



Welfare Rights Centre

A community legal centre specialised in social security law and its administration by Centrelink

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Submission to the Senate Standing Committee on Community Affairs Legislation Committee

Social Services Legislation Amendment (Budget Repair) Bill 2015

by the Welfare Rights Centre Sydney

15 January 2016

Introduction

The 2014 and 2015 Federal Budgets introduced a range of tough and divisive social security cuts, which sought to take billions from some of the poorest and most disadvantaged people in the Australian community. Large numbers of Australians concluded that many of the budget changes were unfair and unnecessary. Many spoke out against the deep cuts to community service organisations, to Indigenous legal programs, to domestic violence supports, to family payments and against waiting periods for unemployed people. The combined efforts of many individuals and organisations, and careful scrutiny of the measures in the Parliament, resulted in the defeat of a number of the most extreme and damaging measures.

In this election year, there will be a vigorous community debate about the most effective ways to address poverty and disadvantage, and how to provide the services and jobs needed for a modern, prosperous nation. According to the Parliamentary Budget Office, there is currently around \$12.9 billion worth of vital programs, payments and community supports and services that the Government wants to cut. People on the lowest incomes will be most impacted as these programs and services are reduced.

The Welfare Rights Centre Sydney has been operating for over 30 years, and is the oldest and largest member of the National Welfare Rights Network (NWRN). We are deeply concerned about the attempts to remove essential supports and programs that many low income and disadvantaged Australians rely on.

This legislation, called the *Budget Repair Bill*, re-introduces a number of 2014-15 Budget measures the Government failed to get through the Parliament. The key measures are:

- proportional payments of pensions outside of Australia;
- axing the Pensioner Education Supplement;
- axing the Education Entry Payment, and
- freezing the indexation of free areas and thresholds for working age payments and Parenting Payment Single for 3 years.



Table 1 reveals that over two-thirds of the savings from this Bill will be achieved by the removal of the Pensioner Education Supplement, which accounts for \$252 million from a total of \$579 million in savings over the forward estimates.¹

MEASURE	FINANCIAL IMPACT OVER THE FORWARD ESTIMATES (SAVINGS)
Proportional payment of pensions outside Australia	\$168.4 million
Pensioner Education Supplement	\$252.4 million
Education Entry Payment	\$64.4 million
Indexation	\$93.8 million

Table 1. Savings from measures in the Bill.

Schedule 1. Proportional payment of pensions outside Australia

The *Explanatory Memorandum* notes that from 1 January 2017 this Schedule reduces from 26 weeks to six weeks the period during which the Age Pension and a small number of other payments with unlimited portability, can be paid outside Australia at the maximum rate of payment. After six weeks, payment will be adjusted according to the length of the pensioner's Australian working life residence.²

This Schedule affects the rate of pension paid to Age Pension recipients and a limited number of Disability Support Pension, Wife Pension and Widow B Pension recipients who have unlimited portability.³

Currently, provisions allow Age Pension recipients to receive the pension at the usual rate while outside Australia for up to 26 weeks. This schedule limits that period to just six weeks. Pension recipients who have worked in Australia for less than 35 years would have their benefits reduced according to the length of their working life residence if they travel outside of Australia for more than six weeks in a year, whereas pension recipients who were born in Australia or have worked in Australia for 35 years would not.

The Welfare Rights Centre Sydney believes that the changes to pension portability contained in this Bill would unfairly impact on Australians born overseas. Those who travel to care for relatives or friends, or to obtain care and support that is not available or affordable in Australia, will be placed at risk should this legislation pass. The reduction of time, from 26 to 6 weeks, represents a substantial change of 77 per cent.

The WRC Sydney shares the concerns of the Federation of Ethnic Communities' Councils of Australia, who note that up to 40 per cent of pension recipients were born overseas. It is reasonable to expect that the significant section of the Australian population who were born overseas would seek to maintain these important ties with their country of origin. Family issues,

¹ Minister for Social Services, the Hon Christian Porter MP, *Social Services Legislation Amendment (Budget Repair) Bill 2015*, p. 1.

² This change follows recent changes to the "working life" resident rules.

³ Ibid, p. 1.



including bereavement and caring responsibilities may dictate that overseas stays need to be for extended periods of time.

The National Welfare Rights Network points out that older people from culturally and linguistically diverse backgrounds are particularly at risk of being negatively impacted by these reforms as they are more likely to have a humanitarian or a compassionate reason to undertake travel overseas. We believe that it is not unreasonable for an Age Pension recipient with close family overseas to want to spend an extended period of time with family overseas, particularly when dealing with illness or bereavement or when periods of extended caring is required.

