



COMMONWEALTH OF AUSTRALIA

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## SENATE

STANDING COMMITTEE ON FINANCE AND PUBLIC  
ADMINISTRATION

**Reference: Families, Housing, Community Affairs and Indigenous Affairs and  
other Legislation Amendment (2008 Budget and Other Measures) Bill 2008**

FRIDAY, 20 JUNE 2008

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BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
FINANCE AND PUBLIC ADMINISTRATION**

**Friday, 20 June 2008**

**Members:** Senator Polley (*Chair*), Senator Fifield (*Deputy Chair*), Senators Carol Brown, Jacinta Collins, Fierravanti-Wells, Moore, Murray and Watson

**Participating members:** Senators Abetz, Adams, Barnett, Bartlett, Bernardi, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Bushby, George Campbell, Chapman, Colbeck, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fisher, Forshaw, Heffernan, Hogg, Humphries, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Webber and Wortley

**Senators in attendance:** Senators Bernardi, Boswell, Collins, Fierravanti-Wells, Fifield, Moore, Polley, Siewert, Watson and Webber

**Terms of reference for the inquiry:**

To inquire into and report on:

Families, Housing, Community Affairs and Indigenous Affairs and other Legislation Amendment (2008 Budget and Other Measures) Bill 2008

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**Committee met at 9.04 am**

**CHAIR (Senator Polley)**—Good morning and welcome to everyone. I particularly welcome those who have attended at such very short notice. As senators, we were expecting to sit in parliament today, so we were going to be here anyway, but we really appreciate your giving us your time at short notice and your submissions.

I declare open this hearing of the Senate Standing Committee on Finance and Public Administration being held as part of its inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008. The bill was referred by the Senate on 18 June. The committee thus far has received three submissions for this inquiry. All have been authorised for publication and are available on the committee's website. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence be heard in camera.

I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as contempt. It is also a contempt to give false or misleading evidence to a committee. The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness shall state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer, having regard to the ground on which it is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may of course also be made at any other time.

Witnesses today will sit as part of a panel. I will invite each witness in turn to make an opening statement. It is important that opening statements be kept to a maximum of two minutes. Our first witnesses broadly represent the community sector. We have Mr Frank Quinlan from Catholic Social Services Australia, Ms Lin Hatfield Dodds representing UnitingCare, Ms Linda White from the Australian Services Union, Mr Greg Macfie from the Australian Council of Social Services, Mr John McIntosh from the Charities Tax Advisory Service, Mr Ian Minnett representing the Salvation Army, and Mr Peter Bicknell from UnitingCare. I have already had an indication that probably only three people will make opening statements.

**BICKNELL, Mr Peter Ernest, Chair, UnitingCare Australia**

**HATFIELD DODDS, Ms Lin, National Director, UnitingCare Australia**

**MACFIE, Mr Gregor, Acting Chief Executive Officer, Australian Council of Social Service**

**McINTOSH, Mr John, Principal, Charities Tax Advisory Service**

**MINNETT, Mr Ian Charles, Chief Financial Officer, Australia Eastern Territory, Salvation Army**

**QUINLAN, Mr Francis Gerard (Frank), Executive Director, Catholic Social Services Australia**

**WHITE, Ms Linda, Assistant National Secretary, Australian Services Union**

**Mr Macfie**—ACOSS welcomes this opportunity to make this submission before the committee and to be here with some of our national member organisations. ACOSS supports tax and social security policies that take account of people's ability to pay or need for income support in a fair and consistent way. On this basis we broadly support the government's budget measures to broaden the definitions used in the income test for various programs. These measures will help to ensure that people who are relatively well off cannot benefit from income-tested government programs, such as social security payments and the superannuation co-contribution, by using various accounting devices to minimise their income.

The bill currently before the Senate includes technical changes to a previous measure legislated in 2006 which was part of a complex package of child support changes. This submission relates to an already legislated measure included in those child support changes, namely the use of gross rather than net income as the basis for taking account of the value of fringe benefits in the family tax benefit income test. ACOSS is concerned about the effect of this legislation on a subset of community services, namely public benevolent institutions and their employees, but it should not be confused with budget measures. We welcome the government's announcement of its intention to legislate to reverse the grossing up of the value of fringe benefits tax for the purposes of family tax benefit and child care benefit.

One way in which the Commonwealth government assists these organisations, that is public benevolent institutions, to recruit and retain staff is by exempting public benevolent institutions from fringe benefits tax for fringe benefits worth up to \$30,000 when grossed up. There are better ways, in our opinion, to address the workforce problems in the community sector, but these have not been implemented. The ideal solution to the above problems would be to fund services adequately so that wages could be improved and to change the indexation formula for government funding of programs so it keeps pace with the cost structure of the services. This would ensure that all organisations providing essential community services benefit, regardless of their tax status, and avoid the transaction costs and inequities involved in salary packaging.

There are also serious anomalies in the tax treatment of charities that were identified in the previous government's charity definitions inquiry whose recommendations were not implemented. This means that many organisations which in principle should qualify for public

benevolent institution status are excluded. In the absence of comprehensive policy solutions along these lines, many community organisations and their employees continue to rely on salary packaging to provide essential services for disadvantaged and vulnerable Australians. Legislation passed in 2006 as part of the child support changes were already taking fringe benefit tax into account on a net basis without grossing up. The effect of this change is to substantially reduce entitlements to many employees to family tax benefits and child care benefit because the process of grossing up increases the value of the fringe benefits as measured in the income test. This will reduce disposable incomes for many families, especially those in the income range of around \$40,000 to \$80,000, when the primary income test for family tax benefit applies.

Given the level of wages in many community services and the nature of the income test for family tax benefit, most of those affected are likely to be on modest rather than high incomes. On that basis, we support the government's decision to introduce legislation to reverse that change. In making that comment, we note that the 2008 budget measures apply reportable fringe benefits to income tests for various government programs for the first time from 1 July 2009. It is our understanding that this test will be the net value of reportable fringe benefits which is consistent with the income test that currently applies to family tax benefit up until 1 July 2008. Thank you.

**CHAIR**—Thank you.

**Mr Quinlan**—I point out, in terms of our opening statement, that I sit with Lin Hatfield Dodds, who is the executive director of UnitingCare Australia. Our position on the issues that are raised is shared, as that position has been developed in a quickly changing environment. We too welcome the opportunity afforded to raise these issues before this inquiry because they really are crucial to the sector and to the work that our organisations are undertaking. We welcomed the government's announcement last night that it will table legislation in the Senate next week to rectify the change in legislation put in place under the previous government which would have reduced the income of low paid charitable workers with families.

We strongly encourage bipartisan support of this legislation—subject, obviously, to its review—once it is tabled in parliament to ensure that it is swiftly enacted and therefore will cause the least disruption possible to the incomes of the families concerned. It is also inevitable, I expect, that the government will seek to amend the legislation currently before this committee, but the implications of those amendments will not be clear until the legislation is tabled.

Catholic Social Services Australia and UnitingCare Australia welcome the government's acknowledgement of the complexity of the issues and referring the broader issues that have been raised as part of this debate to the Henry inquiry in seeking long-term funding solutions to the problems that are raised. While this is welcome in principle, given the broad scope of the Henry inquiry's terms of reference, we would also hope that this matter is not overshadowed by the raft of other issues that that particular inquiry will be seeking to resolve, or at least propose solutions for. In that context we cannot overstate the complexity of the challenges that are faced in this area by the community sector.

Not having seen the legislation, we are yet to confirm whether or not there will be any time limits placed around the government's decision of last night. We will wait to see, for example, whether the change back to adjusted fringe benefits, as opposed to reportable fringe benefits for the purposes of assessing income eligibility, is a long-term or a short-term solution. Whichever is the scenario, we are encouraged by the assurances that our workers will not be any worse off and that the charitable and not-for-profit organisations can continue to attract and retain the valued staff that we have in a very tight labour market. Perhaps some elaboration would best describe the circumstances that we face.

On the matter of the income definitions used for FTB A, FTB B and the childcare benefit itself, we are primarily concerned with ensuring that employees in our agencies are not detrimentally affected by the changes due to take effect on 1 July 2008. Ultimately though, while we are concerned with our workforce, this is principally because of our concern for our clients. These arrangements mean that we are able to provide more services per dollar to clients who need our services.

This debate has highlighted that our capacity to utilise fringe benefits tax exemptions to compensate our employees for our inability to pay real wages to them recognises that our capacity in this regard has been significantly eroded. I would also note here that changes to the income taxation rates have also eroded the value of those packaging arrangements to employees. But perhaps again this is an issue that will be dealt with by the Henry inquiry. I will speak in a moment about the impact of indexation.

The charitable and not-for-profit sector is currently reliant upon these special taxation arrangements to attract and retain staff and deliver services. In effect, these fringe benefits arrangements, which were originally designed for the top end of town, have been extended to the charitable and not-for-profit sector specifically for this purpose. To explode a particular myth in relation to the charities and not-for-profit sector, when we are talking about fringe benefits tax we are not talking about expensive cars, flash holidays or expense accounts. We are talking about fringe benefits acquired by salary packaging, which is usually contributed in terms of mortgages, rents, household expenses and so on. There is a paucity of data available about the actual impacts, but I can give you figures from at least one of our agencies, our largest metropolitan agency, where recent data suggest that 80 per cent of the staff currently utilising salary packaging arrangements are earning \$50,000 or less.

Retention of the current definition of income for the purposes of calculating eligibility for the payments under consideration will be a challenge if these are only short-term measures. Real wages to employees in an industry with high demand and extreme skills shortages will create real challenges for the sector as we deal with community sector issues that run much deeper. Fundamentally, this debate highlights the inadequacy of funding arrangements for services that are being delivered by our agencies. The issue here is not inefficiency on the part of delivering agencies but unrealistically low funding levels, coupled with high expectations of best practice and often inordinate compliance arrangements. Some of you will have heard me cite the example previously of one of our agencies providing a broad range of community services in a regional centre which had 32 workers, but the funding to support those 32 full-time workers was drawn from 28 different state and federal government funding sources in a 12-month period.

In terms of Commonwealth funding, a number of factors have led to the erosion of the funding base, as I have already identified, including compliance requirements, exclusion from funding formula of infrastructure and capital costs, information technology and communications technology costs, but I would also highlight that the cap that is imposed on us in relation to fringe benefits tax exemption was set at \$16,050 back in the year 2000 and has never been indexed. The erosion of that benefit has been significant over that period.

The effects of inadequate funding are demonstrated also by the example of a member organisation of our own with a program supporting children with a disability to participate in mainstream school hours programs. Commonwealth funding for purchasing personal care is approximately \$8 an hour less than the rate at which the organisation has to purchase it. As the funding regulations allow no flexibility, the organisation has to meet the shortfall itself. Here we also come to the issue, which will be raised in other submissions, that some of these FBT arrangements affect not just our Commonwealth and other government funding, but also affect our capacity to maximise funding that we receive from other sources, including fundraising and contributions from our parent organisations.

We call upon the federal government to ensure that program funding in all areas matches the full cost of service delivery, and that this full cost recovery is maintained through appropriate indexation. While the Commonwealth may well be in a position to guarantee this, given the complexity of our funding sources, including state, territory and local government fundraising donations, any short-term reversion of this policy, while welcomed, does not solve the long-term issues that we face. We look forward to an ongoing conversation about how the funding arrangements for the community sector can be placed on a much more viable footing. We note that the current Commonwealth government policy around the social inclusion agenda includes a focus on this, both through the compact and through various other discussions. I would be pleased to ask any questions that senators might have.

**CHAIR**—Thank you very much.

**Mr Minnett**—I thank the committee for its invitation to give evidence at this public hearing. I am the chief financial officer and one of seven trustees of the respective state property trusts of the Salvation Army. I represent the Australia Eastern Territory of the Salvation Army, which covers New South Wales, Queensland and the ACT. I work in the territorial headquarters in Sydney. The Australia Eastern Territory that I represent employs some 4,000 staff, the majority of whom work in the social work of the Salvation Army. There is a similar number of employees that work for the Australia Southern Territory and therefore the Salvation Army employs a total of approximately 8,000 people in Australia.

A large number of the Salvation Army's staff have entered into salary packaging arrangements with the Salvation Army and have been accessing those benefits for a number of years. These staff represent the working families of Australia. The Salvation Army does not readily have figures on how many of these employees are accessing the various benefits impacted by this legislation, and we do not make it our business to understanding the personal circumstances of employees. However, we fully expect that many of them do access the benefits that are critical to their livelihood, and especially necessary at a time of rising costs of living, higher fuel prices and interest costs.

If left unaddressed, the situation from 1 July 2008 will create a negative impact on our staff's ability to fully access benefits under family tax benefit A and B, childcare benefits and rent assistance. If the government does not act to amend the necessary legislation, staff will lose benefits, or parts of their benefits. If this is not dealt with, some staff working for the Salvation Army will be unfairly impacted upon, and their disposable income will reduce. We understand that an employee earning approximately \$35,000 could lose around \$59 a fortnight as a result. Our employees work for us for a reduced salary because they want to make a difference in society. Many of them could earn more elsewhere, and taking employment in the not-for-profit sector is a chosen sacrifice.

The impact of this on the Salvation Army and other organisations employing large numbers of working Australians like our in the not-for-profit sector will be that it will cost more to provide the same disposable income to employees and/or there may be potential loss of employees who will need to seek alternative or additional employment. There will be less funding available to run programs if we need to top up those payments and therefore a possible reduction in service delivery to those in need.

The salary packaging benefits available have been particularly helpful in attracting and retaining quality staff when vying against the for-profit sector. It is difficult for the Salvation Army and similar not-for-profit organisations to provide levels of remuneration as attractive as in the commercial sector. In these days of greater compliance and regulation, it is crucial for the not-for-profit sector to obtain the current advantages in salary packaging, in attracting and retaining good staff. The problem has the potential to hurt the not-for-profit sector.

Therefore the Salvation Army strongly encourages the government to quickly amend the legislation to fix this problem in time for 1 July 2008. The Salvation Army believes that amending the legislation will give the government time to more properly consider policy matters applying to the standardisation of income definitions. Thank you.

**CHAIR**—Thank you. Are there any further opening statements? Ms White?

**Ms White**—I represent the Australian Services Union, which is the largest union in the non-government social and community services industry in Australia. Our members work in a broad range of organisations from disability services to neighbourhood centres, from crisis refuges to environmental organisations. ASU members work in myriad jobs, including employment as social welfare workers, youth workers, advocates, advice and information workers, aged care and support workers, education workers and community development workers, to name but a few. We certainly support the proposals that the government announced last night to keep the status quo in relation to FBT. However, we think that is a very small part of the puzzle that besets the SACS workforce in Australia.

The previous speakers really hit the nail on the head in relation to the problems in this sector. People are extremely lowly paid but are expected to be highly skilled. On the front page of yesterday's *Australian*, an ASU member, David Crawford, who has worked for the Melbourne City Mission for eight years, detailed his experiences and what he does to help troubled children keep off the streets and to avoid becoming homeless. He receives a gross amount of \$46,000 a year for this work, which is less than a first year graduate teacher. He holds a degree. The changes that are now going to be made will at least restore the status quo

for him, but will not address the significant issues that we have seen in the social and community services workforce.

The ASU commissioned a survey last year of the national workforce and received responses from more than 2,100, 52 per cent of whom said they were not committed to staying in the industry beyond the next five years, 40 per cent of whom said they intended to leave the industry to get better pay elsewhere—they nominated that as their single biggest reason. In addition, 77 per cent of the managers surveyed nominated low wages as the main barrier to attracting and retaining staff, and 75 per cent of the managers said low wages was the main reason staff gave for leaving their service. While we welcome this change, there are other significant issues of workforce development that will have to be addressed; otherwise, this sector will be heading for a significant crisis.

We have isolated the indexation of grants as a key problem, as have other speakers. We also seek to understand what the government intends to do in relation to the efficiency dividend and whether that will apply to the community sector. As I said, we welcome the government's proposal to maintain the status quo. We hope that proposal will go through so that people will remain unaffected. Although it is a big issue, it is part of a series of larger workforce development issues that will require significant addressing in the very near future. In conclusion, I must confess that unfortunately I have another commitment, for which I apologise sincerely. It brought me to Canberra and unfortunately I have to leave before 10 o'clock. However, I welcome the opportunity to be able to put the position of the members of the Australian Services Union to the committee today.

**Mr Bicknell**—I am here as the Chair of UnitingCare Australia, but also as the Chair of UnitingCare Wesley Port Adelaide, which is an agency within the UnitingCare Australia group. In what I say today, I also recognise that Frank Quinlan has spoken on behalf of UnitingCare as well as Catholic Social Services Australia and that we have also put in a written submission. I particularly want to talk from the point of view of an agency that is trying to not only employ staff on a fair wages basis but also deliver services for a number of very needy people.

