be reviewed.

The Newstart Allowance has fallen in comparison with the poverty line, the Age Pension and the National Minimum Wage. The minimum wage now stands at \$622.20 per week. By contrast, at \$250 per week, the basic rate of Newstart Allowance represents 39.93% of the minimum wage. In May 2012 it was 41.2% of the minimum wage. This trend needs to be reversed to provide a basic standard of living for the most vulnerable Australians.

An important and critical design of our social security system is the methods of indexation of social security payments. Indexation is an important buffer against poverty. Indexation ensures that people who are primarily reliant on income support payments are able to maintain the purchasing power of their benefits, insufficient as they may be. The Hawke/Keating Government deferred pension indexation in 1986, causing real a decline in the rate of pensions by 1%.¹⁰

Historically, most primary income support payments have been indexed twice yearly to the Consumer Price Index (CPI). The Howard Government legislated an historic commitment to link pension payments to the better of the CPI or Male Total Average Weekly Earnings (MTAWE).

This welcome change meant that pensioners' living standards increased in line with increases in broader community living standards, ensuring that people out of the workforce also financially benefitted from productivity increases. The Rudd Government introduced a further benefit by also linking pensions to a special Pensioner/Beneficiary Cost of Living Index.

The indexation formula has been critical to pension increases over the past two decades (leaving aside the historic one-off \$32 single pension increase in September 2009).

The NWRN points out that indexation of all allowance payments to wage movements in addition to prices will assist in preventing the current \$150 per week gap between pensions and allowances from rising in an unsustainable manner.

The Harmer Pension Review notes that the single Age Pension has risen by 20% over the previous decade, whereas the Newstart Allowance – which is linked only to the CPI – rose by less than 0.5%.¹¹

It is important to note that the indexation arrangements that are available to Age Pensioners flow on to other groups of pension recipients Veteran's pensions, Disability Support Pensions and Carer Payments.

Some have suggested that the Commission of Audit should consider winding back existing indexation arrangements for pensions or freezing payments (either temporarily or permanently). The NWRN does not support such suggestions. The NWRN also cautions against freezing the indexation of the Disability Support Pension perhaps on the grounds that an NDIS has been introduced.

According to the recent Federal Budget Papers, DSP costs are expected to grow by just 2.5% in real terms from 2012-13 to 2013-14, and 6.8% to 2016-17.

¹⁰ The timing of automatic indexation of payment rates in line with movements in the CPI was deferred by six weeks. Indexation occurred on 13 December and 13 June of each year rather than 1 November and 1 May.

¹¹ Harmer, J. *Pension Review Background Paper*, Department of Families, Housing, Community Services and Indigenous Affairs, August 2008, p. 15.

The Budget notes: “Following recent changes to assessment arrangements, the number of DSP recipients are expected to grow at 0.4% per annum on average over the forward estimates, substantially lower than the previous five year period (2007-08 to 2011-12) when recipient growth was 3.1% per annum on average.”¹²

Any suggestion that income support payments should be indexed to the CPI is betrays a breathtaking lack of understanding of the circumstances of those attempting to survive on this most basic payment.

Nationally, one in eight Australians and one in six children live below the poverty line. The latest *Household, Income and Labour Dynamics in Australia Survey*, an annual report conducted by University of Melbourne, shows that single parent child poverty has increased by 15% since 2001. Figures reveal that 24.1% of children living in one-parent households are in poverty. By contrast 7.6% of children with two parents are experiencing poverty.

The University of Melbourne report has blamed the ‘welfare to work’ policies of previous governments for the deepening levels of poverty among single parent families. This trend was exacerbated by the previous Government when it transferred over 60,000 parents from parenting payments to Newstart Allowance over the course of the previous year.

Unemployment payments were last increased in real terms in 1994 by \$2.95 per week. In fact, the first legislation of the newly elected Government in 1994 was to increase payments for unemployed people, reducing the numbers of Australians living in poverty.

Newstart Allowance – a payment for unemployed people – is anything but a new start for those unable to find work. Three quarters of those in receipt of the Newstart Allowance are single and try to make ends meet on a base rate payment of just \$35 a day. Young people living independently fare even worse, on just \$29 per day. It is even harder for Youth Allowance recipients receiving a payment that is indexed only once a year.