The WRC is sceptical that the savings attributed to this measure will eventuate, though we note that these changes will be damaging and stressful to pensioners who need to spend time outside of Australia. The Australian reported in January last year that a policy meant to save \$12.3 million will cost the government \$15.9 million.⁴ It is also unclear if the \$168.4 million in savings take account of savings in health and aged care while a person is overseas. For some older people, especially those with terminal illness or significant disabilities, these costs can be significant.

Recommendation: That the Committee recommend that this schedule not be enacted.

Schedule 2. Pensioner Education Supplement

The Welfare Rights Centre urges the Committee to reject Schedule 2 of the Bill which would terminate the Pensioner Education Supplement.

In the following brief comments we:

- analyse the impact of removing the supplement;
- explore which groups will be impacted; and
- highlight the consequences of failing to include appropriate transitional arrangements.

The Pensioner Education Supplement (PES) provides financial assistance with the ongoing costs of full-time or part-time study in a secondary or tertiary course at an educational institution approved by the Australian Government. The supplement is paid to people who are studying, including Disability Support Pensioners, Parenting Payment Single recipients, carers and widows.

Nearly 47,000 people will lose between \$811 and \$1,622 per year if this payment is removed. Some 3,140 Indigenous people are eligible for Abstudy PES.⁵ The higher rate of \$62.40 per fortnight is available to those who are studying full-time, while those studying part-time receive \$31.20 per fortnight. As at June 2014, 93 per cent were receiving the higher rate of PES.

As noted in Schedule 3, the Government plans to remove the Education Entry Payment, which provides additional assistance to over 92,000 people, in addition to the study supplement. The loss of both of these payments will be a serious blow to the aspirations of people wanting to make the move from welfare payments to work.

⁴ Morton, R. *Blunder adds to \$30m DSP travel policy blowout*, The Australian, 30 January 2015, <http://www.theaustralian.com.au/national-affairs/treasury/blunder-adds-up-to-30m-dsp-travel-policy-blowout/news-story/24e7b595d3c793b3f83f07f7fed7931e>

⁵ Senate Community Affairs Committee Answers to Estimates Questions on Notice Social Services Portfolio 2014-15 Supplementary Estimates Hearings, Question No. 251.



The Pensioner Education Supplement provides a small but important regular payment to help with the costs of study. It can be used to purchase study aids, and covering items such as textbooks, academic resources, printing, transport, internet connections, etc.

The removal of this supplement will limit the opportunity for single parents and people with disabilities to retrain or undertake a university or TAFE course. PES assists people with disabilities and single parents to gain the skills they need to compete be attractive to employers. News of the plan to axe the PES was, unsurprisingly, met with alarm and concern from people who were accessing this supplement.⁶

At June 2014 there were 46,885 people undertaking a course of study with the PES. Three-in-ten (13,700) were aged under 25, indicating that this payment offers beneficial supports that assists young people to continue in education and study.⁷ Seven per cent of those studying with the PES were Indigenous.

Data from Senate estimates indicates that eighty per cent PES recipients are women. With 42 per cent of those studying with the PES on the Disability Support Pension, women and people with disabilities will be the biggest losers if this supplement is abolished.⁸

One-in-six people receiving the PES are working part-time or casually. In addition to undertaking study, some are also raising young children. This can be a significant commitment, especially for those who are lone parents. It is likely that the additional financial stress of removing the supplement is likely to result in women exiting from their studies or course.

The Welfare Rights Centre also notes that this measure will remove the PES which was only extended to single parents on Newstart (partial capacity) from 1 January 2014. The Senate inquiry into the adequacy of the Newstart Allowance supported extending the PES to single parents on Newstart. In early 2014, around 1,400 single parents were receiving the PES, and it was estimated that about 25,000 single parents on Newstart would undertake a course of study with the PES over the next few years. It is deeply troubling that in the future, study may be out of reach for these parents if the PES is terminated by the Parliament.

The Centre shares the concern of the National Council of Single Mothers and Their Children that the bill fails to include transitional arrangements that would allow people currently enrolled and receiving the supplement to complete their course of study. We note that the average time that the PES is received is 3.5 years. It is unfair to cease access to this supplement for people who are in the process of completing a course of study. When changes were made impacting single parents in 2006 and 2013, transitional rules to sensibly allow parents to complete their course.