UnitingCare Wesley Port Adelaide have 872 staff and we employ staff in a wide range of areas—aged care, mental health, youth work, family work, homeless young people, and a number of other areas such as that throughout South Australia. Of the 872 staff we employ, 820 have a gross pay of less than \$50,000, so we are really talking about people who are at the lower income levels. Of those, 390 salary sacrifice.

Salary sacrifice is really important for a lot of people who work for us in making up their total package. For example, if we have a worker who has a spouse with no income and two children and earns \$35,000 a year, salary sacrifice, as it has been operating till now, would typically add \$110 per fortnight to their salary package. If the proposed changes had gone ahead, that person would have lost \$59 per fortnight, and \$59 per fortnight on that sort of income is a very significant cost. We want to acknowledge that John McIntosh is here. If you want to ask any questions about how those sorts of things work in detail, perhaps John is the man to answer them.

UnitingCare Wesley Port Adelaide, like other agencies of similar community service areas, is having significant trouble attracting high-quality staff. High-quality staff does not necessarily mean highly paid staff, but, for example, one of the areas in which we work is whole-area family support where we have workers going into families' homes and dealing with very tricky family dynamics. We are having real difficulty in those sorts of areas—mental health, et cetera—in employing people, or finding people who will come to work with us with the right professional qualifications or the right training, and will accept the conditions that we are able to offer. With the changes that were mooted, that compounded the dilemma because, while some people will accept lower pay because of their moral commitment to working in this sort of area, any reduction in pay comes across as being particularly unfair.

We are in a continual struggle to on the one hand increase their salaries while on the other hand meet the contracts which quite often the Commonwealth and state governments require of us. The dilemma we have is that if salaries have to be topped up because of these sorts of changes, for example to maintain equivalence, we have only this option—to reduce the number of staff or the number of hours that people work. The dilemma we have is that quite often government contracts are written in terms of hours of work. For example, part of the contract for the family support program or the mental health program that I have mentioned is for so many contact hours. We have a real dilemma there about where to find the extra money. Invariably what happens is that the number of hours is reduced.

I want to say that fringe benefit relief is really important to agencies such as UnitingCare Wesley Port Adelaide and not easily compensated for. What has happened in the state of South Australia is that there has been a very good initiative where the state government has embarked on a program of progressively over the next few years increasing grants to give a slightly higher base to funded organisations, which is good. The dilemma that we face in respect of that is that a lot of our staff are not employed in funded positions. They are either funded through donations or other fundraising we have, or they may be within the administration, so they may be clerks or something such as that.

The fringe benefits tax relief gives them an advantage and gives them the opportunity to have their pay go further whereas there is a real dilemma in compensation programs, even though we think that, obviously, the grants need to be increased. Fringe benefits tax is also important, not only for lower paid workers, and one of the big dilemmas that we have is our ability to attract more higher-paid workers, particularly in terms of some of the managerial positions. With a large staff, we need good leadership and good accountants, and we need high-quality managers. The fringe benefits process is very valuable to them as well as to us. Thank you, that is all I wanted to say.

**Senator FIFIELD**—I again thank the witnesses for attending at such short notice. The legislative process sometimes is inelegant. I guess this is a reflection of that. I will address my first question to Mr Macfie. I think it would be fair to say that confusion has reigned since Mr Shanahan's article a few days ago in relation to fringe benefits and charities. Perhaps referral of this legislation to the committee by the Senate may have played some small role in prompting the Treasurer's announcement last night. If that is the case, I am pleased.

I think we should also spare a thought for Dr Henry. It seems that with every new headline, he gains an additional job, which may explain why Treasury was a late cancellation for this morning. They are probably already working on the amendments. I think it is important that we recognise that there are two changes which have caused concern: there are the changes legislated in 2006 and the changes proposed in the budget. I just want to confirm what Mr Macfie was saying in his evidence—that you are certainly supportive of the intention of the 2006 changes whereby all fringe benefits should be included in calculations of income for child support to ensure that parents are not able to avoid their childcare obligations or their child support obligations. I think you agree with that intention?

**Mr Macfie**—Yes. We certainly agree with that intention.

**Senator FIFIELD**—I also should note that it is an intention that the Labor Party also shared and that at the time the then shadow minister, Senator Evans, indicated his support for the package of changes. There was very much bipartisan support for those intended changes. I think the things that have been causing concern to your sector have been referred to by a number of people as unintended consequences. The basis of my question to you, Mr Macfie, as the person representing the umbrella organisation, is: when did you or your organisation first become aware of these matters—that there was going to be detrimental effect upon some of your employees?

**Mr Macfie**—We certainly knew over the past few weeks that there were concerns. There was obviously a lot of confusion, I think, around the detail of exactly what was proposed. We would just note that reportable net fringe benefits were already a part of the income assessments for family tax benefit and childcare benefit, as well as a lot of workforce age payments. Our concern was in relation to the change in 2006, which was the grossing up of that and the detrimental effect that it had for a number of employees within our sector.

**Senator FIFIELD**—Moving to the budget measure, which is also a cause of concern, as we know, Labor announced in the budget a number of changes, which included calculations of income for various family payments, which the proposal included—calculations of income, salary sacrifices into superannuation and losses through investments. I just note that both the 2006 and the 2008 changes would have interacted in some circumstances.

For example, you could have had an employee of a charity who salary sacrifices into superannuation or who has investment losses, and they would have been caught by both measures. Therefore they would have lost family payments. Mr Macfie, I again ask, concerning the 2008 changes, would you be of the view that the issues that caused concern, or that caused concern to any of the other organisations, were also unintended consequences on the part of the government?

**Mr Macfie**—I think our position is that people who are in similar circumstances, no matter where they are employed and no matter what industry they might happen to be in, should be treated in a similar or equitable way across the board. As I said before, obviously the net reportable fringe benefits are part of the income assessment for the family tax benefit. It would make sense that the same formula is used in relation to the measures in the current budget.

**Senator FIFIELD**—Okay. Mr Quinlan, when we were chatting earlier you indicated that there had been a number of comments on the radio or in the papers this morning that consideration was being given to looking at providing greater support to charitable organisations, rather than seeing charitable organisations in a situation where they had to try and squeeze what they could, albeit not in an inappropriate way—

**Mr Quinlan**—No, I understand.

**Senator FIFIELD**—But squeeze what they could out of tax law, to make the dollars that they have go as far as they can. What is it that you read or heard this morning that gave you cause for hope?

**Mr Quinlan**—I guess I was encouraged principally by the reporting of the statements by the Treasurer and the Minister for Families, Housing, Community Services and Indigenous Affairs last night. The comments that I heard and by which I was encouraged were really on two fronts. The first is the acknowledgement that this issue is a short-term crisis, and that there apparently were some unintended consequences of earlier legislation that are being addressed very quickly in a way that will give a lot of reassurance to workers in the sector. I would note too that the shadow minister responsible, Tony Abbott, seems to have made some similar comments endorsing the general direction of the changes that are proposed by the Treasurer and the Minister for Families, Housing, Community Services and Indigenous Affairs. I was encouraged that that seems to be reflective of a bipartisan approach to solving that short-term crisis.

I was also encouraged, not just in the comments made last night but in some of the public commentary on this issue—not all, but a fair amount of it—that there seemed to be an increased recognition that the issues that we were bringing to the table and were concerned about were in fact about compensation arrangements for low-paid workers delivering essential services to the community, and that that is a longer term structural problem that will need to be addressed.

I was encouraged somewhat that there seems to be a recognition of those issues—a recognition that the services being provided across the sector are often essential services and a recognition that they are being delivered by workers who are extremely committed to the work that they are doing and to the good outcomes that they are achieving and who, as a result of that, often put up with not just pay that is lower than community expectation might suggest but also with conditions that are often well below what they would be expected to be in the Public Service or in the private sector.

Many of our workers are working in old primary schools and abandoned community buildings. Our headquarters is in a disused convent. They really are challenges that are embraced somewhat warmly by people who believe in the work that they are doing, because there is no sense that the limited resources should be wasted on things other than providing services to clients. I think that, if anything, this debate has highlighted those issues for the community. I think that is somewhat encouraging.

**Senator FIFIELD**—So the confusion and the scare have helped to put a focus on the challenges that your sector faces, and maybe that is resulting in cause for hope?

**Mr Quinlan**—As I say, hopefully it is an acknowledgement at least of the reality of the issues that we face. Previously in some of these discussions there has been something about the term ‘fringe benefits’ that conjures a derogatory sense. It conjures an image of long lunches. As I said in my evidence, in at least one of our agencies, who employ 3,000 staff, 88 per cent of the workers on salary packages were earning \$50,000 or less. I can add to that that 64 per cent of them were earning \$40,000 or less, and 30 per cent of them were earning \$30,000 or less. This really is affecting workers at the hard end of the services that we are delivering.

**Senator FIFIELD**—So Mr McIntosh is not providing tax planning advice for high rollers, exactly?

**Mr Quinlan**—No, certainly not.

**Senator FIFIELD**—Good. I am reassured. Mr Quinlan, the Treasurer confirmed during his press conference last night that the government had only just become aware of these issues. As someone who is a mere legislator and not part of the executive, you sometimes wonder: if the government is not aware of these issues, what hope do the rest of us have? But when did you first become aware of these issues, and how?

**Mr Quinlan**—That is a good question and it raises a broader issue. We certainly became more acutely aware of this over the last few weeks. I understand that there was a campaign being run by the Australian Services Union that drew attention to these issues. In fairness, though, I would have to acknowledge that while some of the issues have been raised over some time, I think the implications of the issues were not really fully understood, even by members of the sector. That really raises the issue that I think underpins some of the discussion that we have had already—that there is a genuine capacity constraint that has evolved in the community services sector to contribute to the policy-making process and to understand the implications of some of the issues that we are affected by.

The real situation on the ground is that we have organisations who are telling us at the moment that they do not have the resources available to them to tender for services. They are saying they either do not have the resources internally in their organisations to put applications together or are not confident that if they were going to be successful with those applications they have the capacity to attract and retain the staff that they would need to deliver the service. That is an awful situation in itself, but the flow-on is in fact to organisations like those that are seated before you today. Our capacity as a sector to analyse policy and contribute to policy is really significantly constrained when the limits on our resources are so strained. Obviously our bias is always towards delivering services to those who, this morning, will be at the doors of our agencies, waiting for services.

There is a broader question about how we build the capacity of the sector to analyse these sorts of changes and how we continue to build the conversation with policymakers so that these sorts of unintended consequences can be avoided in future. We need to move from this situation to one where, rather than reacting to policy changes as they come upon us, we set a strategy that lays out a future for the community services sector as an essential component of Australian society.

**Senator FIFIELD**—This issue has helped to highlight the complexity of the tax and social welfare systems and the interaction between the two. That complexity also means that your organisations need the capacity to analyse these sorts of issues. You also point out the difficulty that your organisation has in tendering for various projects. On that point, I am just wondering how many policy/research staff each of your organisations has. I will just quickly go down the line, starting with Mr Quinlan.

**Mr Quinlan**—Sure. I would just point out that we are a peak organisation, so there would be capacity in a small number of member organisations as well. We have 64 member organisations. But I can tell you that our policy team is made up principally of me, two policy officers who are employed by our organisation and some related support that they receive from our public affairs officer and the membership officer. It is a relatively small capacity, I would suggest. We estimate that our members are delivering up to half a billion dollars worth of community services annually, so I would have to say that I think that the contribution that is drawn from those services into peak policy analysis is relatively small compared to many other sectors in the community.

**Ms Hatfield Dodds**—Like Frank, I have to say that UnitingCare Australia is a national body for a large network. We have around 400 UnitingCare agencies and missions that are part of our network. We have 35,000 staff across the country. At the moment there are four staff in my office. We just lost a senior staff member for precisely these reasons—they moved back to government because we could not match the remuneration and the other benefits that government could offer. It is kind of ironic for me to be sitting here having this discussion. In my office, there is me and one other person who is available to work on this issue. Senator Fifield, as you were talking before, I was just reflecting on the probability that those of us who are lined up here would probably be half to a third of the intellectual capital across the whole sector that has been working on this issue.

**Senator FIFIELD**—I hope you are not all travelling on the same plane back to Melbourne.

**Ms Hatfield Dodds**—Yes. That is right—it is a bit like royalty. I smiled when I got the list of who was speaking. I sent an email around to my network late last night saying, ‘Just note the proportion of NGOs to government organisations who are presenting evidence.’ I totally endorse what Frank said before. I think there is a real capacity issue in the sector. There are capacity and viability issues around us being able to work with low-income and disadvantaged Australia, but there is an equally important capacity issue around our ability to reflect on and participate in public space debate and dialogue with government.

I believe that, over the past decade and more, with the outsourcing of what used to be considered core services at the national, state or territorial level, it is not optional for the community sector to be involved in these debates anymore. We are the people who understand how the services work on the ground. My reflection on this issue in particular is that some of those unintended consequences happened because, from our perspective, we are not hugely expert in the confluence of the tax and welfare systems. But, equally, those designing this kind of legislation are probably not expert in the delivery and the accessing of services. Across our whole network, we have 35,000 staff. I estimate we have in the region of no more than 20 people available at any time to work on policy.

**Mr Bicknell**—As an agency, even though we have 872 staff, we have nobody who is designated to work on policy. Mostly this is handled by senior staff, and when we have something to do with tax, we would expect our senior accountant to be across issues that are relevant to our agency. But some of these things are more subtle than he is able to embrace.

There were two ways we found about this. One is that we engaged a manager who thought that she was going to get a particular outcome from her package. Between the time when she was employed and the time she turned up to work, she had been to Centrelink and found out that her package was considerably less now than she expected, and so she did not come. That was a blow to us. Then in the last week, I think three people have come to us saying that they had been to Centrelink and they wanted to withdraw from salary packaging because they are worse off than they were before. We found out mostly from people who were affected by it coming and telling us, whereas we really should have been much more ahead of the game than that.

**Mr Minnett**—We feel that we would have liked to have been more ahead of the game as well. I mentioned that I am from the Salvation Army. There are two territories we cover in Australia. There is a very small number of people who are available to work through these issues. In the social program, we have leadership people but a very limited group. There would be just a small handful in Sydney and in Melbourne.

**Mr McIntosh**—For the Charities Tax Advisory Service there would just be me.

**Senator FIFIELD**—I guessed that.

**Mr Macfie**—For ACOSS, it is a slightly different situation in that we are the national peak body of the community welfare sector. That said, the policy team at ACOSS would include me and four staff. We try to cover as many areas that relate to the needs of low income and disadvantaged Australians as possible. We cover tax and economics, income support policy, employment policy, housing, Indigenous communities, energy, health, and community services. Under the community services banner, we have an abiding interest in the viability of the sector. However, having said that, we also have a network of voluntary policy advisers who are experts on whom we draw in these areas. We also draw on the expertise in the state and territory Councils of Social Service, as well as our national member organisations. I think it is testament to the sector being able to work together with others, including the unions, that we are able to come together around issues and bring them to the fore.

**Ms White**—The Australian Services Union has around 400 staff nationally. There is no-one who is designated to be a person who is responsible for policy. We have a range of elected structures which formulate policy, but in the case of this sort of issue it draws on rat cunning and the ability of those in the national office to pick up an issue and understand it. But in terms of those who would have any expertise in tax, I would say there is no-one. I barely passed Accounting I at university, so it is not something in which we have significant expertise, but we manage to formulate policy through our various elected groupings.

**Senator FIFIELD**—Mr Macfie indicated the support of ACOSS for the changes to the means test for the baby bonus and FTB B. I assume that would be a view shared by the others at the table. I was just wondering whether any of the witnesses have a view on the changes to

eligibility for a partner service pension, which comes under the Veterans' Affairs portfolio, or any of the proposed changes to the eligibility for the Commonwealth seniors health card.

**Mr Quinlan**—I am sorry, Senator, I do not have a view.

**Senator FIFIELD**—That is fine. I am just not sure of the extent to which your organisations take an interest in veterans' issues on the one hand and whether you had turned your minds to the Commonwealth seniors health card issue on the other. Chair, I will yield to my colleagues.

**CHAIR**—Senator Watson now has the call

**Senator WATSON**—There are two issues, as my colleague has said—the impact of the 2006 amendments and the recent budget changes. Like you, the committee has not seen the changes to the second announcement made only last night, and that is not surprising because of the timing of that decision. I think a committee meeting at this time is somewhat unfortunate because I for one really have some difficulty in signing off comprehensively on two matters, or certainly in relation to one matter. My experience over a long time has shown that often the devil is in the detail, and sometimes that detail has a lot of unintended consequences. In all good faith you are legislating on something that has a sting in the tail—generally unintended, but nevertheless it is there.

