



Australian Government

Department of Social Services

Dr Kathleen Dermody
Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House

Dear Dr Dermody

Inquiry into the Future of Australia's Automotive Industry

Please find attached the Department of Social Services's response to questions taken on notice at the Senate Committee hearing held on 15 April 2015.

Yours sincerely

Cath Halbert
Group Manager
Payments Policy Group
Department of Social Services

15-5-15

Enc: Questions on Notice - Department of Social Services

Senate Committee: Inquiry into the Future of Australia's automotive industry

Questions on Notice - Department of Social Services

The welfare cost of the closure of the automotive industry

Senator Carr:

Q. The University of Adelaide modelling (also) suggests Australia will suffer 'a negative annual shock of \$29 billion', or two per cent of GDP, by 2017. Similar modelling undertaken by the Allen Consulting Group shows that the welfare cost of this industry's shutdown amounts to \$20 billion. Does that align with your projections?

Q. What projections do you have or have you been provided with so that you can tailor the work that you do in your department?

Q. Could you give me a figure on Department's estimate of the cost to the social security budget across the forward estimates of the reduction in employment in the automotive industry?

Senator Xenophon:

Q. Have there been any projections, estimates, made in respect of the likely additional impact on social security payments as a result of the original equipment manufacturers leaving this country by the end of 2017? I would be interested in hearing that in terms of how that balances up against the ongoing assistance that was due to be given to the industry.

A. Projections of unemployment benefits are based on Treasury estimates and projections of the aggregate number of unemployed persons.

In deriving these estimates, Treasury endeavours to take all current information into account. The forecasts mainly rely on economic relationships that link the growth in demand for labour to GDP growth and wages growth. Individual factors are not tracked and added to generate a forecast. The automotive industry example illustrates why this approach would be unfeasible in practice – an aggregate employment forecast would need to predict how many former automotive industry workers get re-employed and how many drop out of the labour force (thereby losing their unemployed status).¹

¹ Answer provided by Treasury.

Impact on Budget and Employment

Senator Carr:

Q. What analysis has there been of the likely impact on the budget – your budget, other budgets – of these events? What have you been advised is the effect on the terms of employment for Australians as a consequence of these decisions?

A. As per the advice from Treasury above, Treasury forecasts take all current information into account when providing forecasts.

The Commonwealth of Australia's Report of the Panels for the Review of the South Australian and Victorian Economies dated April 2014, states that "the closure of Australia's car makers is estimated to affect around 27,500 workers nationally, including approximately 5,000 workers affected in South Australia and approximately 18,000 in Victoria. The Report cites ABS data* which states that "around 355,000 people were displaced by changed business conditions in Australia's workforce of 11.5 million in the year to February 2013. Over the same period, more than one million people started employment with a different employer. Over 55 per cent of the workforce had been with their employer for less than five years".

The Report anticipates that the economy will be able to absorb these job losses, with many workers transitioning to new jobs and others choosing to retire. The Panel Report referred to job losses that occurred in the automotive industry between 2006 and 2011, stating that across Australia, 88% of those who lost their jobs between 2006 and 2011 were employed in 2011.

It is important to note that where job-seekers do not transition quickly into new employment, many may be subject to an income support waiting period or periods as a result of having received a redundancy payment from their previous employer. It is expected that a proportion of those workers who face difficulties in finding new employment, but who are in receipt of redundancy payments, will find work prior to becoming eligible for income support.

*ABS Labour Mobility Australia, February 2013, Cat No. 6209

What advice has DSS received from Treasury?

Senator Xenophon:

Q. Have the job losses in the automotive industry been the subject of advice from Treasury or some broader policy considerations?

Q. Could you please take on notice what communications there have been between Treasury and the Department of Social Services in relation to the massive job losses that are expected in the automotive sector, and where there has been any consideration given to that? And further, going back in time, whether the same protocols have been adopted whenever there have been similar structural adjustments or whenever there have been massive economic changes. In other words, what preparation is there?

A. Macroeconomic Conditions Division in Treasury has not previously discussed these issues with DSS.²

Q. Has there been any assessment of the modelling undertaken by the Australian Workplace Innovation and Social Research Centre at the University of Adelaide or the Allen Consulting Group or any other non-government analyst about the impact of the shutdown in vehicle manufacturing? (ie has DSS assessed or received advice from Treasury about their assessment?)

A. DSS has not undertaken any assessment of this modelling, nor have we received advice from the Macroeconomic Conditions Division in Treasury of any assessment of this modelling.

Income Support for Automotive Industry workers

Q. Are there any income support payment programmes specifically geared to those losing employment in the automotive industry?

A. DSS does not gear payments specifically towards those losing employment in the automotive industry. Those facing unemployment as a result of the automotive manufacturing industry closure have access to income support benefits, in accordance with eligibility rules, in the same way that other Australian permanent residents and citizens do. We are not aware of payments made by other Departments to individuals who lose employment in the automotive industry.

DSS engagement with the Department of Industry

Senator Carr:

Q. What is your communication with the Department of Industry on these matters?

Q. Who in DSS has had contact with the Department of Industry about the industry shutdown?

A. As Ms Ryan, General Manager, Participation Division, DSS has advised the Committee, DHS continues to engage with larger employers facing closure. DSS continues to engage with the Department of Industry on matters affecting income support payments.

Newstart churn

Acting Chair:

Q. Do you have figures on the turnover of that (Newstart) – how many new people come on each year and how many people leave?

A. **Table A** indicates the turnover of Newstart Allowance recipients for the months January to December 2014.

² Answer provided by Treasury.

Table A

Newstart Allowance (NSA) numbers for the months January to December 2014

	Inflow		Outflow		
	Churn# - Returning to Income Support (Newstart) within 13 weeks *	Fresh inflow - No Income Support in previous 13 weeks	Exited for at least 13 weeks	Transferred to another episode of Income Support, including Newstart, within 13 weeks	NSA Recipients as at December 2014
NEWSTART ALLOWANCE	170,000	360,000	305,000	200,000	730,000

OF THOSE IN THE CHURNER CATEGORY, A LITTLE OVER HALF RETURNED TO NEWSTART AFTER A SHORT BREAK FROM PAYMENT. MANY OF THE REMAINING 'CHURNERS' HAVE TRANSFERRED FROM YOUTH ALLOWANCE (OTHER) UPON TURNING 22, OR FROM PARENTING PAYMENT (SINGLE) AFTER THEIR YOUNGEST CHILD TURNED 8 YEAR'S OLD.

* THIS INFLOW INCLUDES A LARGE NUMBER OF RECIPIENTS WHO HAD PREVIOUSLY TRANSFERRED OUT OF NEWSTART, AND WHO ARE THEREFORE ALSO REPRESENTED IN THE OUTFLOW/TRANSFERS COLUMN.

❖ NUMBERS HAVE BEEN ROUNDED TO NEAREST 5,000.