If the bill to remove the PES is supported by the Parliament, it is critical that the legislation be amended to enable people studying to complete their current course.

⁶ <http://www.begadistrictnews.com.au/story/2302473/pensioner-education-supplement-slashing-kills-chance-to-retrain/>

⁷ Senate Community Affairs Committee Answers to Estimates Questions on Notice Social Services Portfolio 2014-15 Supplementary Estimates Hearings, Question No. 251.

⁸ ⁸ Senate Community Affairs Committee Answers to Estimates Questions on Notice Social Services Portfolio 2014-15 Supplementary Estimates Hearings, Question No. 251.



When considering options to reform social security payments and the related supplements, it is also worth noting that even the ideologically-driven, fiscally hard-headed National Commission of Audit did not go as far as recommending that the PES be removed, proposing instead that the Supplement only be provided to recipients during study terms or semesters.⁹

Welfare Rights notes that there appears to have been no formal evaluation or assessment of the impact of the PES or of the proposal to remove the supplement. This suggests that the removal of the supplement appears to be little more than a savings measure, regardless of the impact on people eager to study and get ahead.

The removal of this payment is both counter-productive and short-sighted, and calls into question the sincerity of the Government's stated aims of encouraging job seekers of working age to be "job ready".

Recommendation: That the Committee recommend that this Schedule not be enacted.

Schedule 3. Education Entry Payment

The Education Entry Payment assists with education expenses and is paid once a year to eligible recipients. It is paid at the rate of \$208 per annum. In examining its removal, we briefly assess the Government's broader arguments for removing these supplements.

The Education Entry Payment supports people on pensions and allowances with the costs of returning to study, as long as they meet other eligibility requirements.

Around 90,000 people benefit from receiving this assistance each year, at a cost of around \$65 million over the forward estimates.

It is relevant to note that other cuts to payments are occurring at the same time as the future of these two supplements are being decided. The Welfare Rights Centre notes the decision of the Parliament to also remove the Income Support Bonus, which is also currently paid to many people who receive the Pensioner Education Supplement and the Education entry Payment. The Bonus is paid twice annually, to meet unexpected costs. It is currently \$110.60 per week, and \$92.10 for each member of a couple.

The Income Support Bonus has been the first real increase for unemployed people on the Newstart Allowance since 1994, and it equates to about \$4 per week. It will be removed at the end of 2016.

The Explanatory Memorandum argues that alternative payments are available, however no financial impact assessment has been provided to justify the removal of this payment.

The *Report on the Reference Group on Welfare Reform* (referred to as *the McClure Report*) argues that our current social security system in Australia, with 20 main income support payments

⁹ National Commission of Audit, 4.3, *Recommendation 20: Reforming Supplements*, at: <http://www.ncoa.gov.au/report/phase-two/part-c/4-3-savings.html>



and 55 supplements “has led to a system that is difficult to understand, navigate and administer”, which “adds complexity” and results in a “system that is confusing”.¹⁰

The Welfare Rights Centre’s 30 years of experience in dealing with individuals about their social security payments is that many have a reasonable level of awareness of the payments that they are receiving, and of the benefits that they are entitled to. In our experience, this is particularly the case with the study supplements.

It appears that the driving imperative behind this Bill is to reduce the number of supplements, as highlighted in the McClure Review. The aim is to reduce the number of supplements, irrespective of whether or not such reduction plays a beneficial and important role in alleviating poverty or assisting people in the transition to work, study or training. This is not a sound or defensible approach to developing social policy.

Recommendation: That the Committee recommend that this Schedule not be enacted.

Schedule 4. Indexation

This Schedule:

- maintains the income free areas for all working age allowances (other than student payments) and for Parenting Payment Single for three years from 1 July 2016; and
- maintains the income free areas and other means test thresholds for student payments, including the student Income Bank limits for three years from 1 January 2016.¹¹

As noted in the *Explanatory Memorandum*, under the current rules the income free areas and means test thresholds are indexed annually in line with movements in the Consumer Price Index (CPI). Indexation occurs either on 1 July or 1 January, depending on the type of payment.

This Schedule pauses the indexation that occurs on 1 July each year of various income thresholds that apply to certain social security benefits and allowances (other than student payments) and the income test free area for Parenting Payment Single for a period of three years. These amounts will be frozen, and essentially will not be indexed on 1 July 2016, 1 July 2017 and 1 July 2018.