Two years have elapsed since the first of the changes. I have a series of questions. How many representations really have you made to your local member or senator, or to the government or the opposition in that two-year period? I get a little bit worried because you do not have access to specialised information and you do not know about a problem until it suddenly impacts on you. We have to devise ways to overcome that situation. In recognising your continual struggles, I compare you with another lobby group, the Association of Independent Retirees, who really seem to be on the ball as soon as anything happens, and they seem to have their problems fixed up very quickly.

**Senator FIFIELD**—They have the time!

**Senator WATSON**—That is a good point. But somehow we have to either improve the extent or quality of lobbying. Maybe you should have a peak body that looks at this sort of thing and that goes around to talk to you about individual problems. You specialise and, in some areas, apply more resources than do others. In the current arrangements in terms of the overall approach, some groups or sections of groups, can be missed out. That worries me, particularly when groups represent people who do not have other income.

Madam Chair, I think perhaps you should take up the other matter I wanted to ask about, in view of the fact that I will not be here. I am associated with a number of other committees that go out and have regular meetings with peak groups. I am wondering whether within our framework we should develop an arrangement whereby once or twice a year we should have people, such as the groups that are presently appearing before the committee, talking about public administration and the types of issues that brought the groups here. That is why this committee is looking at your issues. I wonder whether we as a committee should be meeting representative groups regularly, as I say, once or twice a year—the timing would be up to the committee. That would seem to me to be a very sensible way of trying to get on top of a lot of the problems that you are facing currently.

Unfortunately, what we are looking at is really a convolution of the Income Tax Act with the Fringe Benefits Tax Act. That has implications because you are looking also at the ramifications upon social security. Not all accountants are experts in relation to Centrelink type issues, although they might be across certain fringe benefit issues. It is necessary to maximise these benefits. Between this committee and yourselves, how will we devise a means of ensuring that social security and tax are so understood that meaningful representations can be made? I do not know whether you have a peak body, but that could take some load off the shoulders of each organisation in terms of having to approach this committee. The other problem I would like to understand—

**CHAIR**—Senator Watson, is there a question? Our time is limited.

**Senator WATSON**—Yes, there is a question, but we must not just try to solve only a short-term problem that is not fully understood. I think if we are going to have these sorts of hearings, we have to put in place a framework, and we have to capacity to do so with the people here today.

**CHAIR**—Perhaps we should invite the witnesses to respond to your statements.

**Senator WATSON**—Yes. I want to give them a framework in which they can respond.

**CHAIR**—Yes. I am just very mindful of the limited time we have, that is all. There are other senators who want to ask questions.

**Mr Quinlan**—I would tackle that a number of ways, Senator, and partially by repeating what I said earlier but with a slightly different emphasis. I think both the public purse and the organisations—for instance in my case the Australian Catholic Bishops Conference which contributes to our policy work—get excellent value from the policy analysis that is undertaken by the people and the organisations here before you. We are members of the Australian Council of Social Service. We think they provide an excellent service as a peak body for the community services sector. In each of our organisations I think we would generally suggest that we have excellent access to parliamentarians from all parts of the house to discuss these sorts of issues. We are frequently guests at committee hearing such as this to assess the implications of certain legislation.

I would also note, though, that we are encouraged by the policy announcement that the new government made to date about establishing a compact, as the government described it, with the community sector which, as I understand it, provides a framework for precisely the types of discussions that Senator Watson is raising, including issues around capacity and reimbursement for the real costs of services, and so on. I think the fact that we are not often in immediate crises like this is an indication that we frequently have opportunities to address these issues. The fact that the community services sector more broadly faces these structural challenges is directly related to the types of concerns that Senator Watson is raising.

I would put them somewhat differently and ask: where is the framework or the strategic direction or the overall plan for developing a vibrant and thriving community sector in Australia? That is the piece that I think is missing at the moment. There are certainly some indications that some of the social inclusion agenda might pick up some of those issues, but we and, I am sure, others would always welcome any opportunities for this type of dialogue on issues of shared concern.

**CHAIR**—Does anyone else have a response at this time?

**Mr Macfie**—I would like to reflect on some of those issues as well. But in terms of the particulars, I think that this was a measure that was buried. It was not made clear at the time. It was only when Centrelink started taking action that people first became acutely aware of it. I think anyone would acknowledge that issues around child support and fringe benefit tax, in particular in areas like grossing up, are extremely complex. I endorse what Frank has said—that this sector has worked together very effectively on a number of issues, including specifically on tax and social security and the interaction between those two. ACROSS enjoys support from its members in relation to those issues.

**CHAIR**—Senator Watson, did you have any further questions?

**Senator WATSON**—No.

**Senator JACINTA COLLINS**—Mr Quinlan, your comments about the capacity constraints within the sector reminded me that for the Senate I should probably declare an interest, which I do not think is necessarily that relevant. But in terms of the capacity constraints on Catholic Social Services Australia, I indeed did some consultancy work with them in policy areas during my sabbatical from the Senate, but that did not relate to these particular issues.

**CHAIR**—Thank you.

**Senator JACINTA COLLINS**—I have a longstanding interest in salary sacrifice as an evolving practice. I am curious to know if you can provide me with your understanding of the scope of that sector, now as it has grown. I am looking forward to the response of the Ken Henry review because my concern with salary sacrifice arrangements is that, generally, higher income PAYE taxpayers have access through their employment arrangements to such arrangements. Much less frequently would anyone on lower income arrangements have such capacity. Therefore the tax burden overall ends up falling more heavily on your lower income PAYE taxpayers. But since you are all here and you are an area where this sector has evolved, I am curious about whether you can offer me any estimate of the scope of it and the time frame within which, from your own experience, you think it has expanded?

**Ms Hatfield Dodds**—In terms of estimates, I would go to Peter Bicknell's figures in his opening statement where he talked about the total number of employees at UnitingCare Wesley Port Adelaide, which would be a fairly normal standard, if there is such a thing, mid-size agency. Out of 872 employees, 820 earn less than \$50,000 and 390 of them salary sacrifice. That is a little under half of what I think by any measure would be considered to be reasonably lowly paid workers. Peter might be able to speak better than I about the expansion of salary sacrificing, but it is certainly an important measure for us in being able to attract and retain quality staff.

The only comment I would add to that is just that over the last five to eight years, particularly across the UnitingCare network, there has been a real shift in terms of the kinds of people that we are delivering services to. More and more, we are seeing people coming to our doors with multiple and complex needs—individuals and households. You might have been dealing in the past with just homelessness issues or episodic mental illness issues or health issues or lack of education issues. Those things have been clustered. At a time when we

have all the capacity constraints we have talked about and the issues about being able to remunerate our staff, they are being required to deal with more and more complex issues.

**Mr Bicknell**—I have a profile of the gross salary and how many salary sacrifice in our agency, UnitingCare Wesley Port Adelaide. It is a decreasing percentage, according to the salaries. For example, of those people who are between \$40,000 and \$50,000, 85 per cent of them salary sacrifice; \$30,000 to \$40,000, 65 per cent; \$20,000 to \$30,000, 52 per cent; and \$10,000 to \$20,000, 38 per cent salary sacrifice. I think there are a couple of reasons for that. One is that obviously if you pay less tax, there is less benefit in salary sacrificing. The more tax you pay, the more benefit you get. Secondly, there is this interaction between salary sacrificing and fringe benefits and other payments.

The third point is that in UnitingCare Wesley Port Adelaide we employ a lot of non-English-speaking background people, and we have found that those people are very reluctant to get involved in salary sacrificing. They just do not trust it. Because we have aged care facilities in particular that are ethno-specific, our use of salary packaging in some whole services, say, with 200 or 150 staff, vary dramatically. Particularly people from a non-English-speaking background seem to be sure that there is a trick and the whole group does not get involved in it.

**Senator JACINTA COLLINS**—And what level of your own internal resources would be directed towards maintaining this means of rewarding staff, as opposed to better wages and salaries, were you to get more or adequate funding?

**Mr Bicknell**—At Port Adelaide we have one staff member who is on 0.6 time. This is not her only role, but quite a lot of her time is taken up—I would say most of her time—would be taken up on this. But she does other payroll things as well. So we do need to pay attention to it because it is important. But we are in a dilemma because it is not good practice for us to actually give advice to people about their financials. So we give them some advice about their salary et cetera and then they need to go to Centrelink. Frankly, the less capable they are of working with Centrelink and understanding it, the less likely they are to take advantage of the opportunities that exist.

**Senator JACINTA COLLINS**—Thank you, Mr Bicknell, for your very speedy submission. I found the way that you characterised the effects very helpful.

**Mr Bicknell**—I would like to say one other thing. I emphasise the importance of that for our higher-paid staff as well. We do not have very high-paid staff, but we are all the time trying to attract managers. For example, in South Australia now the government is looking to have more intensive family support services for the non-government sector in their child protection area. We are going to be competing with government staff to get good staff to do that really critical work. We will be offering them \$10,000 or \$15,000 less. It is the same families and the same challenges, so that sort of salary packaging, including superannuation, can be very valuable even to those people who get higher pay.

**Mr Quinlan**—We have 20 staff in our national office offering a range of programs, and salary packaging is available to almost all of them, I believe. But the issues became so complex for us that we outsourced the entire arrangement, partly for the reasons that Peter has identified, in that there is a risk for us in offering advice to staff about what the implications

of salary packaging will be when we are unaware of their full family circumstances, Centrelink arrangements and so on. And, secondly, because the burden is just too high. So each staff member who participates in the salary packaging arrangement pays a certain fee out of their wages each fortnight to contribute to that outsourced arrangement. There is a company that keeps track of all of those arrangements, bills and payments and so on, on our behalf.

**Mr Minnett**—The situation is the same for the Salvation Army—we need to outsource this. It is a big job even with a payroll the size we have. We have a very small payroll office who do not get involved in the greater level of detail of this. The issues that arise are similar over here. We cannot be in a position where we advise people; they need to get their own independent advice. We are talking about people who are not experienced in these areas. We are looking to attract people to come and help us to work in frontline services who are not used to dealing with complex tax matters. That is part of the difficulty. I am personally surprised that there are not more people that to take up the benefits because they are there, but it is just a complicated issue.

I also support the notion of making it available for the people who are managers of centres. These people are not particularly well paid; they are middle management people, as well as the more senior people. But the benefit that is there from the salary sacrifice arrangement does help the not-for-profit sector to compete. The challenges of the sector continue in terms of frontline delivery, but also in compliance and meeting of the obligations of our contracts, which just become seemingly more onerous as time goes by. So it is a very important part. I would also like to speak in support of Mr Quinlan's mention of the \$30,000 grossed up cap for the salary sacrificing, because it has not been indexed since it started. The real impact of that is the erosion of that benefit since that time.

**Senator SIEWERT**—Are we going to extend beyond 10.30 am?

**CHAIR**—No, we are finishing at 10.30 am, but full committee members get the first option. Senator Fierravanti-Wells indicated at the outset this morning that she wanted—

**Senator SIEWERT**—And I referred this issue to the committee, so I am asking that we have an extension of these witnesses because I do not think it is fair if I do not get time to ask questions.

**CHAIR**—We can have a private meeting at 10.30 am to determine that.

**Senator SIEWERT**—I am really asking that we have that private meeting so that you extend me time to ask questions when I referred this issue to this committee. It is totally unfair if I do not get a chance to ask questions.

**CHAIR**—We can have a quick meeting to determine what time we finish, because we do have time restraints.

**Senator FIERRAVANTI-WELLS**—If it helps Senator Siewert, I am going to be only five minutes at the most.

**Senator SIEWERT**—And that is when we are due to end this session.

**CHAIR**—If we then continue on to 10.35 am, will that give you enough time?

**Senator MOORE**—Can I suggest 10.45 am and that would only be over the morning tea break.

**CHAIR**—If it is okay with the witnesses, because they have given up their time, we will continue and we will not have a break.

**Senator FIERRAVANTI-WELLS**—I take you back to some questions earlier. It is clear that in 2006 there were substantial changes aimed at the child support measures that were adopted then. I take it that you were very supportive of those changes at that time. We had some legislation that was introduced in 2006 and then there was further legislation introduced in 2008, which effectively was a broadening of previous provisions. I am concerned about some of the comments made earlier about the lack of consultation. I assumed that there was consultation with the sector in relation to the changes back in 2006?

**Ms Hatfield Dodds**—I do not think there was. I do not recall any in 2006. Does anyone else?

**Mr Bicknell**—It is not to our credit that we did not notice those changes and the implications of them.

**Senator FIERRAVANTI-WELLS**—So it is really because of the particular complexity and it was tucked away somewhere and you were not really aware.

**Mr Bicknell**—And a lot more people are affected now, and suddenly they are coming to us. That is how I see it. Suddenly we are having a look and saying, ‘My goodness, this is bigger than we thought.’ I think that is what has happened. We were not across these issues enough earlier.

**Senator FIERRAVANTI-WELLS**—If I understand what you said earlier, it is now being used in your sector as a bit of a tool, if I can put it that way, to attract employment to the sector.

**Mr Minnett**—It is certainly a component.

**Senator FIERRAVANTI-WELLS**—It is certainly being well used in your sector now since those changes, or has been for some time?

**Mr Minnett**—It has been since 2001 in the territory I represent. It is growing, but only slowly I feel. It is certainly a valuable tool in attracting and retaining employees.

**Mr Bicknell**—That was its intention as well.

**Senator FIERRAVANTI-WELLS**—In effect now, I suppose with the raising of the issue in that context, it has certainly raised much greater awareness. So perhaps the unintended consequence of this has been greater awareness.

**Senator SIEWERT**—I should start by acknowledging that I have worked in the non-government organisation sector for 16 years so I know exactly what you are talking about. I want to get to the issue around salary sacrifice in large organisations and small organisations. Mr Minnett, I think you raised the issue about smaller organisations not salary sacrificing.

**Mr Minnett**—Yes.

**Senator SIEWERT**—Both Mr Quinlan and Mr Minnett said they were outsourcing. I suspect that one of the issues is that the smaller organisations cannot afford to outsource and get someone else to manage the complexity of these issues, and hence do not understand what the issues are in salary sacrificing. I know from personal experience, having run a relatively small organisation, that we did not have the resources to outsource to get this sort of advice. Would that be one of the issues holding up—

**Mr Bicknell**—In South Australia there is a not-for-profit agency called the Community Business Bureau. It used to be the finance section of the Spastic Centre, I think. They do most of the outsourcing. So very small organisations for a per capita base can do the outsourcing in South Australia. That overcomes a lot of that difficulty. I do not know whether that applies in other states, but it means that a neighbourhood house or something else with five staff could use that facility. That is what they do in South Australia.

**Senator SIEWERT**—Does that happen in other states?

**Mr Quinlan**—If I might come back to you with information about our salary packaging arrangements rather than give you wrong information now. But I believe ours are also just on a small fee per salary basis. So I think the problem is not so much the direct cost of those outsourced arrangements. It is much more about the understanding of the issues and complexities.

**Senator SIEWERT**—That is the issue. And small organisations—

**Mr Quinlan**—And understanding the potential benefits and the possibility of what salary packaging might offer. But there is also a persistent concern, frankly not helped by the current debate about the potential for variability. People like certainty in their salary. Any discussion that relates to potential variability caused by changes in family circumstances or other arrangements really undermines the take-up, particularly for perhaps lower-income workers, where the certainty about that fortnightly cheque is much more important than for higher-income workers—sometimes—who may be able to flatten off peaks and troughs a little across a year.

**Senator SIEWERT**—I would like to go back to the bigger picture. I heard an issue raised on the radio this morning that said that this will cost \$60 million. Can you tell us how much the community sector contributes to Australian society per annum? I am just trying to put together a picture here so that we can rub out this issue that it is going to cost us \$60 million. I want to know approximately how much you contribute to our economy each year.

**Mr Macfie**—It is a complex issue because we do not really have a definition of the sector and whether you have a value input for the amount of voluntary work—which is enormous—that is done in the sector. If you put all of that together and you include the very broad third or non-profit sector—as it is called—it can be as high as \$30 billion.

**Ms Hatfield Dodds**—Speaking on behalf of the UnitingCare network, as I said before we employ 35,000 staff. The work of that staff is supported by 24,000 volunteers across the sector. They are figures from 2006, so I expect they are larger in the real world as we speak. But across our network we estimate that we deliver services to slightly over two million Australians a year, which is around one in 10. We are a large provider network, but we are one of ACOSS's member organisations. I imagine the Catholic networks would be delivering a

similar amount. It depends what you count as an input. Is a bed night in residential aged care the same as a home visit to a family living with physical impairment? It gives you a bit of a picture of the value of the sector. It is often those intangibles that are hard to measure. One of the things that I hope will be thrown up out of this issue is a sense that maybe we need to start looking at how you put a value on the work that we do.

**Mr Bicknell**—The efficiency that we have sometimes compared with government services of similar ilk is quite remarkable. In fact, I would argue that there is a very significant saving quite often.