An immediate increase to Allowance payments would directly assist the nation’s poorest families including single parent families. An across-the-board increase to single allowance payments would also bring financial relief for over 121,000 people with disabilities on the Newstart Allowance as well as those mature age workers trying to regain a foothold in the workplace.

NWRN has prioritised an increase to the maximum rate of single allowance payments as it would provide the greatest level of assistance to those people experiencing the highest level of financial hardship. As noted, in September 2009 the single Age Pension was increased by a once off sum of \$32 per week. This policy reform had the effect of significantly reducing the numbers of elderly living in poverty in half. A similar action with regard to Newstart Allowance would benefit some of the most vulnerable in our community.

4. Assisting entry to the labour market

Improvements are needed to strengthen employment assistance for people who have been looking for work, and priority must be directed to the most disadvantaged job seekers.

The existing system could be improved if the following changes were adopted:

- increase payments to allow providers to improve training and work experience options for people at risk of becoming long term unemployed;
- wage subsidy schemes for young people;
- doubling the Wage Connect wage subsidy scheme to 20,000 places per annum ;
- greater investment in the Local Connections To Work program;
- introducing measures to reduce churn’ of disadvantaged job seekers;
- greater flexibility for young people, including increased options for job search;
- face-to-face career counseling for single parents and young people at risk; and

¹² Commonwealth Government, *Budget Strategy and Outlook, Budget Paper No. 1, 2013-14*, 6-34.

- improved opportunities for choice and flexibility for job seekers.

Genuine action is needed to reduce the numbers of long term unemployed. Job seekers who undertook vocational training during 2011-12 had a 32% chance of being employed three months later, compared with 22% of Work for the Dole participants. It is clear that vocational training generates better client outcomes.

The need for employment programs that support the most disadvantaged job seekers is critical, with 253,000 people having been out of work for more than 24 months. Less than 1.5% of very long term unemployed people had been assisted by vocational training over the last four years

Wage subsidy programs provide unemployed people with the chance to gain real skills and on-the-job experience and evidence shows that people with recent experience are much more likely to be considered by a future employer.

A period of paid work experience in regular employment can significantly improve the job prospects of long-term unemployed people and this type of program could be extended to young people generally. This type of program also reassures employers that the jobseeker is capable of undertaking work. Equally important for a jobseeker, these schemes boosted the confidence of people who had been previously overlooked.

The Post Program Monitoring Survey from the Department of Employment, Education and Workplace Relations (DEEWR) reveals far better outcomes for job seekers who have benefited from a Wage subsidy. In 2011-12, 27.2% of unemployed people who had been out of work for 24 months or more were in employment three months after starting in the employment services system. By contrast, 47% of participants in the wage connect scheme (or 3779 of the total of 8084) were in employment after the end of the 26 week wage subsidy period.

The job outcomes were extremely disappointing for very long term unemployed people who had spent three months in Work for The Dole programs. Just 20.8% of 'work for the dole' participants were in employment.¹³

Another issue that needs to be addressed is the high level of 'churning' in the system, which has the greatest impact on disadvantaged job seekers.

Figures released through Senate estimates reveal almost 30% of disadvantaged jobseekers who are on the highest level of support in finding employment return to income support payments within six months of having completed a six months subsidised employment placement through their local employment service provider. This stands in contrast to 'work ready' job seekers who had completed 26-weeks of employment. Only 15% of this latter group were unemployed six months later.

Of all jobseekers who were receiving income support and were supported into jobs in calendar year 2011, 32% were no longer receiving income support three months after the job placement and 39% after six months.

5. Income Management

Under income management half of a person's Centrelink payments are generally only accessible through the use of Basics Card. The Basics Card can only be used to purchase a prescribed list of goods and services that are authorised by Centrelink. Compulsory income management are on most occasions imposed on the basis of what sort of payment the person receives as opposed to any particular triggers.

Hundreds of millions of dollars has been spent on income management to date without hard evidence to suggest that income management is having a positive impact on people's lives. The cost of income managing some people is over sixty per cent of the basic yearly rate of the Newstart Allowance.

Despite recent changes to income management, its use is still largely confined to the Northern Territory, where 18,632 people are subject to the policy. Over 9 in 10 of people subject to income management are Aboriginal

¹³ Department of Education, Employment and Workplace Relations, *Labour Market Assistance Outcomes*, June 2012.

income support recipients, and there is little change in the patterns with granting of exemptions from income management (where 10% of non-Indigenous recipients obtain three quarters of all income management exemptions).