Additionally, the usual 1 January indexation of the income free areas and other means test thresholds for student payments will be paused for three years. These amounts will not be indexed on 1 January 2016, 1 January 2017 and 1 January 2018, and “catch up” increases will not be provided for.

One of the most obvious impacts of the payments “pause” will be for the income free areas for Newstart Allowance recipients, which was increased from \$62 to \$100 per week as a result of a 2012 Senate Committee inquiry into the adequacy of the Newstart and other allowances.¹²

¹⁰ McClure, P. *A New System for Better Employment and Social Outcomes: Report on the Reference Group on Welfare Reform*, February 2015, p. 9.

¹¹ *Explanatory Memorandum*, p.9.

¹² Senate Education, Employment and Workplace Relations References Committee, *The adequacy of the allowance payment system for jobseekers and others, the appropriateness of the allowance payment system as a support into work and the impact of the changing nature of the labour market*, 29 November 2012.



The *Social Security Amendment (Supporting More Australians into Work) Bill 2013*, which received bipartisan support, lifted the Newstart Allowance income free area from \$32 a week to \$100 a week from 20 March 2014. The Bill also introduced indexation of the income free threshold. This is the first time that the income free area had been indexed since the Unemployment Benefit was first introduced in Australia in 1944, following the unrest caused by 30 per cent rates of unemployment during the Great Depression.

The income free threshold was indexed to the Consumer Price Index on 1 July 2015 and it is now \$102 per fortnight.¹³

Welfare Rights has been a consistent and persistent advocate for the indexing of the income free area, as this is critical to ensuring that its value is maintained over time. The impact of the freeze to the income free areas will be a decline in their value in real terms.

A substantial number of unemployed people, including about 45 per cent of single parents on Newstart, will be impacted by this threshold freeze. At June 2015, 20.5 per cent of all Newstart Allowance recipients, just over 154,017 job seekers, reported earnings from employment.¹⁴

In an era where much of the paid work available may be casual or irregular shifts, the failure to adjust the amount that a person can earn before their social security payment is reduced constitutes a work disincentive, though admittedly minor. However, if you are existing on a maximum payment of just \$261 a week, every dollar counts.

Casual and part-time workers, and low income earners will experience a decline in the value of their earnings under this measure before the Parliament. The failure to continue with the existing, beneficial indexation arrangements means a loss of income for many. The freezing of the thresholds in real terms also undermines the Government's approach to social security reform. It has consistently argued that to be effective in encouraging people to move from income support to work, people should be financially better-off when they choose work.

This is little more a cost cutting measure, saving \$93.8 million over the forward estimates. The measure will not assist people to move out of poverty, and it will not help to move people into employment, study or training.

The *Explanatory Memorandum* argues that the freezing of various thresholds is consistent with Australia's human rights obligations, arguing that "the changes to the value of income test free areas and thresholds for certain Australian Government payments assist in targeting payments according to need."¹⁵ It is difficult to argue that someone who earns just \$652 a fortnight does not need increased financial support.

The comments concerning the human rights implications of Schedule 4 ignores the practical reality that this Bill and other measures before the Parliament involve reducing and removing income support for significant numbers of disadvantaged and low income Australians. Examples include cutting Family Tax Benefit (FTB) Part B, removing FTB Supplements and the Large Family

¹³ Minister for Employment, Education and Workplace Relations, *Social Security Amendment (Supporting More Australians into Work) Bill 2013*, 28 June 2013.

¹⁴ Department of Social Services, *Demographic Data, June 2015*. At: <http://data.gov.au/dataset/dss-payment-demographic-data/resource/e6457899-378e-406f-8027-a6ee8a19eec6>

¹⁵ Explanatory Memorandum, p. 8.



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Supplement, axing the PES, and imposing a four week waiting period on 75,000 young job seekers aged under 25 years.

The level of the unemployment benefit in this country is now unsustainably low, and is over \$170 per week below the rate of the Age Pension. Instead of addressing the inadequacies of the Newstart Allowance and increasing the rate by a modest \$50 per week, the Bill currently before the Parliament seeks to further impoverish unemployed people. The Government has called this proposed legislation a *Budget Repair* Bill, when what is needed is a Bill to improve the circumstances of those on the lowest incomes.

The Parliament can start to improve the circumstances of many people doing it tough in our community, by rejecting the four schedules in this Bill.

Only then can the legislation be called a *Budget Repair bill* that addresses the needs and supports the most vulnerable in our community.

Recommendation: That the Committee recommend that this Schedule not be enacted.