**Senator SIEWERT**—Yes.

**Mr Macfie**—I have some figures in relation to this from the Institute of Health and Welfare. The institute estimated that expenditure by non-government community service organisations—broadly speaking that would be our sector—in 2005-06 was \$20 billion, with the government share of funding accounting for 62 per cent of that, client sources accounting for 25 per cent and the organisations own source income accounting for 13 per cent.

**Senator SIEWERT**—In other words, we are talking about \$60 million being paltry compared to the value that the community sector contributes to our society.

**Mr Bicknell**—We would agree with that.

**Senator SIEWERT**—I want to go to a couple of other issues that have come up during this discussion. This is the cap that we are talking about that has not been indexed since 2000. I presume from that that you believe there should be an increase in that cap. What would you suggest it should be increased to?

**Ms Hatfield Dodds**—I do not think any of us have done the calculations on that. That would go partly to the capacity in the organisations represented before you to have the financial knowledge to do that. We believe the calculations need to happen and we would like to see that indexed so that the real benefit is maintained at a real world level.

**Mr Minnett**—I would agree with that, too, Senator. But what we can see is that it has not been indexed. So there is a clear period of six or seven years worth of indexation that seems to be missing.

**Mr Quinlan**—That is the indexation in retrospect. But then we also have to do a further analysis about the merits of that cap on its own. I think there would be a strong argument to suggest that an upwards movement of the cap, even beyond indexing, would be welcomed and would provide a further tool available to us again to both deliver more services and deliver some compensation to low-paid workers. I emphasise that a shift in that cap actually has a multiplier effect, not just on the dollars that government gives us but also on the dollars that we raise from other sources. If we raise \$100 from other sources, by packaging that in salary we can turn it into more than \$100 worth of services. It is important that we are talking not just about government funding either from state or federal government. It is a way in which policy can actually deliver us a benefit that we draw from other sources of funding, whether it be philanthropy, fundraising or others.

**Mr Bicknell**—I know that Aged and Community Services Australia has done some of that calculation about the indexing. They estimate it would be very approximate to \$40,000 equivalent to the \$30,000 originally.

**Senator SIEWERT**—So, if it had been indexed, it would be approximately \$40,000.

**Mr Bicknell**—That is my understanding.

**Senator SIEWERT**—But if I understand the argument that Mr Quinlan put, we should be looking at what should be on top of that.

**Mr Bicknell**—Yes.

**Ms Hatfield Dodds**—Absolutely.

**Senator SIEWERT**—Are you advocating that we wait for the Henry report to do this?

**Mr Bicknell**—No.

**Senator SIEWERT**—Thank you, that was clear. I am aware I have limited time so I will move on. I am interested in the contracting that government does. It obviously contracts a lot of services to your organisations. The issues that have been put to me quite recently relate to the consortium. I have certainly had representations to me and my office that there are concerns now around the trend towards consortiums and the fact that the government is asking for consortiums to be put together from non-government organisations. But there is then no protection for those organisations that enter into those consortiums. Is this an isolated incident that I have been told about or is this an issue across the sector?

**Mr Quinlan**—No, absolutely not. I think I would be prepared to say it is certainly a growing concern. It comes back to some fundamentals about what it is that community sector providers are providing. On the simplest measure, community sector organisations are treated simply as outsource providers of government services. At a very fundamental level, that is not what community service organisations are doing. Community service organisations have a life and value of their own. In our case, Catholic Church organisations, other church organisations and other community organisations and groups with shared values come together, pool resources and are able to offer services and programs to the community. In some cases there is an overlap then with government policy that allows those organisations to also be delivering government services. What this policy of forced consortiums is really asking people to do is to draw together a raft of community organisations that often have quite different values and purposes in an ad hoc corporate arrangement with very unclear legislative underpinnings and so on and very limited expertise in terms of development to deliver a specific and narrow set of narrowly defined government services. I think it is a fundamental challenge that warrants considerably more attention than it has had to date.

**Mr Bicknell**—Consortia are not a bad thing in themselves. It is to do with the way the rules are applied. In some areas there is almost a forced consortium, which ends up with a complicated bureaucratic arrangement and an unclear legal arrangement, such that you end up with three parties, as it were—the consortium and then party A and party B. Because that has been forced, it is very difficult to manage and just gets a lot more complicated than it needs to be. What we as a sector are very supportive of, I believe, is cooperative relationships. As a general rule we have great cooperation. Sometimes that develops into a joint program or joint

tendering and a consortium developing. But there is a great deal of difference between it happening that way and requiring it to happen.

The other thing I want to say, however, is that we are also concerned about some of the strictness of the rules about competitive tendering on the other side of it. So the whole notion of insisting on competition as being our main modus operandi is as much a concern to us as the whole thing about having a forced consortium. This issue is particularly worked out in the family relationship centres program. It is an excellent program, of course, but having that forced consortium and then having it forced on them so that they have no identification of who the members of the consortium are—no name saying who are the bodies running the show—has been particularly unfortunate.

**Mr Quinlan**—I can quickly give you an example. I will not name the organisations, but it is a real-world example. Two of our members, A and B—A on one side of the country—enter into a consortium for a family relationship centre with X and organisation. B on the other side of the country enters into a consortium with a different organisation, Y, because the local circumstances are different. So we have AX and BY. Our two organisations are then obliged by separate confidentiality agreements not to enter into discussions with each other about best practice in those programs. It is an extraordinary detriment to innovation and building of best practice in the sector that two organisations from the one network are unable to share the resources that they otherwise might about how best to manage quality and innovation in the program and how best to achieve efficiencies under funding. Again, as Peter said, that is against a backdrop where we have been encouraged to compete against each other across the table for the past 15 to 20 years.

**Senator SIEWERT**—I have one question, because I know we are running out of time. Earlier we touched on the issue about the capacity of the sector to speak out, and things like that. It touched a raw nerve, I have to admit, over this whole issue of society dialogue. It brought me then to some of the clauses that were put in contracts for non-government organisations very recently concerning gagging and what you could and could not say. That then leads me straight to the issue of advocacy for non-government organisations. Has that been an issue for some of your organisations?

**Mr Macfie**—It think it has been; it certainly has been for some. As you would know, the government early in the year made an announcement about removing some of the clauses and, I suppose, situating an environment in which some more open dialogue was opened up by making those announcements. Our understanding of the issue is that, yes, there were sometimes clauses in contracts that might have been construed as being gagging clauses and I understand that happened particularly in relation to some of the job network clauses. But I think it was partly to do with a culture that may have been built up around it.

However to that point, last year we conducted the Australian Community Sector Survey and asked a question about that very issue. It was a slightly surprising result in that it was not a very large number of organisations that said that they could not advocate on behalf of the people that they served. So in that particular element of it, anyway, it was a majority who said they felt able to speak publicly. I can get the figure; I do not have it in front of me.

**Ms Hatfield Dodds**—There was a comment about the gagging issue. It was much more a climate thing. There have been climates and cultures in which people have felt unable to speak. Certainly from a UnitingCare perspective I have had multiple conversations with people at different places across the country and parts of our network from chief executive officers to line staff who felt unable to speak, particularly to funding bodies openly, about issues or to make public comment because they believed, rightly or wrongly, that they would be punished in the next funding round—that there would be consequences. So I think there is a cultural issue we need to address. I honestly do not know how much is perception and how much is reality, but I think just the perception is enough to be an issue for our sector.

**Mr Quinlan**—There are not too many successful partnerships that have tight contracts. Ultimately, I think the question is about how we engage in the dialogue, as you said, and whether this is about a dialogue to improve the general quality of social services and social inclusion in the country or whether it is about that sense of master-servant and the community sector just being outsourcing providers of government services. I think that is the fundamental.

**CHAIR**—Senator Boswell, unfortunately we have little time left.

**Senator BOSWELL**—When were you advised by the minister that these changes to your sector were going to have an effect on your workers?

**Mr Macfie**—I think the issue emerged when Centrelink started taking the action in terms of the changes to people's family tax benefit.

**Senator BOSWELL**—I will follow that up. There was no advice from the department to your respective organisations that this fringe benefits alteration was going to have an effect on your combined charity organisations? No-one actually told you?

**Ms Hatfield Dodds**—We do not believe so.

**Senator BOSWELL**—Do you think that is a responsible action on the part of the department of families to cut you adrift?

**Mr Quinlan**—Part of the issue, Senator—and not to spring to the defence—is that the implications were not known by anyone really for a considerable time.

**Senator BOSWELL**—With all due respect, that is what you have a family affairs department for—to work out what is going to happen and just not spring it on 200,000 people that they are going to get a wage cut.

**Mr Quinlan**—The implication though—and I think the notification that family services and Centrelink provided focused on the individual workers—relates a bit to a question that we discussed earlier about the capacity of the sector more broadly to engage in these sorts of conversations—

**Senator BOSWELL**—I do not see this as your sector's responsibility. I would have thought it was a government responsibility. If they were going to take action that would have the effect of removing benefits from, I think, 200,000 people—that is the figure bandied about but I think it would be more—I would have thought it would have been the department's responsibility to say, 'We are going to cut all your workers' salaries by \$30 a week. What do you think about it?' and not just spring it on them.

**Ms Hatfield Dodds**—Our hope would be that under the developing social inclusion agenda that looks at cost portfolios between levels of government, partnerships with government and the non-government sector and the emergence of a compact between the voluntary sector and government these kinds of issues—

**Senator BOSWELL**—I do not hold you responsible at all. I think the minister is responsible. I am a Nationals senator and I do not often get involved in these issues, but people were ringing me up and saying, ‘Hey, I got a letter in my letterbox. What does it mean to me?’ I probably knew before you did. I had a number of people ringing me up and saying, ‘Look, what does this mean?’ I am usually responsible for fishing and things like that and then I had to become involved in it and understand it. I would have thought that the minister would have said, ‘I am sending out 200,000 letters and I am going to involve you people.’ It is utterly surprising—it could be called a lack of competence—that this was allowed to happen. Anyhow, you are on the end of the line and there is nothing you can do about it but make the best of it, I suppose.

**Mr Bicknell**—It is fair to say that we have not been informed about other changes either. That is standard practice. I think the senator makes a really good point. It would be really helpful if things were more proactive.

**CHAIR**—I thank each of you for your time and submissions and, once again, for making yourselves available at such very short notice. Thank you very much for appearing before us.

[10.47 am]

**CASSIDY, Mr Wayne, Acting Branch Manager, Social Security Policy Branch, Department of Families, Housing, Community Services and Indigenous Affairs**

**HARMER, Dr Jeff, Secretary, Department of Families, Housing, Community Services and Indigenous Affairs**

**HAZLEHURST, Mr David, Group Manager, Families, Department of Families, Housing, Community Services and Indigenous Affairs**

**LINDENMAYER, Ms Diana, Section Manager, Concessions and Allowances, Social Security Policy Branch, Department of Families, Housing, Community Services and Indigenous Affairs**

**WARBURTON, Mr Mark, Branch Manager, Family Payments and Policy Branch, Department of Families, Housing, Community Services and Indigenous Affairs**

**FARRELLY, Mr Sean, National Manager, Compensation and Income Support Policy Group, Department of Veterans' Affairs**

**KENNEDY, Mr Stuart, Director, Income Support Policy Development and Advice, Department of Veterans' Affairs**

**MAHONY, Mr Dennis, National Manager, Families and Child Care Services, Centrelink**

**LUCAS, Ms Kirrily, Acting Director, Income Support Policy Implementation, Department of Veterans' Affairs**

**CHAIR**—I now welcome our next witnesses representing Centrelink, the Department of Families, Housing, Community Services and Indigenous Affairs, and the Department of Veterans' Affairs. I understand, Dr Harmer, you will make some brief opening comments.

**Dr Harmer**—Thank you for your welcome. I do have some brief opening comments. Firstly, I understand from the revised terms of reference for today's hearing that the principal issue this committee wishes to consider relates to the treatment of fringe benefits in the calculation of family assistance entitlements. There has been considerable public comment on this issue over the past week. This commentary has been about a change to the definition of income for family assistance purposes. The decision to make this change was taken by the previous government and included in the 2006-07 budget as part of its child support reforms. Legislation to give effect to it was passed by the parliament in 2006. The change was to include the gross value of reportable fringe benefits rather than the net value as income for family assistance purposes. The change was to have applied from 1 July 2008.

There is actually only a very minor technical amendment related to the matter in the bill being considered by the committee today. It is in schedule 6. It is a minor amendment to ensure the process of updating income estimates takes into account the treatment of reportable fringe benefits that was to apply from 1 July 2008. If the automatic uplift process did not take this matter into account, it could have resulted in families incurring debts because the legislative change to the definition of income was already in place and about to come into

effect. So the minor amendment was more about helping families accurately estimate their income and avoid debts and overpayments than it was about the definition of income.

Of course, because of the government's announcement last night to restore the previous provision and refer the complex issue of the treatment of fringe benefits to the tax review led by Dr Ken Henry, this minor amendment will no longer be needed. I hope, however, we may be able to assist the committee with any queries or questions it has about this matter. I have officers here who can help.

**Senator FIFIELD**—Dr Harmer, were you required to clear your opening statement, or did you clear your opening statement with Minister Swan's office, the Prime Minister's office or Ms Macklin's office?

**Dr Harmer**—No.

**Senator FIFIELD**—Dr Harmer, as you indicated, the 2006 changes broadened the income used to calculate family payments. As I indicated to the witnesses who were previously at the table, that was something which was supported by the then shadow minister. I think there was a bipartisan commitment to ensure that people were not in any way seeking to get out of their due obligations. I think we all agree that the 2006 changes did broaden the income that is used to calculate payments. But the proposed change in the 2008 budget also proposed broadening, did it not?

**Mr Hazlehurst**—There are a range of measures in the 2008-09 budget that go to the question of definitions of income.

**Senator FIFIELD**—I am speaking specifically in relation to fringe benefits and charity workers.

**Mr Hazlehurst**—I will take that in two parts. In relation to fringe benefits, there are some measures in the 2008-09 budget that relate to certain tax offsets that are the responsibility of the Treasury.

**Senator FIFIELD**—Who unfortunately cancelled at the last minute.

**Mr Hazlehurst**—Those measures apply not just to workers in charitable organisations; they are just general measures that apply to the assessment of income for the purposes of those tax offsets.

**Senator FIFIELD**—Including salary sacrifice into superannuation and investment losses in the calculation of income for family payments?

**Mr Hazlehurst**—Those are separate measures that do not have anything to do with fringe benefits. There are a number of measures. The last couple that you referred to are separate from this issue about definition of fringe benefits for the purpose of calculating entitlements.

**Senator FIFIELD**—Would it not be the case that the 2006 and the 2008 changes—let us call them the Labor and the Coalition changes—interact? Tell me if this is right or wrong. An employee of a charity who salary sacrifices into superannuation or who has investment losses would be caught by both measures and lose family payments.

**Mr Hazlehurst**—Any employee who is salary sacrificing or who has net losses from investments will be affected by those two measures. So those measures apply across the board. The government's announcement last night does not apply to them.

**Senator FIFIELD**—It is not reviewing that at all?

**Mr Hazlehurst**—The government's particular concern in this area was that the arrangements in relation to fringe benefits tax had a particular effect due to the way in which the grossing up of fringe benefits works. I am happy to explain that a little if that is helpful to the committee. The issue around fringe benefits tax is that both in terms of the way it is levied on employers and the way in which it would have been counted but for the government's decision announced last night for family assistance purposes is that the value is grossed up with reference to the top marginal tax rate plus the Medicare levy. The issue that has been identified is that the way in which that occurs for someone who is on lower than the top marginal tax rate leads to a different outcome than what would occur for someone who is on the top marginal tax rate.

**Senator FIFIELD**—The Treasurer in his press conference last night said that the government has only recently become aware of the issue—that is, the fringe benefits charity worker matter. I was going to ask you what you think he meant by that, but I should not ask you to speculate. When did the department become aware that this was a particular issue that was causing concern to the not-for-profit sector?

**Mr Hazlehurst**—At the same time as the government in late May. We received advice of concerns being expressed about the issue. Of course, we were aware from 2006 that the measure would have an impact on family tax benefit recipients. Of course, that was identified in the budget papers at the time. By definition, family tax benefit recipients who are affected are affected if their income is in the ranges that are described as the taper ranges for family tax benefits, where someone's assistance is being reduced as their income rises. In a nutshell, there are two parts to that taper, one immediately above \$40,000 and, depending on the number of children that the person has, around \$85,000 to \$90,000. By definition, we were aware that there would be people affected in those income ranges, but we did not at that time do an analysis sector by sector of how people would be affected.

**Senator FIFIELD**—When did people start to be notified?

**Mr Hazlehurst**—In terms of the individual advice to people about the change, the way in which people would have had this specifically brought to their attention initially would have been through the new financial year assessment process. I can briefly explain what that is. In around May each year, Centrelink writes to family tax benefit customers and informs them of the income estimate that will be used for the purposes of calculating their fortnightly entitlements for the next financial year.