Since 2008, there has been a string of reputable reports and critiques of income management arrangements. These include the Yu Report in 2008, the Australian Doctors' Association, the survey by the Equal Rights Alliance, and even the Parliamentary Library. Each of these reports has been equivocal as to whether there were any tangible benefits from the policy of income management. Critically, no evidence has been presented that quarantining half of a person's income support reduces unemployment or long term reliance on Social Security payments.

In July 2012, the then Government extended income management to five locations, Bankstown (NSW), Shepparton (VIC), Playford (SA) and Logan and Rockhampton (QLD). At 1 July 2013 there were 501 people on income management in the five 'place-based' locations. Ninety-two per cent were 'voluntary' recipients, and just two were under the child protection category.

The benefit of this has yet to be determined, yet income management was further extended on 1 July 2013 to groups of mainly vulnerable young people.

The group most affected by the 1 July 2013 extension of income management was young people on Youth Allowance receiving the Unreasonable to Live At Home (UTLAH) rate. Some 1,550 of these young people, many who may be experience family violence or abuse, have had their meagre income support payments quarantined since 1 July 2013.

Ninety young people have applied for 'exceptions', claiming that income management would psychologically harmful or would impact of the accommodation, and 16 were successful in avoiding the imposition of income management.

A recent study by Professor Philip Mendes, Director of the Social Inclusion and Social Policy Research Unit in the Department of Social Work at Monash University, has called for an alternative evaluation framework.

"Top-down policies such as Income Management imposed on local communities are not likely to provide an effective solution to complex social disadvantage that has both individual and structural causes", argues Mendes.¹⁴

Between 2005-06 and 2014-15, Income Management will cost \$1 billion according to estimates by the Parliamentary Library. The current lack of evidence of any sustained and meaningful improvements in people's lives as a result of compulsory income management makes it difficult to see how the new Federal Government can justify further expanding this expensive program in the tight fiscal climate.

The lack of evidence regarding the effectiveness of income management and the high cost of administration – of up to \$7,900 per person each year – should act as a constraint on moves to expand the scheme more widely.

6. What role for Government? Centrelink: a case study

The future of Centrelink has received considerable interest in the media recently. In this section we address the question of Australia Post and Centrelink because it has been "floated" in the media.

Centrelink and Australia Post both deliver important public services in their own right. If Centrelink were just a transactional service, there may be some merit in considering an expansion of Centrelink services if the major risk management issues could be ameliorated. However, Centrelink is not just a transactional service. It is therefore hard to how Australia Post could undertake Centrelink discretionary decision-making and service delivery roles without a major loss to people who need help.

¹⁴ Mendes, P, et al. *The Place-based Income Management Trial in Shepparton: A best practice model for evaluation*, July 2012.

As pointed out earlier in this submission, Australia has one of the most complex welfare systems in the OECD. This level of complexity requires highly skilled and trained employees to ensure that social security law is applied in a fair, transparent and impartial manner. One concern about outsourcing this work to Australia Post is that the frontline employees at the counter will be expected to understand all the day-to-day Australian Post issues as well as all the social security and Centrelink issues.

Furthermore, while Centrelink is the most complained about agency in the country, Australia Post is the second most complained about. In 2012-13, Centrelink accounted for 28% of all complaints to the Commonwealth Ombudsman and Australia Post accounted for 20%.

Many of the Centrelink complaints related to staff shortages and lengthy waiting times for service, decision-making and review of decisions. Centrelink doesn't always get discretionary decisions right. However, outsourcing the problem won't make it go away; it will just be hidden from view.

In 2012-13 the Department of Human Services administered \$149.4 billion in payments, or around 39% of all Government outlays. A Government decision to deliver those payments and all Centrelink decision-making through Australia Post shops would require very strong risk management processes. The cost of establishing new risk management process in Australia Post may be hard to justify given that these processes are already in place for Centrelink.

Despite our concerns about the Australia Post proposal, Centrelink's decision-making, administration and service delivery do need to be improved. Staff shortages may be responsible for some of the service delivery delays and delays in the appeal and review system.

Last year there were 46,243 complaints to Centrelink's internal feedback line.

In 2012-13 the top five complaint categories by volume were:

- access to call centre (23%);
- staff knowledge and practice (19%);
- decision making (12%);
- staff attitude (11%); and
- Interactive Voice Response (6%).