That income estimate, as a result of previous budget decisions, is also adjusted according to what is described as an uplift factor, which Dr Harmer referred to earlier. In other words, it is increased slightly by average weekly earnings to assist families to more accurately estimate their income. They are able to ring up and say, 'No, you haven't got it right. It is actually going to be this.' But an automatic uplift is applied so that families are less likely to incur a debt as a result of their income rising during the course of the next year. In that letter, and for

the purposes of that estimate, the change to the treatment of fringe benefits was included. In May—

**Senator BOSWELL**—What date in May?

**Mr Hazlehurst**—I do not have that information. A colleague from Centrelink may have the answer.

**Mr Mahony**—Because of the volume of letters, they start going out from early May and are staggered over about a three- to four-week period, so we get out a reasonable number every day.

**Senator BOSWELL**—So the letter was going out and the family department did not know—did not know the results of 200,000 people—

**Mr Hazlehurst**—No, Senator, we knew the letters were going out and that the changes were going to be incorporated. We knew that the overall effect of this measure was occurring.

**Senator BOSWELL**—Did anyone think of picking up the phone and saying to the minister, ‘Hey, we are going to do this’? Was the minister advised?

**Mr Hazlehurst**—Was the minister advised of the letter?

**Senator BOSWELL**—Was the minister advised that the letters were going out to advise people that their incomes were going to be reduced?

**Senator FIFIELD**—When was the minister advised of the notification process?

**CHAIR**—I think you have to be clear here about which minister.

**Senator FIFIELD**—Was Minister Macklin advised of the notification process? Was the Treasurer advised of the notification process? Was the Prime Minister advised of the notification? Or were their offices advised?

**Dr Harmer**—I stand to be corrected on this by one of my colleagues, but I am pretty confident that the letters that are sent out by Centrelink at this time of year are standard letters and have been going out for many years. It is unlikely that there would have been any special advice to any minister.

**Senator FIFIELD**—Given that it is a new government and a new minister, I would not be surprised if the new minister said ‘Look, any significant or any routine advisories which are being issued, please let me know about them.’

**Dr Harmer**—I am not aware that that occurred.

**Senator JACINTA COLLINS**—I want to clarify an earlier point made by Mr Hazlehurst. When you said that you were aware that people were going to be affected at the various levels of the taper—

**Mr Hazlehurst**—Yes.

**Senator JACINTA COLLINS**—it was not clear in my mind when the department was aware of that. Which period in time are we talking about that you were aware of that but did not at that stage do the sector-by-sector assessment?

**Mr Hazlehurst**—For the purposes of determining the costs of the measure—

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**Senator JACINTA COLLINS**—We are talking about 2006 now?

**Mr Hazlehurst**—Yes.

**Senator BERNARDI**—I heard earlier that the government maintains that it was only became aware of this in late May. Did Mr Hazlehurst or Dr Harmer say that was when the department became aware of it too?

**Mr Hazlehurst**—Became aware of the specific issues—

**Dr Harmer**—On the sector.

**Mr Hazlehurst**—relating to the sector.

**Senator BERNARDI**—Yes. Yet, Mr Mahony, the letters started going out in early May.

**Mr Mahony**—Yes, but the letters go to everyone. In the same way that the provision applies to everyone, the letters went to everyone. The letters were just providing people with an updated estimate for the purposes of family tax benefit entitlements for the 2008-09 year.

**Senator BOSWELL**—When did you advise the minister that there were some unintended consequences going to happen?

**Dr Harmer**—When the minister became aware and other members became aware from either letters or phone contact with their offices, they asked the department —

**Senator BOSWELL**—But when did you advise her?

**Dr Harmer**—They asked the department for advice, and that would have been towards the end of May. I do not think I have the exact date, but it would have been the last week or two of May.

**Mr Hazlehurst**—I think that advice initially might have been to the minister's office.

**Senator BOSWELL**—When was the official advice to the minister's office that we have a problem on our hands and we have unintended consequences? When was that advice?

**Dr Harmer**—It was certainly late May.

**Mr Warburton**—Senator, things happened fairly rapidly, so it was late May—

**Senator BOSWELL**—Yes, I know; everyone says it was late May. I want to know what day you advised he minister there were unintended consequences.

**Mr Warburton**—If I could explain, Senator, I think it does go to your answer. Essentially, there were some Labor members who started making queries of officers. We were asked to assist in the response to those queries. I think it is fair to say that that started to cause ministers some concern. We continued to provide ministers' offices with information—

**Senator BOSWELL**—When did you start to provide the ministers' offices with information?

**Mr Warburton**—My understanding is on 29 May—

**CHAIR**—So that we are not going to be here longer than we need to be, Senator, if you ask a question, let the officer complete it and then we might be able to get through—

**Senator BOSWELL**—I agree with that ruling, Senator Polley, but we can save a lot of time if the people at the table answer the questions directly. I am trying to get a direct date. I think I am just about to get it.

**Mr Warburton**—My understanding is that on 29 May there was an oral briefing provided to the minister's office.

**Senator FIFIELD**—How many letters were issued? How many notifications were issued?

**Mr Mahony**—We write to all family assistance customers. So all the income tested customers got a letter. That is about 1.4 million customers.

**Senator FIFIELD**—How many of those are people would have been affected in the charity sector by this? It might be difficult to answer off the top of your head.

**Mr Hazlehurst**—It is a little difficult to answer, but let me help the committee with what I can say. There are around 85,000 family tax benefit customers who receive their payments fortnightly who also have a fringe benefit. We do not have a breakdown of what proportion of them are from the not-for-profit sector because we do not have that information.

**Senator FIFIELD**—Sure.

**Mr Hazlehurst**—It is not used for the purposes of calculating family assistance so we do not have that information.

**Senator FIFIELD**—Okay.

**Mr Hazlehurst**—What we do know is that, from the 2005-06 tax year, around 100,000 employees are in the sector who receive some portion of their remuneration in the form of a fringe benefit. That is about one-seventh of the total fringe benefit population, if you like. Naturally, it is only that proportion of those employees who actually have children and get the family tax benefit who would have been affected by this change. And there are only around 4,200 family tax benefit recipients with taxable incomes less than \$40,000. So the actual number of people affected on low, if you like, incomes—even though I cannot tell you what proportion of the 4,200 are employed in the sector—must be something less than 4,200 people with incomes under \$40,000.

**Senator FIFIELD**—Well done. Your colleague mentioned that there was an oral briefing to the minister on 29 May.

**Mr Hazlehurst**—To the minister's office.

**Senator FIFIELD**—To the minister's office. On what date did the explanatory memorandum to the bill come out?

**Mr Hazlehurst**—I do not know.

**Mr Warburton**—My understanding is that that would have been when the bill was introduced in the House of Representatives.

**Senator FIFIELD**—What date would that have been?

**Mr Warburton**—I can try to find out.

**Senator FIFIELD**—Thank you.

**Senator FIERRAVANTI-WELLS**—On 29 May. That was the very question I was now coming to because—

**Senator FIFIELD**—I was just going to ask a question that flowed on. The minister would have cleared the explanatory memorandum prior to the introduction of the bill?

**Mr Warburton**—Yes, Senator.

**Senator FIFIELD**—Do you know what date the minister cleared the explanatory memorandum?

**Mr Warburton**—I do not have that with me. I can try to find it.

**Dr Harmer**—We can try to find out. If it was delivered in the House on 29 May then it would have been some time before then.

**Senator FIFIELD**—Indeed, because the explanatory memorandum makes reference to the fact that ‘in April the process of calculating the indexed estimates for 2008-09 and sending notices to recipients of FTB and childcare benefit to advise the amount of the indexed estimate to apply from 1 July 2008’ et cetera. So if the minister cleared the explanatory memorandum, even if the minister had not been advised that the notifications were going out, the minister would have been aware of the details at that time that they cleared the explanatory memorandum.

**Mr Warburton**—Just to clarify: we did not provide any briefing to the minister on the impact of this measure on the sector before the times that I indicated earlier.

**Mr Hazlehurst**—So the minister in approving that explanatory memorandum would have been simply approving something that had been publicly announced and in the public domain for two years.

**Senator BOSWELL**—In that memorandum there was advice that there were notices going out to people that their incomes were going to be reduced. I would have thought if the minister had read it she would have said, ‘What is this about?’ There was an advice in that memorandum that the department was going to send out notices.

**Mr Warburton**—Senator—

**Senator BOSWELL**—You have no doubt seen the memorandum?

**Mr Warburton**—Yes, Senator.

**Senator BOSWELL**—And on page 37 of the memorandum, in the fourth paragraph down, it says, ‘We are sending notices out.’

**Mr Hazlehurst**—We do not have that in front of us, but that is the actual point of the amendment. The point of the amendment was to ensure that the automatic uplift process allowed for the inclusion of the grossed-up amount of the fringe benefit so that those estimates that were in the system would take that into account and would not lead to people ending up with debts. That was the purpose of the amendment.

**Senator FIFIELD**—I think Senator Boswell’s point might be that, given this matter was in the explanatory memorandum and the minister cleared the explanatory memorandum, the minister takes as much ownership of the 2006 change as did the previous government. You

cannot have a situation where the previous government introduced the change, the previous opposition supported the change, the new government in its own legislation makes reference to the 2006 change and then all of a sudden, a few days later, the minister throws her hands up in the air and says, 'Heavens, we had no idea!'

**Senator FIFIELD**—The minister takes ownership in this situation, surely.

**Senator JACINTA COLLINS**—The minister has taken ownership, last night.

**Mr Warburton**—The opening statement made by the secretary indicated that the measure in this bill is fundamentally about the automatic uplift processes that help prevent customers getting debts. The minister is aware—as I think most parliamentarians are—that the child support changes are going through. There is a whole range of measures that make up that package. There are people who benefit and there are people who will have reductions in their family tax benefit. Those changes have been fully legislated, and fully legislated for some time. The amendment in this bill was to make sure that the automatic uplift processes took account of those changes and gave people a decent estimate for this coming financial year to help them—

**Senator BOSWELL**—No-one is disputing that.

**Mr Warburton**—prevent debts.

**CHAIR**—If we can just let the officer finish his answer, it would be most helpful.

**Senator BOSWELL**—They run the clock down, Madam Chair.

**CHAIR**—I am sorry, the officer has the call.

**Mr Warburton**—They are the terms in which we have been operating until we were alerted to the impact of the issue on the sector in late May.

**Senator FIERRAVANTI-WELLS**—I am having difficulty, Mr Warburton. We accept the process and the processes that occurred. The point that Senator Fifield is making is the state of awareness. The minister goes out there and throws up her hands and says, 'I didn't know anything about it.' But it is very clear from the history of this matter and the evidence you yourself have given that the awareness of the minister was certainly before 29 May, when they actually introduced the legislation which not only supported the 2006 changes but one would even argue broadened the change. This is the issue we are having difficulty coming to terms with.

**Dr Harmer**—Senator, I do not think it is at all clear that the minister was aware; in fact, we have indicated that she was not aware of the sectoral impact before 29 May.

**Mr Hazlehurst**—All members of parliament and the general public have been communicated the actual general measure, and that is all the minister was doing when she was signing off on the explanatory memorandum or these amendments for the purposes of this legislative change. It is the sectoral impact that is the key point here. That is certainly something that we are acknowledging today was brought to our attention in late May, and so the minister could not have been aware of it either.

**Senator FIERRAVANTI-WELLS**—It was brought to you earlier than 29 May—

**Mr Hazlehurst**—Late May.

**Senator FIERRAVANTI-WELLS**—because Mr Warburton said that you had various letters and members of parliament agitating about this issue in—did you say April or May?

**Mr Warburton**—No.

**Mr Hazlehurst**—No.

**Senator FIFIELD**—Mr Hazlehurst, would it be fair enough to say that if the minister could not have been aware of it and the department could not have been aware of it in April-May 2008, the previous government could not have been aware of it?

**Mr Hazlehurst**—I am obviously not able to comment on any advice provided to the previous government. But the key point here is that this measure had been proceeding on the basis of a general measure applying to the general population, and the specific issue associated with the impact on the not-for-profit sector only emerged recently.

**CHAIR**—Senator Fierravanti-Wells had the call. In fairness, if she has finished, then Senator Siewert has the call.

**Senator FIERRAVANTI-WELLS**—I think Senator Fifield and I are on the same point. Go on, Senator Fifield.

**Senator FIFIELD**—In summary, the situation is that the minister was proceeding on the same basis as the previous government, in possession of the same knowledge as the previous government.

**Dr Harmer**—We could not comment on that, Senator.

**Senator FIFIELD**—If the minister in her own explanatory memorandum was making clear that the new government had no intention, at that time, of changing the decision of 2006, which the then opposition supported, she has ownership of that issue.

**Dr Harmer**—I will take that as a statement, Senator.

**Senator FIFIELD**—Thank you. To follow up on that, there will be amendments, the Treasurer and minister indicated last night, coming into the parliament. Have those amendments been drafted yet? When will they be ready? When will they be public? Who will be consulted in the drafting of them?

**Mr Hazlehurst**—The amendments are being drafted and it will be a matter for the government to determine the timing of the introduction of those amendments, but the minister and the Treasurer indicated that it would be next week.

**Senator BOSWELL**—Dr Harmer, do you accept any responsibility for not advising—

**CHAIR**—We are moving off to another area, so Senator Siewert has the call.

**Senator FIERRAVANTI-WELLS**—I have not finished asking those sorts of questions.

**CHAIR**—We have just moved on and, in terms of fairness in the times, Senator Siewert has the call.

**Senator BOSWELL**—Madam Chair, I do not want not to support your ruling but it is very difficult to move on when there are many more questions to be asked.

**CHAIR**—You will get your opportunity later.

**Senator BOSWELL**—That is okay, but I thought you were moving onto another subject.

**CHAIR**—No, we are not. You will get your opportunity, but Senator Siewert has the call.

**Senator SIEWERT**—I would like to move on to the discussion of the actual amendments, the impact they will have and all those sorts of things. I am keen to get there, so is it okay if I move on to that?

**CHAIR**—Yes.

**Senator SIEWERT**—I have already drafted some amendments. I am quite happy to hand those over to government if that is going to help the process.

**Mr Hazlehurst**—We have in fact received a copy from one of your staff.

**Senator SIEWERT**—Okay. I just thought I would help the process.

**Senator BOSWELL**—I think they need some help.

**Senator SIEWERT**—What amendments are the government proposing? The Greens are proposing a fairly simple amendment basically to undo the previous amendment. Is that what the government is planning to do?

**Mr Hazlehurst**—Whilst of course I am not in a position to describe the precise form the amendments will take, the Treasurer and the minister announced last night that the decision that they were taking, that the government had taken and that would then be legislated, was to restore the treatment of fringe benefits that in effect currently applies—until the end of June—which is to use the net value of the fringe benefit rather than the grossed-up value of the fringe benefit for the purposes of assessing the income used to determine family assistance entitlements.

**Senator SIEWERT**—I do not know whether you were listening this morning but Mr Quinlan, I think it was, and a few of the other NGO witnesses also asked about the time frame. Is there going to be a sunset clause on that amendment or is it in place until the new process is worked out?

**Mr Hazlehurst**—What the Treasurer and the minister announced last night was simply that the previous position would be restored and that the matter would be referred to the Henry review for analysis.

**Senator SIEWERT**—When we were looking at our amendment we were very conscious of the interaction with child support. Where this came from is the whole revision of child support. I want to find out whether that is being separated out so that we do not then have to reissue a whole lot of assessments for child support.

**Mr Hazlehurst**—That is correct; there is no change being made to child support. The government has made the decision to put things back to precisely where they would otherwise have been, or where we are now, I suppose, before 1 July. So child support is not being changed.

**Senator SIEWERT**—Is not being affected.

**Mr Hazlehurst**—It might be helpful to be clear that the treatment of fringe benefits for child support was not changed in 2006. It had been the same for quite some period before then.

**Senator SIEWERT**—Okay. Thank you. I have some other questions, but not specifically on the amendment. Chair, do you want to go back to the others?

**CHAIR**—We will go back to Senator Fierravanti-Wells.

**Senator FIERRAVANTI-WELLS**—Thank you. I want to go back to the questions that were asked before about the impact on this sector. Did you do any sort of impact statement at all? Did you look at any areas where these changes would have effect? Clearly they were intended for a specific purpose but, in so doing, did you examine potential other areas where there could be some sort of impact?

**Mr Hazlehurst**—As I have already said, we did not do any sector-specific analysis. We did not look at how employees in different sectors would be affected.

**Senator FIERRAVANTI-WELLS**—As a consequence of what has happened in relation to one particular sector, will you now look at whether there are any other sectors out there that will be affected by this?

**Mr Hazlehurst**—I would certainly anticipate that the Henry tax review would take into account those sorts of matters.

**Senator FIERRAVANTI-WELLS**—And, from your perspective, will you be giving any input into that, given the experience that you now have in this area?

**Dr Harmer**—Yes, we will. I am a member of the review panel headed by Dr Henry, so we will be having an input.

**Senator FIFIELD**—I have some questions about the baby bonus, for a change of pace. Before I ask them, I have no doubt your minister will now be asking to be advised when notifications are going out, and for sectoral analyses as well. The changes to the baby bonus come into effect on 1 January 2009?

**Dr Harmer**—Yes.

**Senator FIFIELD**—I just want to clarify my own understanding of how the bonus will operate. If you have a family who welcomes a new baby on 1 January and that family's adjusted taxable income from 1 January 2009 to 30 June is \$75,000, they will receive the full baby bonus.

**Mr Warburton**—That is correct.

**Senator FIFIELD**—But if their adjusted taxable income over the same period is \$75,001, they received nothing.

**Mr Warburton**—They received no baby bonus.

**Senator FIFIELD**—They received no baby bonus. They received no dollars—nothing. It is sudden death, is it not? If you earn one dollar more than \$75,000 over that six-month period, it is sudden death.

**Mr Warburton**—Yes. There is no taper.

**Dr Harmer**—There is no taper, Senator.

**Senator FIFIELD**—I think most families would view it as sudden death. I do not think they would be thinking of using the phraseology of ‘taper’. But anyway, that leads on to the obvious next question.

**Mr Hazlehurst**—We are not prone to colourful language, Senator.

**Senator FIFIELD**—Was tapering something which was considered by the minister?

**Dr Harmer**—Senator, we are not at liberty to provide information to you about what we advised the minister.

**Senator FIFIELD**—Okay. Was tapering something which was considered by the department?

**Mr Hazlehurst**—Senator, we consider all sorts of options all the time in terms of the arrangements that can be changed within the payment.

**Senator FIFIELD**—Was tapering one of those? You have acknowledged that you consider lots of options all the time. It would be stunning if the department had not considered tapering as an option, because you would want to be ready and able to advise a minister on the full range of options.

**Dr Harmer**—We provide advice to the minister on lots of options regularly and during a very intensive period, obviously, leading up to the budget. I am not aware of any particular option, including tapering, that we were working on. Would that be your view?

**Mr Warburton**—Certainly there were a lot of matters considered in the budget context.

**Senator FIFIELD**—But, Dr Harmer, you said you were not aware that tapering was an option. Okay? If I can go to the next step—

**Dr Harmer**—What I said was we cannot tell you whether we advised the government about tapering.

**Senator FIFIELD**—No, you said to me that you were not aware whether tapering was—

**Dr Harmer**—I am not particularly aware. I am not.

**Senator FIFIELD**—You are not particularly aware.

**Dr Harmer**—That there were any options around tapering in relation to the baby bonus.

**Senator FIFIELD**—Okay. Given you have stated your own level of awareness, can we go to the next step and ascertain the level of awareness of the relevant officer?

**Mr Warburton**—Senator, I know that I discussed this issue with my staff.

**Senator FIFIELD**—The issue of tapering?

**Mr Warburton**—Absolutely, Senator.

**Senator FIFIELD**—Right.

**Mr Warburton**—It is the sort of thing we consider whenever we are considering options for government.

**Senator FIFIELD**—Okay. Did the department do any modelling on the issue of tapering, or commission any modelling externally on the issue of tapering?

**Mr Warburton**—We did not commission any modelling. I do not recall us actually modelling a taper. We did look at—

**Senator FIFIELD**—You do not recall or the department did not? There is a difference.

**Mr Warburton**—Well, Senator, I am not aware of everything that my staff do in their spreadsheets.

**Senator FIFIELD**—Mr Warburton, did you know?

**Mr Warburton**—No modelling was put in front of me, Senator.

**Senator FIFIELD**—Okay. No modelling was put in front of you. Is there someone else who would have responsibility for modelling who might not have put it in front of you?

**Mr Warburton**—If there was any modelling to be done, it normally would have come through the person that occupies my position, Senator.

**Senator FIFIELD**—Okay.

**CHAIR**—I think he should be given a chance to make a comment.

**Senator FIFIELD**—I am sorry. Dr Harmer, you were going to add something?

**Dr Harmer**—Senator, Mr Warburton is not trying to be unhelpful. He is trying to be very precise and not mislead the Senate. He has quite a big staff and many of them do lots of analysis.

**Senator FIFIELD**—Yes.

**Dr Harmer**—What he has said to you is that it is possible that some of the people down the line from him have done some modelling in that area, but he is not aware. I take it, from what he said, that he has not asked for modelling to be done on tapering and that it has not come up to him, but he could not be sure that it had not been done.

**Senator FIFIELD**—Okay. That was before the announcement of the baby bonus. No formal modelling was done. It was kicked around as an idea among staff, but no formal modelling was done.

**Mr Hazlehurst**—On the taper.

**Senator FIFIELD**—On the taper, okay. As a matter of course in the lead-up to an election, departments monitor what the opposition at the time says in their portfolio area so that they can be ready and prepare—I forget whether it is the blue book or the red book. What colour is the book that is prepared?

**Dr Harmer**—We do not call it a blue or red book.

**Senator FIFIELD**—Just the incoming brief.

**Dr Harmer**—We prepare two incoming government briefs.

**Senator FIFIELD**—Okay, and you monitor what the opposition says so that you can hit the ground running, should they win, and be in a position to provide advice.

**Dr Harmer**—We monitor both the government's commitments and the opposition's commitments in the lead-up to the election, Senator. That is true.

**Senator FIFIELD**—Did you monitor any statements by the opposition in relation to changes to the baby bonus?

**Dr Harmer**—Any statements that were made by either the government or the opposition in relation to any of our programs in the lead-up to the election would have been monitored by us.

**Senator FIFIELD**—And was there one by the opposition in relation to a change to the baby bonus?

**Dr Harmer**—I do not recall.

**Mr Warburton**—Not that I recall, Senator.

**Senator FIFIELD**—I think the reason for that is because there was no indication before the election that there was going to be a change to the baby bonus. When did you first become aware that the government was going to seek to change the baby bonus?

**Dr Harmer**—Senator, it would have been part of the budget process. I certainly cannot recall and I doubt whether any of my colleagues could. I am not sure we could, given it was an element of the budget process, break down when particular parts of the budget were being considered.

**Senator FIFIELD**—Thank you for that. Earlier we were talking about the tapering. Given you have done no modelling, you would not be able to help me at all with the fiscal impact of introducing the taper at a given level, I assume?

**Mr Hazlehurst**—We could state the obvious, Senator: that it would reduce the savings that the government will expect as a result of the measure.

**Senator FIFIELD**—Yes. Given that would be difficult for you, can I ask you why \$75,000 was chosen as the means test level?

**Dr Harmer**—A government decision, Senator.

**Senator FIFIELD**—There was no particular rationale for that? You did not provide advice as to why \$75,000 might be better than—

**Dr Harmer**—Senator, as you know, I cannot tell you what advice we provide to government.

**Senator FIFIELD**—Sure. That is okay. What saving will be achieved by paying the baby bonus in 13 instalments rather than as a lump sum?

**Dr Harmer**—I think we can probably give you that, Senator.

**Senator FIFIELD**—Thank you.

**Dr Harmer**—We can probably get it.

**Senator FIFIELD**—While that is being looked for, can I ask whether the reason that that is a saving is because the cash sits in a government account for longer and the government gets the interest on it rather than—

**Mr Hazlehurst**—Mr Warburton will be finding the figure. The saving is only a one-year saving, Senator, because it simply relates to the effect of the people who apply for a baby bonus and start receiving it less than 13 fortnights before the end of the 2008-09 year. The instalments that would otherwise have been paid as a lump sum in the 2008-09 year are paid in the 2009-10 year. Mr Warburton might have that number for you.

**Mr Warburton**—I have found the figure, Senator.

**Senator FIFIELD**—Thank you.

**Mr Warburton**—The savings in fiscal balance terms were \$80 million over four years, essentially, Senator.

**Senator FIFIELD**—\$80 million over four years. There is no benefit through the government having more money sitting in its account longer, rather than paying a lump sum? There is no interest benefit for the government in having more money sitting in its account?

**Mr Warburton**—Senator, I think you are asking a question that should really be directed to Treasury about how it manages its funds that it has not spent.

**Senator FIFIELD**—What saving will be made by changing the index arrangements to index the payment only once a year as opposed to twice a year?

**Mr Warburton**—Senator, I am not sure. What we will be doing is—

**Senator FIFIELD**—Sorry, is there a saving that will be—

**Mr Warburton**—On 1 July 2008 the payment will go to \$5,000 and it will not be indexed until 1 July 2009. At the same time each year it will be indexed. Essentially, it has been put on the same cycle as other family assistance. The processes to put that in place will start occurring around March. We get the ABS data, we calculate the increase, we have various checking processes in place, we notify it to Centrelink, and it makes the necessary computer changes. There is a bit of lead time associated with those things.

**Senator FIFIELD**—So you are not banking on any saving through indexing once a year rather than twice a year?

**Mr Warburton**—I gave you the savings that accrue to it—

**Dr Harmer**—That includes the saving of indexation once a year.

**Senator FIFIELD**—You cannot break down—

**Mr Warburton**—That is the saving associated with indexing the payment once a year, Senator.

**Mr Hazlehurst**—Could I just confer with Mr Warburton for a moment?

**Mr Warburton**—While hunting around for the figures, I have slightly confused myself.

**Senator FIFIELD**—That is okay. I was confused, so let us both be confused.

**Mr Warburton**—There are quite a lot of measures. Broadly, there were four baby bonus measures. One of them was the change to indexation arrangements. The figure I gave you before was for that measure. The saving is \$80 million over four years. I understand from my colleagues that the question you asked was about instalments.

**Senator FIFIELD**—That is correct. I was confused because I thought you had given a figure about instalments.

**Mr Hazlehurst**—We will give you that figure.

**Mr Warburton**—The saving from that is \$355 million over four years. That is the total package, Senator.

**Senator FIFIELD**—I was going to throw my hands up in the air.

**Mr Warburton**—Perhaps we could move on and we will come to that later.

**Dr Harmer**—Senator, we will give you those figures. We know exactly what you are asking for now. My people will work it out. Rather than hold up the Senate committee, we could go on and we will read those answers back into it later.

**CHAIR**—I think that would be most helpful, as Senator Siewert, Senator Fierravanti-Wells, Senator Boswell and Senator Collins have some questions and we are due to conclude this inquiry in 20 minutes time. We will go on with Senator Siewert's questions while witnesses are conferring.

**Senator SIEWERT**—You are probably aware that the questions that were asked earlier and the answers that we received from the non-government organisations, or the community sector representatives, dealt with some broader issues. Some of the issues that were raised involved the indexation issue and the consortium issue. Has the department been in dialogue with the sector in relation to those issues? During the estimates committee hearing process we had a discussion about it as well. The sector referred to a number of indexation issues and the consortium issue and said that it would have to top up some of the grant funds that it gets. What process do you have in place to deal with these issues? Is there a forum where these sorts of issues can be dealt with by the sector, or are they dealt with by individual non-government organisation on an issue-by-issue basis?

**Dr Harmer**—Senator, we are certainly aware of the concerns that elements of the sector have about indexation. Indexation is the responsibility of the Treasury. Indexation arrangements for the various programs are provided to us by Treasury and we use them. We have regular interaction with the community sector across a range of our programs. Without being too specific, quite often—and clearly when I am involved—the issue of the adequacy of indexation comes up.

**Senator SIEWERT**—Have you raised this matter with Treasury?

**Dr Harmer**—Treasury is well aware of it, Senator. Those issues are often raised at Senate estimates committees. I am not sure whether they are raised with Treasury, but they certainly are raised with us. I would be surprised if Treasury was not aware.

**Senator SIEWERT**—Do you have dialogue with Treasury about your programs? Obviously you have a great deal to do with the community sector.

**Dr Harmer**—Yes.

**Senator SIEWERT**—Do you have dialogue with Treasury about its concerns and its inability or ability to deliver programs because of indexation?

**Dr Harmer**—We have a lot of interaction with Treasury in the framing of budget measures and in framing new government proposals. Without knowing precisely, I would be very surprised if indexation were not part of that dialogue. In fact, I would be pretty confident that it would be.

**Senator SIEWERT**—What process is followed in relation to that issue and the Henry review?

**Dr Harmer**—It is unlikely that the issue of indexation of non-government organisations would be taken up as part of the tax review.

**Mr Hazlehurst**—I would struggle to think of a way in which that would fall within the terms of reference for the review.

**Senator SIEWERT**—As I understand it—and my understanding comes from the questions that we talked about at estimates committee hearings—a subgroup is working on pensions.

**Dr Harmer**—That is correct.

**Senator SIEWERT**—As I understand it, a clear issue that is being dealt with there is indexation.

**Dr Harmer**—I think the terms of reference of my subset of the tax review certainly talk about pensions. I do not think the terms of reference break it down specifically into elements, but you could imagine that indexation would be something that we would look at if we were looking at pensions. But that matter is different from the indexation for non-government organisations.

**Senator SIEWERT**—I appreciate that. Let me deal with this line of questioning first. One element of the review involves looking at indexation—a matter to which I will refer in a minute—so I do not see why another element cannot. My clear understanding of the government's announcement and our earlier discussion—although I have not gone back and read the *Hansard*—is that the government said it is looking at a third way of indexing. So you have the consumer price, MTAWA and there is a third. My understanding is that the government is committed to looking at a third way of indexing. I thought that was being considered by the subcommittee of the Henry review?

**Mr Hazlehurst**—Senator, I am not precisely sure what those different methods are or the announcement to which you are referring. However, I think I should make one very clear distinction, that is, that the Henry review is about the tax and transfer system—the tax system and government payments to individuals. So, yes, it is quite conceivable that it might look at issues of indexation as they relate to the tax system, or the payment system, but it is not within the terms of reference to start looking at the indexation of payments to the non-government sector or to the states.

**Senator SIEWERT**—I appreciate what you are saying. However, I am trying to find out what mechanism are being used by the department in relation to the issues that were raised by the NGO sector this morning—that is, the viability of the sector and the services it delivers. From the department's point of view where are those issues being raised? I am referring to the big picture. The issue that we are talking about—the FTB stuff—has brought to the forefront

those very real issues. I want to know how those issues are being dealt with—I am looking at existing mechanisms or whatever else the department is doing to deal with them.

**Dr Harmer**—Senator, as I indicated earlier, these issues are constantly raised with us in our interaction with the community sector. I am very confident that they would definitely be raised with ministers when the community sector interacts with various ministers. There would be no lack of understanding about some of the issues concerning indexation.

**Senator SIEWERT**—With all due respect, Dr Harmer, I am aware of the consortium issue that was raised this morning. I am aware that that is an ongoing issue. In fact, I raised it during the estimates committee hearings. I do not think it is being addressed, because those concerns still exist and there are real concerns about family relationships and the consortiums that are coming up. There are also real concerns about how they relate to the job network, which is currently being negotiated.

**Dr Harmer**—Senator, I was not saying that it had been addressed. I was very careful. These issues have been raised. What is being addressed is a matter for government.

**Senator SIEWERT**—At the moment there is no forum that the department is running to address the issues that are being raised by the NGO sectors and that have been raised for some time.

**Mr Hazlehurst**—Senator, there is the indexation issue. The consortium is another issue.

**Senator SIEWERT**—I am aware of that.

**Mr Hazlehurst**—We have ongoing dialogue with the sector. I will speak specifically about something I know more about, which is the Family Relationships Services Program. We have a range of mechanisms for engaging directly with the sector, including through the Family Relationships Services Australia industry representative body. So there are mechanisms for dealing with these sorts of issues and there is ongoing dialogue that occurs around those issues. Of course, we then provide advice to government on the issues that are being raised and the government considers them. If you are asking me whether there is a specific review mechanism or something of that sort, I can only say that in relation to the family relationships services sector, the government provides funding for Family Relationships Services Australia to support the interaction with the sector and the dialogue between the sector and the government. A vehicle is certainly available, in an area that I know more about, for those sorts of issues to be raised, and they are being raised.

**Dr Harmer**—Senator, I think what you are asking us is: ‘Are we doing work on it and are we advising the government?’ That is something that we cannot answer.

**Senator SIEWERT**—Okay. I will take pursue it with the government.

**Mr Warburton**—Could I deal with the matter on which I confused myself? I do not have a costing for instalments separated out. What I have given you so far are the figures for the total baby bonus package, and I separately identified the savings associated with moving to once-a-year indexation.

**Senator FIFIELD**—You cannot separate out the figure for instalments?

**Mr Warburton**—That is correct.

**Senator FIFIELD**—And what is the figure for savings from going to once-a-year indexation?

**Mr Warburton**—It is \$80 million over four years.

**Senator FIFIELD**—That is a reasonable amount. You said that you cannot separate out the savings going to instalments and that that was part of another figure. That is part of the—

**Mr Warburton**—It is included in the total package of savings.

**Senator FIFIELD**—That is part of the \$350 million, which includes the instalments figure and the indexation figure. Thank you.