With respect to Centrelink's decision-making about people's rights and responsibilities under social security and family assistance law, there were 123,526 internal reviews undertaken by Centrelink in 2012-13 resulting in 36.1% of decisions being overturned, up from 32.7% in 2011-12.

In 2012-13 there were 12,147 appeals lodged with the Social Security Appeals Tribunal (SSAT), which is independent of Centrelink. Last year there was a 9% increase and the numbers of people seeking an independent review of a decision that Centrelink had made. This translated to an extra 1,053 SSAT appeals.

Three in every ten applications lodged with the Administrative Appeals Tribunal (AAT) were Social Security appeals. During 2012-13 there were 1,919 customer appeals at the AAT. Disability Support Pension cases accounted for most of the 29% increase in social security appeals at the AAT that occurred over the last year.

With respect to complaints about Centrelink service delivery, the Ombudsman received a total of 5093 complaints about Centrelink in 2012-13. Many of those complaints were about delays in service and decision-making. Some of those complaints were about the administration of income management.

The Ombudsman expressed disappointment that that Centrelink "has not made the most of opportunities to fix deeper problems and improve its administration of income management".¹⁵ In 2012, the Ombudsman released a scathing report on Centrelink's handling of income management, especially as it related to exemptions from

¹⁵ Commonwealth Ombudsman, Annual Report 2012-13, p. 44.

Income Management. A critical finding of the Ombudsman's analysis of complaints about income management was that Centrelink had persistently failed to 'learn from its mistakes'.¹⁶

More recently, the Ombudsman's Annual Report documented cases involving seven Indigenous people on income management who had their rent deducted from social security payments despite the fact they were not liable to pay rent for their dwellings. Another case involved an Indigenous man from Victoria who was mistakenly placed on income management while visiting his daughter in the Northern Territory.

Below we highlight some of the key issues faced by Centrelink clients, and challenges facing Centrelink as it seeks to improve its services.

- When incorrect decisions are made the lives of many vulnerable families, individuals, families and children are made harder.
- Like many Government agencies, Centrelink has suffered cutbacks in staff and the cost cutting associated with so-called 'efficiency dividends'.
- Under-resourcing can lead to inconsistent and poor quality in Centrelink's decision making, and leave staff poorly informed about the complex rules that they are required to administer.
- Centrelink faces pressure because of increase demand, increasingly complex social security rules and higher expectations of customer service.
- Centrelink continues to be criticised lengthy wait times, both on the phone at the Centrelink office. In 2012-13, Centrelink failed to meet targets for responding to appeals by people who believed that Centrelink made an incorrect decision.
- Centrelink faces a backlog of many thousands appeals, with people waiting up to six months or more for their appeal to be progressed.
- In its 2012-13 Annual Report Centrelink failed in the key critical key category of 'customer satisfaction'. The agency rated just 72%, well below the target of 85%.¹⁷

Some improvements that need to be made within Centrelink are as follows:

- fair and timely internal Centrelink reviews;
- not to be left behind in a 'digital divide';
- improved Centrelink correspondence;
- simplified reporting requirements; and
- shorter, more reasonable waiting times by telephone or in the office.

The fact that the NWRN has criticisms of Centrelink does not suggest that the solution is a merger or takeover by another organisation. In our submission such a process may actually exacerbate the current problem.

To take Australia Post as an example, it has a successful record as a bill payment authority. Australia Post has neither the appropriately skilled personnel nor administrative culture for the operation of a social security system, whilst the design of existing Post Office outlets is unsuited for the delivery of personal services.

¹⁶ Commonwealth Ombudsman, *Annual Report 2012-13*, p. 46

¹⁷ Department of Human Services, *Annual Report 2012-13*, p. 14.

7. Addressing the crisis in housing affordability

The Minister for Social Services has said “there is currently a national housing problem in Australia”.¹⁸

The community, government and business must address housing affordability issues and homelessness.