**Mr Warburton**—There are not really any savings associated with instalments.

**Mr Hazlehurst**—I have already explained that.

**Mr Warburton**—Did you? Have you been through that?

**Mr Hazlehurst**—As I explained, it just moves the money from one year to the next.

**Senator FIERRAVANTI-WELLS**—Mr Warburton, while you are looking at figures could you tell us what would be the cost of paying the baby bonuse in 13 instalments as opposed to a one-off payment? I am referring to the logistics—

**Dr Harmer**—The administrative costs.

**Senator FIERRAVANTI-WELLS**—I am referring to the administrative costs incurred as a result of paying the bonuses in 13 instalments as opposed to a one-off payment. Do you have those figures?

**Mr Warburton**—I do not know whether there is anything significant in that. Essentially, you are assessing the same claim. You are deciding whether somebody is entitled, and then it is purely a function of whether or not the system makes a single lump sum payment or pays it in 13 instalments. There might be some costs associated with that. There are some differences in the systems. There is certainly a cost to change the system. That would have been factored in. But the difference in costs between those two is insignificant. I would not be able to separate it out.

**Senator FIERRAVANTI-WELLS**—So you cannot separate it? Is that what you are saying?

**Mr Warburton**—I do not have that figure separated out.

**Senator FIERRAVANTI-WELLS**—All right. Perhaps at estimates we might ask what the administrative costs are. Would you come to the next estimates prepared and tell us what would be the administrative cost of making a one-off payment as opposed to instalments? Could you have a look at that issue? We might look at that at estimates.

**Mr Warburton**—I suspect that the only cost associated with that change is an implementation cost.

**Mr Hazlehurst**—The answer is yes.

**Senator FIERRAVANTI-WELLS**—Thank you.

**CHAIR**—I now plan to hand over the chair to Senator Fifield. I apologise to everyone, as I have to leave.

**Senator JACINTA COLLINS**—I have a quick question on the estimate of income. I have noticed that we are asking people to estimate their income for the six months after the birth of their child. In that I can see some helpful incentives for families to plan on spending more time with newborn children, which I think is a useful mechanism. However, I am curious about how you would administer that arrangement and what feedback you anticipate, since as you will not be able to rely on a tax year to crosscheck people's income estimates. How do you propose to deal with that issue?

**Mr Hazlehurst**—We will be asking people to provide Centrelink with an estimate of the income that they believe they will earn in that six-month period and Centrelink will determine whether that seems to be reasonable. If the person is an existing family assistance customer with older children, that might be based on the incomes of the household in the previous year. If they are not, the estimate will be based on other information, such as a tax return or evidence of their wages. Once we are satisfied that that is a reasonable estimate, that will be the basis upon which the claim is processed.

**Senator JACINTA COLLINS**—That is the claim. What I am asking about is at the other end.

**Mr Hazlehurst**—There will be no reconciliation.

**Senator JACINTA COLLINS**—There is no reconciliation?

**Mr Hazlehurst**—No.

**Senator JACINTA COLLINS**—If somebody estimates that their income will be \$70,000 and, at the end of that six-month period their income was \$90,000, at this stage there is no means in the process to verify those circumstances. Indeed, the next tax report will not be helpful in itself because that will be for a full 12-month period. Is that correct?

**Mr Hazlehurst**—That is correct. There is no reconciliation of the process.

**Senator JACINTA COLLINS**—I have only one other question. Can I have a copy of the letter that was forwarded to people in May?

**Mr Hazlehurst**—The new financial year assessment letter?

**Senator JACINTA COLLINS**—Yes.

**Mr Hazlehurst**—I am not sure whether we have one here now. We will have a look, but we could certainly provide that to the committee.

**Senator JACINTA COLLINS**—Thank you.

**Mr Warburton**—They certainly included this leaflet, which I am happy to give the committee, which goes to the matter. It indicates the change that people will be going through in relation to reportable fringe benefits.

**Senator JACINTA COLLINS**—I am also interested in the letter, if you have it.

**ACTING CHAIR (Senator Fifield)**—Dr Harmer, we might move to the Commonwealth seniors health card and the budget measures affecting eligibility for that card. Why is the

budget measure for the Commonwealth seniors health card different from what is proposed in the bill?

**Ms Lindenmayer**—The measure proposed in the bill is a compliance measure. The only part of that measure that requires legislative change is the ability to collect a tax file number.

**ACTING CHAIR**—So it is a compliance measure. It is not something that was flagged at the time of the budget, is it?

**Mr Cassidy**—Yes, this is a budget measure. The compliance measure is a budget measure.

**ACTING CHAIR**—Yes, that is right. The compliance measure is a budget measure. But what was announced in Budget Paper No. 2 was the adjusted taxable income test.

**Ms Lindenmayer**—That is a separate measure. The legislation for this measure is about better compliance for CSHC holders. I am not sure what the exact terms were in the budget, but they are two very separate measures.

**ACTING CHAIR**—I appreciate that. I am just pointing out the fact that it is not something that was flagged on budget night.

**Dr Harmer**—It would have been in our portfolio budget statement.

**Mr Cassidy**—The two measures were outlined there.

**Dr Harmer**—Our portfolio budget statement paper was made available at the same time as Budget Paper No. 2.

**ACTING CHAIR**—Was any modelling done on the adjustable taxable income test?

**Ms Lindenmayer**—That is the separate measure?

**ACTING CHAIR**—

**Ms Lindenmayer**—Legislation for that has not yet been drafted.

**ACTING CHAIR**—I appreciate that from your evidence, but has any modelling been done on that?

**Ms Lindenmayer**—Some work was done and that is how the estimates were derived at the time.

**ACTING CHAIR**—Is that modelling something that is available?

**Ms Lindenmayer**—It was done in consultation with Treasury.

**Dr Harmer**—Senator, I doubt whether we could do that. It would have been part of our deliberations and briefing for government. It was not done entirely by FaHCSIA; I suspect that it was also done in consultation with Treasury. It is not the sort of thing that we would normally have.

**ACTING CHAIR**—I appreciate that. What about the TFN measure? Is that modelling that would have been done by you or by Treasury?

**Ms Lindenmayer**—We used a number of assumptions for the TFN measure. As I said, collecting the tax file number is just one component of that measure. When we derive the estimates of how many people might lose their card at the end of the first financial year—

**ACTING CHAIR**—How many people might lose their card?

**Ms Lindenmayer**—Lose their card or lose eligibility. When we derive the estimate a number of factors are taken into account. A data cleanse was done in 2006 and, at that time, I think there were 28. Let me just check that figure.

**ACTING CHAIR**—Sorry, did you say a data cleanse?

**Ms Lindenmayer**—There was a data cleanse. Centrelink did a data match with the Australian Taxation Office. Because we did not have tax file numbers it used name, address and, I think, date of birth. It could not match the entire population; it could match only around 70 per cent of the population. At that time—

**Mr Cassidy**—At that time 28,000 cardholders had income over the limits.

**Ms Lindenmayer**—Up until now we have relied very much on cardholders notifying when they exceed the limits. It appeared at that time that there were cardholders that were not advising. That was the main driver of how we reached the estimate, but there were other factors that we took into account. The fact is that only 70 per cent could be data matched, so a group has not been matched at all.

**ACTING CHAIR**—Was that in relation to the budget measure or the TFN?

**Mr Cassidy**—It was the TFN.

**Ms Lindenmayer**—It was the TFN.

**ACTING CHAIR**—Just going back to the budget measure, you said that it there would have been work involved by both your department and Treasury?

**Ms Lindenmayer**—I think we are getting the two measures confused. I was talking about the adjusted taxable income test measure.

**ACTING CHAIR**—Okay.

**Ms Lindenmayer**—With this measure there are several components. One is collecting the TFN. The work done around the assumptions of possible numbers of cardholders that might lose eligibility was done in our department.

**ACTING CHAIR**—Did you present a range of scenarios to the minister?

**Dr Harmer**—Senator, we cannot answer that question.

**ACTING CHAIR**—Who had the final sign off on the budget measure and also on the TFN measure?

**Dr Harmer**—It is a government decision, Senator. The government makes that decision.

**ACTING CHAIR**—I appreciate that. I am just asking which element was involved. Was it cabinet, was it the Ad Hoc Revenue Committee, if such a beast still exists, or was it the Expenditure Review Committee?

**Dr Harmer**—I am pretty confident that all decisions of budget go through the cabinet.

**ACTING CHAIR**—What, ultimately, is the purpose of collecting the TFN? It looks to me as though it is a bit of a backdoor means test?

**Mr Cassidy**—It brings that into line with the compliance measures across the income support system. Data matching through TFN is a common mechanism that we use across income support systems. It brings the Commonwealth seniors health care card into line with the general income support system.

**ACTING CHAIR**—Currently, how many people hold the Commonwealth seniors health card?

**Ms Lindenmayer**—It is around 277,000.

**ACTING CHAIR**—How many people will potentially lose their Commonwealth seniors health card?

**Mr Cassidy**—About 13,000 in 2008-09 and about 14,000 in 2009-10.

**Ms Lindenmayer**—That number is growing.

**ACTING CHAIR**—Just so that we are not at cross purposes, that figure is the adjustable taxable income test, or is it a combination of the introduction of the TFN and the adjustable taxable income test?

**Ms Lindenmayer**—There are two separate measures.

**Mr Cassidy**—It is just the TFN.

**Ms Lindenmayer**—This relates to introducing a compliance regime, of which the TFN is a component. All customers have not been subject to an ongoing review. Part of what we were planning to do was to review all customers towards the end of this year and early next year and, at that time, collect tax file numbers. People would lose eligibility through that process.

**ACTING CHAIR**—I appreciate that the TFN and the Commonwealth seniors health card adjustable taxable income test are two separate things. How many people do you anticipate will lose their cards because of the adjustable taxable income test?

**Ms Lindenmayer**—There are two changes to the adjusted taxable income test in our measure. It is anticipated that 22,000 people will lose eligibility. That measure does not come into effect until 1 July 2009.

**ACTING CHAIR**—So 22,000 people will lose eligibility as a result of the adjustable taxable income tests?

**Ms Lindenmayer**—Yes.

**ACTING CHAIR**—And 14,000 people will lose eligibility as a result of the TFN?

**Ms Lindenmayer**—Yes.

**ACTING CHAIR**—You can see why the introduction of the tax file number would be seen as a backdoor means test when 4,000 people are going to be booted off?

**Ms Lindenmayer**—It is not a new concept. People who are on income support payments have to provide tax file numbers already, so it is bringing it into line with what already exists in the income support system.

**ACTING CHAIR**—What individual benefits does a cardholder get?

**Ms Lindenmayer**—They get a Commonwealth seniors health card, and the primary purpose of that is to give them access to pharmaceuticals at a concessional rate. They may also get some Medicare services that are bulkbilled, but that is at the discretion of the provider. They get a seniors concession allowance, which has just been increased to \$500. If they are a telephone subscriber they also get the telephone allowance. Those are the main benefits.

**ACTING CHAIR**—Do you have a handle on that or do you have the number of individuals who will subsequently lose access to other particular benefits?

**Ms Lindenmayer**—If they lose their card—

**ACTING CHAIR**—They will lose access to all those benefits?

**Ms Lindenmayer**—They will lose access to those benefits.

**ACTING CHAIR**—Is everyone who has a card eligible for the same range of things?

**Ms Lindenmayer**—To be eligible for the telephone allowance you have to be a telephone subscriber. Not all cardholders choose to claim seniors concession allowance. That is a choice that they make. But, technically, they are eligible for it.

**ACTING CHAIR**—I think Senator Boswell had a follow-up question.

**Senator BOSWELL**—Is the figure of 22,000 for the health cards that you just mentioned accounted for by the new income definition?

**Ms Lindenmayer**—That is for the changes to the definition of the adjusted taxable income test.

**Senator BOSWELL**—Is that the salary sacrifice part of it?

**Ms Lindenmayer**—There are two components. One is adding back in amounts that are salary sacrificed to superannuation, and the other component is adding back in gross super amounts that are withdrawn from a tax fund.

**Senator BOSWELL**—What is the figure on the new income definition?

**Ms Lindenmayer**—Are you referring to customer numbers?

**Senator BOSWELL**—Yes.

**Ms Lindenmayer**—It is 22,000.

**Mr Cassidy**—It is 22,000 for the overall measure.

**Senator BOSWELL**—That is for the new income definition?

**Ms Lindenmayer**—Yes.

**Senator BOSWELL**—While we are dealing with that issue, can you tell me what the figure would be on the childcare benefit? How many people would lose their benefit?

**Dr Harmer**—The childcare benefit system is the responsibility of the Department of Education, Employment and Workplace Relations. We will try to be helpful. If we have the answer to that question we will give it to you.

**Senator BOSWELL**—You have given us the figures for the seniors health card. What about dental benefits? Does that come under your department?

**Dr Harmer**—That would be Health.

**Ms Lindenmayer**—Dental benefits come under Health.

**Senator BOSWELL**—And no doubt veterans affairs come under the Department of Veterans' Affairs. What about child support assistance for isolated children?

**Mr Warburton**—That also comes under the DEEWR portfolio.

**Senator BOSWELL**—What about the Medicare levy surcharge?

**Dr Harmer**—That would come under the Department of Health and Ageing.

**Senator BOSWELL**—And exceptional circumstance relief?

**Dr Harmer**—I think that comes under Agriculture.

**Senator BOSWELL**—I take it that dependency tax offsets would come under Treasury?

**Dr Harmer**—Yes.

**Senator BOSWELL**—What about income support payments under the Social Security Act?

**Dr Harmer**—That would be ours.

**Senator BOSWELL**—How many people would lose their benefits under that?

**Mr Warburton**—Under which measure are you seeking that information?

**Senator BOSWELL**—Under the new income definition which was introduced in the last budget.

**Mr Warburton**—There were two separate measures.

**Senator BOSWELL**—I am referring to the salary sacrifice measure.

**Mr Warburton**—In respect of salary sacrifice to superannuation, it was estimated that 2,100 people would lose pensions and allowances.

**Senator BOSWELL**—I have gone through a series of programs and I have forgotten which program I was asking questions about. What does child support assistance come under? What question are you answering?

**Dr Harmer**—You were asking about the social security one.

**Senator BOSWELL**—Thank you—income support payments under social security. How many people will be affected?

**Mr Warburton**—It is 2,100. That is for all pensions and allowances. That picks up those that are within our portfolio and the DEEWR portfolio.

**Senator BOSWELL**—What about parental income tests on youth allowance?

**Dr Harmer**—That comes under the Department of Education, Employment and Workplace Relations.

**Senator BOSWELL**—And Abstudy?

**Dr Harmer**—That would also come under the department of education.

**Mr Warburton**—I gave you one figure for pensions and allowances.

**Dr Harmer**—It includes that.

**Mr Warburton**—I believe that the youth allowance and Abstudy would be picked up in that definition, though my understanding is that it covers all allowances and pensions.

**ACTING CHAIR**—But a savings resulting from someone not being eligible for PBS would appear in Health?

**Senator BOSWELL**—Would that include dental benefits?

**Mr Warburton**—These general measures that were put through—changing income definitions and seeking consistency across a range of Commonwealth benefits—were led by the Treasury department, which did the modelling for it. We have some information in relation to our programs. In some cases, the pension and allowances figure picks up all pensioners.

**Senator BOSWELL**—I would have loved to have asked Treasury that question, but they declined to appear. I do not know whether it is in our power to make them appear before this committee, but that is another matter. I have been trying to get these figures from Treasury for months and I have been blocked. I have run through all the programs that I can find and you have only been able to tell me about two for which you are responsible.

**Mr Warburton**—Why do I not give you what I have?

**Senator BOSWELL**—That would be very helpful.

**Mr Warburton**—The information I have is that through the parental income test for youth allowance nobody lost youth allowance entirely. There are 2,100 who would lose access to other pensions and allowances and there are 12,700 who would lose access to family tax benefits—parts A and B—and nobody would lose all access to childcare benefit.

**Senator BOSWELL**—How many would lose the childcare benefit?

**Mr Warburton**—There are 18,800 who would lose some childcare benefit.

**Senator BOSWELL**—Thank you. That was very enlightening. What about the baby bonus? Do you have figures for that?

**Mr Warburton**—I do not have a separate figure for that.

**Senator BOSWELL**—You do not have the figure?

**Mr Warburton**—No, I do not.

**Senator BOSWELL**—Let me go through these programs and you can tell me what you have. Do you have a figure for tax offsets for senior Australians?

**Mr Warburton**—The items that I have listed represent all the information I have.

**ACTING CHAIR**—Senator Boswell, we are really straying outside the scope of the inquiry into this bill.

**Dr Harmer**—I was just going to make the point that, because of the change in the terms of reference, a number of the departments that might have been able to answer Senator Boswell's questions obviously are not here.