The facts on housing affordability in Australia are alarming:

- average rents have increased by 32% in the five years to 2012;
- it takes an average of 5.7 years to save for a deposit in Sydney, according to a 2011 study by the recently abolished National Housing Supply Council;
- rental increases have outstripped earnings growth in recent years;
- renters make up 24% of households compared with 18% 15 years ago;
- in 1994, 42% of Australians had mortgages, while in 2004 it was 30; and¹⁹
- Home-ownership is declining significantly across most groups in the population. The National Housing Supply Council *Housing Supply and Affordability Issues 2012-13* notes that housing supply difficulties “is likely to continue to be felt by the more vulnerable in our population, such as...those dependent on government income support payments.”²⁰

In June 2012, there were 164,323 people on waiting lists for social housing. People can wait up to 10 years on public housing wait lists, and there is a shortage of over half a million rental properties for people on low incomes. At current growth trends by 2016 the national dwellings shortfall will be around 512,000. By 2031, the shortfall will be at 1.28 million dwellings, according to warnings by the Minister for Social Services.²¹

The 2008 Harmer Review and the 2009 Henry Review both noted inadequacies on the system of Rent Assistance and urged reform. The Government needs to start this process of renewal of rent assistance in the next Federal Budget. Commonwealth Rent Assistance (CRA) helps to improve the affordability of housing, but it does not prevent people from falling into housing poverty.

The housing affordability crisis imparts hardest on those on low and fixed incomes. Almost three in four people who receive Commonwealth Rent Assistance (840,000) pay enough rent to be eligible for the maximum rate of CRA. In other words they pay more than \$135 per week in rent.

Over the past decade there has been mounting evidence of an acute fall in private rental affordability and an associated increase in housing stress amongst the growing numbers of private renters. A person is considered to be in ‘housing stress’ if they are paying more than 30% of their income in rent. They are defined as experiencing ‘extreme rental stress’ when they spend more than 50% of their income on rent.

Data about those who receive CRA highlights the increasing incidence of ‘housing stresses’.²² In the absence of Rent Assistance approximately 810,000 people would be in ‘housing stress’.²³ Over 480,000 private renters, or two in every five Australian’s receiving CRA, are paying more than 30% of their weekly income including CRA in rent. This figure has grown from 450,000 in March 2011. Some criticise Rent Assistance, but the cold facts are that the scheme has reduced the proportion of people in housing stress from 67.7% to 40.1%. This is a reduction of housing stress by around 330,000 people, or almost 28%.²⁴

More than two out of five recipients are in housing stress, with unemployed people and young people hit the hardest. Over the past decade, the percentage of Newstart Allowance recipients in rental stress has increased

¹⁸ The Hon Kevin Andrews, Minister for Social Services, *Speech to the National Housing Conference*, 1 November 2013, Adelaide.

¹⁹ Australian Bureau of Statistics, *Housing Occupancy and Costs 2009-10, ABS Report*, 16 November 2011, Cat. No. 4130.0.

²⁰ National Housing Supply Council, *Housing Supply and Affordability Issues 2012-13*, 2013, p. ix.

²¹ The Hon Kevin Andrews, Minister for Social Services, *Speech by the Minister for Social Services, Closing address to the National Housing Conference*, 1 Nov 2013, Adelaide.

²² Senate Community Affairs Committee, Answers to Questions on Notice, FaHCSIA, Portfolio, *2012-13 Supplementary Estimates Hearings, Question No. 520*.

²³ Ibid, Table No. 4.

²⁴ Data in Rent Assistance is from National Welfare Rights Network, *How Rent Assistance is Failing Too Many Australians*, May 2013, at www.Welfarights.org.au

15%, from 47% in 2002 to 62% in 2011.²⁵ By contrast only 13% of all CRA recipients are spending more than 50% of their household income on rent.

Twenty-seven per cent of all Newstart Allowance recipients are still paying 50% of their income in rent. The proportion of people on Newstart Allowance that are experiencing 'severe rental stress' is double that of all other individuals and families receiving Commonwealth Rent Assistance (CRA).

Analysis of the available data reveals that three in four students are officially living in 'housing stress' and that unemployed people are twice as likely as age or disability pensioners to experience extreme rental stress.

The Government could make a number of improvements to the current Rent Assistance arrangements to help those struggling in the private rental market.

The method by which Rent Assistance is currently indexed places recipients at a significant financial disadvantage because it is continually shrinking as a proportion of real increases in rental costs. Increases in rent assistance are linked to the CPI. The problem is there is a significant statistical disconnect between CPI data collection and the sum of rent payable by rent assistance recipients.²⁶

Some people receiving social security payments who are sharing accommodation with others have their Rent Assistance rent reduced by a third which can have a very severe impact on their ability to find housing. These sharer rules, introduced in 1997, reduce the amount of Rent Assistance to \$80.67 a fortnight as at 1 January 2013.

Rent Assistance data from Senate Estimates reveals that as at September 2012, 157,726 households, or 13.2% of all rent assistance recipients, were paying in excess of 50% of their household income in rent.²⁷ Of these household, 35% or 55,701 were on NSA. There were also a very high proportion of young students on Youth Allowance paying excessively high rents, with 27,876 or 37.9% of students paying more than half of their income in rent.

Rent assistance is a means tested payment targeted to address a significant market failure, that is, the inability of the market place to deliver affordable housing to social security recipients and low income earners. Given this, the NWRN believes that the Commission of Audit should make recommendations that seek to address this essential payment as outlined below.

Options for improving the effectiveness of rental supports include:

- increase the maximum rate of Rent Assistance by 30%;
- indexing Rent Assistance to movements in national rents;
- that the Productivity Commission undertake a review of the effectiveness of Commonwealth housing assistance, including the appropriate roles of State and Territory Governments; and
- abandoning the 'sharers' Rent Assistance rules introduced following the 1996 Commission of Audit.

8. The review of social security payments & the tax white paper

The NWRN believes that payments need to be targeted to ensure that those in the greatest need receive the highest level of financial assistance. In the lead up to the Commission of Audit many groups and 'think tanks' have floated suggested reforms to our social security system. We urge the Government to initiate a public review of our

²⁵ A joint interagency submission from the Department of Education, Employment and Workplace Relations, FaHCSIA and DHS and DIISRTE to *Senate inquiry into the adequacy of the Newstart allowance payment system for job seekers and others*, August 2012, p. 114

²⁶ This problem arises because rent comprises 6% of the Consumer Price Index basket, and yet rent consumes around 35% of all income received by Rent Assistance recipients. A much fairer and more equitable approach would be to index Rent Assistance to increases in national rents paid by income support recipients.

²⁷ Senate Community Affairs Committee Answers to Estimates Questions on Notice, Families, Housing, Community Services and Indigenous Affairs Portfolio, 2012-13 *Supplementary Estimates Hearings*, Question No. 520, Table 7.

welfare system with public submissions and community meetings which would feed into an options paper for broader community consultation.

A similar process should be followed with the proposed review of the Australian taxation system. It is critical to build on, and not seek to replicate the work and analysis that has already been undertaken by the Henry Tax Review. All research, background briefings, working papers and commissioned research undertaken for the 2009 *Henry Tax Review*, and the 2008 *Harmer Pensions Review*, should be made available on a public website, to inform community discussion.

The Australian social security system by comparison to other OECD countries is targeted and tightly means tested. The NWRN is concerned that the Government has proposed to abolish the Schoolkids Bonus, while not offering to restore financial assistance for the significant numbers low income families who will be affected. While the Schoolkids Bonus payment is poorly targeted it does provide vital assistance to low income families who are trying to survive on low and inadequate income support payments.

The NWRN would support means testing the Bonus such that it is only available to those who receive Family Tax Benefit A at the maximum rate. This threshold stands at \$48,837 during the quarter ending 31 December 2013.

The NWRN does not support the calls by some to reduce the income threshold for payment of general family tax benefits to a uniform median weekly earnings \$64,168 beyond which no benefit is payable, as this could cause financial hardship to many. This proposal needs much greater examination.

The NWRN would support a thorough review of the family payments system. However, we oppose any attempt to target low income earning families without a proper analysis of their distributional impacts and their effects on single parents and low income households.

9. The Age Pension, Superannuation & Participation: what policies for a decent old age?

A number of recent reports have highlighted the pressures arising from the ageing of the Australian population, with a focus on the costs of superannuation and the benefits which are provided to older Australians not living on low incomes.

Australia's population is set to hit 38 million by 2060, with the 75 years-plus component expected to rise by four million. This is an increase from about 6.4% to 14.4% of the population.

In 2012, there was roughly one person aged 100 years old or more to every 100 babies. By 2060, it is projected there will be around 25 such centenarians.

As noted earlier, the 2009 single pension increase had a significantly reduced the proportion of age pensioners who were living in poverty. Older Australians who do not own their own homes and are in the private rental market are most likely to be experiencing poverty. The recent ACOSS Poverty report found that over 13% of those over 63 live on less than 50% of the median income and over a third of people over 64 still live below the 60% poverty line. That equals 884,000 people aged over 64 living on less than 60% of the median poverty line.²⁸

Almost 60% of Age Pensioners were on the maximum rate of Age Pension at June 2011. Of the 1.3 million on the maximum rate, almost 700,000 were older women. The 2008 *Harmer Pension Review* reported that while only 13.3% report no private income, a further 28% have just small amounts of private income (up to \$20 pw).²⁹ Forty percent of age pensioners had just \$20 in addition to their Age Pension which for a single person is paid at the maximum rate of \$375 per week.

²⁸ Australian Council of Social Service, *Poverty in Australia*, 2012.

²⁹ Harmer, J. *Pension Review Background Paper*, Department of Families, Housing, Community Services and Indigenous Affairs, 2008.

The NWRN notes, however, the ever-increasing assets test limit for age pensioners, and increased wealth held by some, though not all, 'baby boomers'. Currently Age Pension couples can own their own home of any value and receive part a pension with \$1,253,000 in financial assets on a combined income of \$72,000 a year.³⁰

Below we highlight some of the existing support for older people that warrant further investigation.

The NWRN supports a review of taxation and superannuation arrangements, with a focus on fairness, equity, sustainability and intergenerational fairness, where assistance is provided on the basis of need and not age alone.

The Commission needs to consider for efficiency and equity reasons:

- that the provision of tax-free super granted in 2006, is resulting in forgone revenue of \$3 billion per annum;
- that taxing all super earnings would significantly affect only the wealthiest 30% of retirees in their 60s, and
- the existing tax arrangements mean workers over 60 can pay significantly less than workers under age 60.

Looking at the cost of the Age Pension compared to the costs of tax concession for superannuation:

- in 2011-12, tax concessions contributed \$30.2 billion to the superannuation accounts of Australians, increasing to \$45 billion by 2015-16, making this by far the largest single area of government expenditure by way of concession;
- taxpayer subsidies for superannuation are likely to grow significantly faster than the annual cost of providing the Age Pension. By 2015-16 the annual cost of taxpayer contributions to superannuation will exceed the annual cost of the age pension;
- a key flaw in our superannuation system is that contributions are taxed at a flat rate of 15%;
- the top 5% of income earners receive 37% of all superannuation taxation concessions: and; and
- a significant proportion of these concessions for superannuation are going to future retirees who will almost certainly be ineligible for the age pension.

The other key challenge is to improve opportunities for workforce participation for mature age unemployed people.

Recent data from Senate Estimates reveals that mature age job seekers are faring poorly, with there being a 28% increase among people aged over 50 on Newstart Allowance since 2010. In December 2010 there was 139,881 aged over 50 on Newstart Allowance. This figure had increased to 179,736 in March 2013.³¹

The question of how to improve workforce options for older people has been a topic of discussion in Australia for decades. "Law reform can remove barriers to mature age workforce participation...But it can only go so far", said the Australian Law Commission in a recent report into the impact of Commonwealth laws on mature age workforce.

"Achieving cultural change was singled out by stakeholders in the inquiry as a crucial reform. It is the 'real game changer'."³²

The Australian Law Reform Commission noted in its paper *Grey Matters – Barriers to Participation by Mature Age Australians*, that:

³⁰ Department of Human Services, *A Guide to Australian Government Payments*, 20 September - 31 December 2013.

³¹ Senate Standing Committee on Education, Employment and Workplace Relations, Questions on Notice, Budget Estimates 2013-14, *DEEWR Question No. EW0073_14 and EW0930_11*.

³² National Welfare Rights Network, Submission to ALRC Inquiry, *Access All Ages – Older Workers and Commonwealth Laws*, Report No. 120, March 2013, p. 3.

...limitations on choices about work may particularly affect those engaged in hard physical labour who may not want, or be able, to extend their working lives—for example, ‘blue-collar’ and ‘pink-collar’ workers such as construction workers and nurses respectively. The Government of South Australia noted that construction workers ‘are considered “mature aged” at the age of 40 years due to the physical demands of the job’. Construction and Building Industry Super (Cbus) noted that, in its experience, the ‘dominant factor influencing the supply of labour by older construction workers’ is their capacity to continue to meet the physical demands of the work. Put simply, increasing ... the preservation age will be unlikely to boost participation by older workers.³³

To increase the Age Pension eligibility age and the superannuation preservation age proposed by some without increasing the rate at which the Newstart Allowance is paid, only further serves to drive some older Australians into poverty. This approach does not address the real difficulties faced by many older Australians in finding and sustaining employment, and lack of employment and saving options for the army of unpaid carers, who in the main, are older women.

Prescription subsidies

To highlight the issues above, we examine a recent Government election proposal targeted at senior Australians.

The Coalition made an election promise to index the Commonwealth Seniors Health Card (CHSC) to CPI. In the past the income test for this card has not been indexed. The promise will cost \$100 million over four years. Access to the CHSC provides cheaper prescription medicines and a *Seniors Supplement* worth \$852 per annum. Currently, single older people with incomes under \$50,000 per annum (or \$80,000 for couples) are eligible for the card.

The Commonwealth Seniors Health Card (CHSC) is used as a means by which the Commonwealth and state governments provide assistance to people aged over 65 with incomes which make them ineligible for the Age Pension. Over 290,000 people currently have access to this card and the benefits that go with it.

From September 2014, the thresholds for the Commonwealth Seniors Health Card (CSHC) will be indexed to the Consumer Price Index. Around 20,000 more people will gain access to the CSHC by 2016-17.

The main benefits are:

- concessions on prescription medicines listed on the Pharmaceutical Benefits Scheme;
- Hearing Aids;
- bulk-billing at the discretion of the doctor;
- a reduction in the cost of out-of-pocket medical expenses; and
- discounted fares on Great Southern Railway Services.

With the card, prescription medicines are available at \$5.90, instead of \$36.10 per script. The CSHC has no assets test, and the income limit does not include untaxed superannuation payouts, which can be as high as \$500,000, or more.

By way of comparison, there are many single parent families surviving on incomes between \$36,000 and \$47,000 who are not eligible for income support once their oldest child turns eight years old. At this point, they are no longer eligible for Parenting Payment (Single) and do not qualify for Newstart Allowance. These parents are no longer eligible for concessional medicines yet have incomes much lower than the seniors who will benefit from access to the CHSC.

It is important that access to benefits and concessions be fair and properly targeted to those who are in need.

³³ Australian Law Reform Commission, *Grey Matters – Barriers to Participation by Mature Age Australians*, DP No. 78, [184], September 2012.

10. Tackling Indigenous Disadvantage

Despite billions of dollars and bipartisan political support for 'Closing the Gap', little real progress is being made in improving the lives and well-being of Aboriginal and Torres Strait Islander peoples. As has been well documented, Aboriginal and Torres Strait Islander people experience much poorer outcomes across all measures of quality of life including employment, health, education, and housing. Compared to non-Indigenous people, they are also over-represented in the criminal justice system and the care and protection systems.

One of the key areas where improvements are needed is in relations to life expectancy. The Aboriginal and Torres Strait Islander Social Justice Commissioner, Mick Gooda, noted recently that life expectancy for Aboriginal and Torres Strait Islander peoples has improved but it still lags behind that of non-Indigenous Australians.

The data shows a small but welcome improvement in Aboriginal and Torres Strait Islander life expectancy. However, a significant gap remains. Life expectancy amongst Indigenous men has increased by 1.6 years over the past five years and for Aboriginal and Torres Strait Islander women the increase has been six months.

The life expectancy gap is now 10.6 years for Aboriginal and Torres Strait Islander men and 9.5 years for Aboriginal and Torres Strait Islander women when compared to the average life expectancy of non-Indigenous Australians.

In other key areas like homelessness, Aboriginal people are lagging behind, with Indigenous people four times as likely to be homeless, compared to their non-Indigenous peers. The Australian Bureau of Statistics reports that 49 homeless Australians for every 10,000 Australians, but Aboriginal homelessness is at nearly 200 per 10,000.

In terms of social security compliance arrangements Indigenous Australians are over-represented in terms of the imposition of penalties under social security legislation with 22% of all eight week non-payment periods for those in receipt of income support being imposed on Indigenous Australians. Furthermore, 25% of all job seeker penalties are imposed on Indigenous Australians who themselves comprise 10% of all unemployed people nationally.

It is critical that a national solution be found to what are seemingly intractable problems. This means a focus on community-led identification and solutions, building community resilience and cultural competency.

The NWRN is hopeful that comprehensive strategies which seek to address entrenched disadvantage including for Aboriginal and Torres Strait Islander peoples will be a priority area for the Audit Commission to address.