**Senator BOSWELL**—Treasury has not given us figures.

**ACTING CHAIR**—The fact that Treasury is a no-show makes it very difficult, Senator Boswell.

**Senator BOSWELL**—It does. I think it is in contempt of the committee system. If everyone decides when to rock up and when not to rock up it destroys the whole committee system. I commend these witnesses for turning up. I have been pursuing a number of questions and I have to take my chance when it comes up. It is obvious that Treasury does not want to answer these questions.

**Dr Harmer**—It is not my job to defend Treasury, but I point out that the terms of reference were changed. The terms of reference for this Senate hearing are something that Treasury could easily defend as not being relevant to them.

**ACTING CHAIR**—We need to move on at this point. I go back to my earlier question about individuals who may lose access to the card and, as a result, lose access to particular programs that might be spread across a range of portfolios. The savings figures that you have are purely for those programs that come within your portfolio; they do not include savings that would accrue to government as a result of the failure of people being eligible for PBS medicines. Is that correct?

**Mr Warburton**—We do not have that information.

**ACTING CHAIR**—So the savings for government as a result of the new eligibility criteria for the card are potentially much greater than what is reflected in your figures?

**Mr Warburton**—I am not sure whether that is correct. The biggest impacts were on the family tax benefit.

**ACTING CHAIR**—I am speaking specifically in relation to the Commonwealth health benefits card.

**Ms Lindenmayer**—There are savings in the Health portfolio and they would be reflected in their budget statements. There are savings in the Veterans' Affairs portfolio and they would also be reflected in their papers.

**ACTING CHAIR**—I appreciate that. Thank you for clarifying that. What numbers did you use to determine future savings in your portfolio? In 2009-10 it is \$24.3 million which relates to the number of people dropping out.

**Ms Lindenmayer**—Which measure are we discussing at the moment?

**ACTING CHAIR**—The \$23.4 million.

**Mr Cassidy**—Is this the adjustable taxable income measure?

**ACTING CHAIR**—Yes.

**Ms Lindenmayer**—Does the question relate to the components that make up that saving?

**ACTING CHAIR**—That is correct.

**Ms Lindenmayer**—There would be savings in the Health portfolio through the PBS and MBS. In our portfolio there are savings through the seniors concession allowance and the telephone allowance.

**ACTING CHAIR**—What number of people would that be based on? What numbers of people are failing to continue to be eligible?

**Ms Lindenmayer**—If you lose access to the card you lose eligibility to its associated benefits. If your income exceeds the limits and you are no longer a CSHC holder, you no longer have access to seniors concession allowance, telephone allowance or to pharmaceutical items at a concessional rate.

**ACTING CHAIR**—My question is: On what number of people is that predicated? What numbers of people are dropping out?

**Mr Cassidy**—The overall number is 22,000. The number that drop out from the other things will depend on—

**ACTING CHAIR**—I just wanted to check that that figure of 22,000 is the figure on which those savings are predicated.

**Mr Cassidy**—Yes.

**ACTING CHAIR**—Thank you for that. Have you done any work on what would be your projected future savings for people affected, say, beyond 2011?

**Ms Lindenmayer**—No.

**Dr Harmer**—We do a lot of work. The officers have specifically—

**Ms Lindenmayer**—The figures we have are over the forward estimates period, so it is usually a four-year period. We have not done work beyond that period.

**ACTING CHAIR**—You have not done work beyond that. I might just move to the partner service pension changes. Again, this is something that was not flagged by the government before the election. It is something that was put to you only after the election, or you became aware of it as an idea subsequent to the election.

**Mr Farrelly**—No, I do not believe that it was flagged.

**ACTING CHAIR**—How many veterans spouses will be affected?

**Mr Farrelly**—It is around 400 in the first year.

**ACTING CHAIR**—Around 400?

**Mr Farrelly**—I should point out that these would be new grants. No-one who is in receipt of a partner service pension the day before the change will be affected. It is grandfathered.

**ACTING CHAIR**—Was there any consultation on the measure with ex-service organisations?

**Mr Farrelly**—It was a budget measure so it is unusual to consult in that context. It does happen; organisations are sometimes asked. We discover it through the budget process and they sign documents indicating that they will not divulge the nature of any consultations. I am not aware of any—so there were no consultations.

**ACTING CHAIR**—Is there a reason why this measure been quietly put into a bill in the community services portfolio rather than the veterans' affairs bill?

**Mr Farrelly**—I do not think it has been quietly put in. It is regarded as an appropriate measure to go through with FaHCSIA's bill. We try to work closely with FaHCSIA.

**Mr Kennedy**—As my colleague just indicated, frequently we have joint legislation with FaHCSIA. To be frank, veterans' entitlements amendments are difficult to get through on their own because generally they are considerably smaller in impact. The FaHCSIA bill happened to be tabled and intended for passage before 1 July. The other changes that were announced in the budget will be in separate and following legislation. I believe that the timeframe dictated the vehicle.

**ACTING CHAIR**—Mr Kennedy, you would be well aware that veterans do not like to be classed with, or categorised with, welfare or social security benefit recipients.

**Mr Kennedy**—Senator, I am aware of their angst about that, but I would have to say that income support payments paid by Veterans' Affairs as opposed to compensation payments almost mirror equivalent payments under the Social Security Act. Because of the age at which an age service pension is payable and the fact that it is payable because of qualifying service, in all other respects it is identical to an age pension under the Social Security Act. Likewise, an invalidity service pension is almost identical to a disability support pension under the Social Security Act. Because the same means tests are applied, essentially, to all intents and purposes, it is a welfare payment.

**ACTING CHAIR**—I understand that the government's rationale for this change is to align it with relevant payments in the social security portfolio. But I do not think many veterans would see that as a rationale in itself. I do not think that they would take the view that social security payments are a benchmark or a particular criteria that should be used when looking at their entitlements, particularly when I think, as you said, it will cut off 400 people.

**Mr Kennedy**—In the first year, yes.

**ACTING CHAIR**—In the first year. That seems pretty mean for a small amount of money.

**Mr Farrelly**—Senator, aligning with the social security system is one aspect. The other aspect is that under the current system the partners of service pensioners can benefit at the age of 50. The veterans themselves have to wait until they are 60. So you have a situation where partners of veterans are being treated more favourably on one measure than are the veterans themselves.

**Senator BOSWELL**—You said that 400 people would be affected?

**Mr Farrelly**—In the first year.

**Senator BOSWELL**—How many will be affected after the implementation of the new incomes definition? Do you have a figure for that?

**Mr Farrelly**—I do not believe the new income definition will affect this.

**Senator BOSWELL**—It says it does on page 75 of Budget Paper No. 2.

**Mr Kennedy**—Senator, currently the Department of Veterans' Affairs considers salary sacrificed income as income when assessing entitlement to income support, so the salary sacrifice aspect already applies to service pensions.

**Senator BOSWELL**—In Budget Paper No. 2 there is a reference to veterans affairs support and to savings. I was wondering how many people that would affect?

**Mr Warburton**—Could you give us the page number of the budget paper? It might help the officers.

**Senator BOSWELL**—The only information I have is that veterans affairs support will be affected by the new income definitions and that is referred to on page 75 of Budget Paper No. 2. That is the only information I have.

**Mr Farrelly**—Senator, I cannot see that question. Perhaps we could ask officers to find out and get back to you as soon as we can.

**Senator BOSWELL**—Is there insufficient information?

**ACTING CHAIR**—Because of the scope of this inquiry the relevant officers are not here, Senator Boswell. Mr Kennedy or Ms Lucas, are you aware that the Prime Minister was asked in the House of Representatives in question time on Tuesday about the partner service pension measure and the Prime Minister said that he was not aware of the measure?

**Mr Farrelly**—I am aware of the question.

**ACTING CHAIR**—I advise you that he was not aware of the measure. Would it strike you as odd that the Prime Minister was not aware of the measure?

**Mr Farrelly**—It would not strike me as odd at all. The Prime Minister has a lot of things to think about.

**ACTING CHAIR**—Clearly veterans affairs is not one of them?

**Mr Farrelly**—I certainly did not say that.

**ACTING CHAIR**—When the question was eventually answered in the House by, I think, the portfolio minister, he said it would affect only a few veterans, as though the quantum of veterans affected was significant. You told me that 400 veterans would be affected in the first year. Moving forward, what would the numbers be?

**Mr Farrelly**—Overall, it is about 930. So it will move from round 400 to 300 to 200—in that sort of order. The minister did not actually say a few; he said it was a minor measure.

**ACTING CHAIR**—I am sorry; I did not mean to verbal him. Thank you for correcting me, Mr Farrelly. This is minor. That will give veterans great heart.

**Mr Farrelly**—To be fair, we do not want to minimise the effect on individuals, but it is a \$11.6 billion budget, 200,000 service pensioners, and 400,000 or more beneficiaries overall. In the context of the overall portfolio responsibilities it is minor.

**ACTING CHAIR**—Thank you for that. I think Senator Watson has questions.

**Senator WATSON**—UnitingCare states that it does not support the current legislation as it has a disproportionate effect on the low-paid staff in their caring services. Do you agree? Could you comment on that briefly?

**Dr Harmer**—Senator, are you referring to the changes to the—

**Senator WATSON**—I am referring to its submission to our committee.

**Mr Hazlehurst**—I believe, Senator, that reference is to the treatment of fringe benefits for the purposes of family assistance. Going back to the discussion we were having earlier about that measure, the government's position is to restore the current treatment rather than to move to the new treatment, which would have had the effect that the sector is concerned about. As I mentioned before, the particular concern identified by the government is the way in which fringe benefits are grossed up using the top marginal tax rate plus the Medicare levy added together to give you 46.5 per cent, including for people who are not on the top marginal tax rate. Hence the reference to people who are in the not-for-profit sector, for example, who are on lower incomes but whose employers receive a fringe benefits tax concession and hence use fringe benefits as a method of being able to employ people at a lower cost.

**Senator WATSON**—Are you saying that it does have an effect on lower paid staff in the caring services? Do you acknowledge that?

**Dr Harmer**—If the government had not announced—

**Senator WATSON**—I am not concerned about the government, Dr Harmer. We know that.

**Dr Harmer**—Senator, what we are saying is—

**Senator WATSON**—I am concerned about its application.

**Dr Harmer**—Senator, it will not be applied now. Last night the government announced that it would no longer apply, so it has addressed that issue.

**Senator WATSON**—As a result of last night's announcement it will not disproportionately adversely affect low-paid staff in the caring services?

**Dr Harmer**—That is correct.

**Mr Hazlehurst**—That is the effect of the change in respect of fringe benefits.

**Senator WATSON**—Could you tell me the cost of lifting the threshold by \$5,000 or \$10,000?

**Mr Hazlehurst**—Would you mind repeating that question, Senator?

**Senator WATSON**—There is debate about the fact that the threshold has not been changed since 2002. You might have to take this question on notice. Could you tell me the cost to revenue of lifting the threshold to \$5,000 or \$10,000? There are two questions there.

**Mr Hazlehurst**—Do you mean the threshold for the purposes of the fringe benefits tax concession?

**Senator WATSON**—Yes.

**Mr Hazlehurst**—That is a matter you would need to direct to Treasury, Senator. We are not responsible for the fringe benefits tax.

**Dr Harmer**—Treasury could answer that question, Senator; we cannot. Treasury does those estimates.

**Senator WATSON**—Can't you obtain those figures as it affect your clients?

**Mr Hazlehurst**—The fringe benefit tax exemption is an exemption that is directed to the employer of the people we are talking about.

**Senator WATSON**—The non-profit sector would have a tax problem like employers have. If you cannot get that information for me, we will have to write to Treasury. Another issue is really concerning me. Today one witness said that he was worried about speaking out because he would be punished in the next round of funding. I am really concerned about that overarching attitude. Another witness referred to concerns about confidentiality agreements. Organisations in Western Australia and in eastern Australia are conducting the same activity, but they are not allowed to talk to each other. How can we expect organisations to run an efficient operation with those sorts of overbearing attitudes? It is a matter of some concern to me when witnesses say that sort of thing. Can you respond to that or deny it?

**Dr Harmer**—Senator, I am not sure which witness said that or what was being referred to.

**Senator SIEWERT**—It is Francis Quinlan that we are talking about.

**Senator WATSON**—One organisation was the Uniting Church and the other was the Roman Catholic Church.

**Dr Harmer**—What was he saying?

**Senator WATSON**—I thought it was a fair assessment coming from two different bodies.

**Dr Harmer**—Senator, I do not know what program he was talking about—whether it was in our department or in another department. My comments are not relevant. I will answer questions.

**Senator SIEWERT**—It was the FARC program. He was saying that he had two members and that they were at opposite ends of the continent, so I presume that one is on the west coast and one is on the east coast. They and members of other organisations were members of a consortium. The two members of the Catholic social service could not talk to one another because they were bound by confidentiality agreements under the rules of the consortium. They were not able to share experiences.

**Mr Hazlehurst**—We would be happy to look into the specific example. From what you have said though, Senator, I make the observation that the rules that a consortium puts in place are not something that is imposed by government. If a number of organisations have chosen to come together as a consortium and they have in place confidentiality arrangements for the purposes of that consortium, that is not something that the government has imposed on them. I am not saying that I do not understand the issue; I understand the point that might have been made.

**Senator BOSWELL**—Are we finished?

**Senator SIEWERT**—That is the point that was being made about some of the rules that were being applied.

**Senator WATSON**—My final question concerns the social inclusion agenda or the social compact. Do you have an initial outline of how that will operate and interact with the charitable sector, or is it too early for that?

**Dr Harmer**—I think the primary responsibility for that is in the Prime Minister's department. It does not come within our portfolio. We do not have anyone here who could answer that question.

**Senator WATSON**—We are told about all the benefits of the social agenda and we have you before us and you say on one hand that it is the responsibility of Treasury and on the other hand you tell us that it is the responsibility of the Prime Minister.

**Dr Harmer**—Senator, we are aware of the social inclusion agenda. Our department will be heavily involved in assisting the government with that agenda because we have some of the key socially excluded groups—such as people with disabilities, homeless people, indigenous people, et cetera. So we will be heavily involved in that, but we do not have prime carriage of that function. However, we will be heavily involved in it.

**Senator WATSON**—But no framework or outline has been indicated to you at the moment? Are you still waiting on the Prime Minister to do something?

**Dr Harmer**—No. I think that outlines and frameworks are available in the government's statement so far, but I do not have them here.

**Senator WATSON**—Could you send to the committee what you have? It would be helpful.

**Dr Harmer**—We will give you a description of what we know about the social inclusion agenda.

**ACTING CHAIR**—I think we are just about done. Just before we conclude, for the sake of completeness, officers at the table confirmed earlier that the baby bonus means test was not something that they became aware of through monitoring opposition statements before the election. The Department of Veterans' Affairs indicated that the partner service pension was not something that it became aware of before the election. I just wanted to check on the proposed changes to the Commonwealth seniors health card. Through the monitoring of opposition statements has that become—

**Mr Farrelly**—Forgive me, but what I said was that the government did not flag the partner service pension before the election. That is not to say that the department was not aware of it as an option.

**ACTING CHAIR**—The department looks, as a matter of course, at a range of options.

**Mr Farrelly**—Always.

**ACTING CHAIR**—Always?

**Mr Farrelly**—There is a distinction.

**ACTING CHAIR**—I appreciate the fact that you clarified that, Mr Farrelly. I was not attempting to imply anything else.

**Senator MOORE**—To be fair, Senator, I do not think the department monitors opposition promises during elections either.

**ACTING CHAIR**—Actually, it does. All government departments monitor both government and opposition statements in the lead-up to the election so that they can prepare for the incoming government, whoever it may be. My question related to the Commonwealth seniors health card and whether proposals to change that were something which—

**Dr Harmer**—Senator, I make the point that we do our very best to put together a brief for an incoming government. We have two versions, as I indicated before. While I am pretty confident that we do a good job, I can never be absolutely certain that we pick up every single statement in every radio broadcast and press release. But we do our best. I am very careful—

**ACTING CHAIR**—It is not something that came across from radar, put it that way.

**Dr Harmer**—Not me personally, but I am very careful to avoid saying that no-one was aware of it because that is a big statement.

**ACTING CHAIR**—It did not come across the radar of the department for the reason that it was not flagged. Mr Farrelly, relating to the veterans partner arrangements, is that something that has been put on your website to advise people who are likely to be affected?

**Mr Farrelly**—It is certainly on our budget website, yes.

**ACTING CHAIR**—On your budget website?

**Mr Kennedy**—Yes, and it was announced in the Veterans' Affairs newspaper which goes out to all members of the veteran community immediately after the budget. So there has been knowledge of it for six weeks or so.

**ACTING CHAIR**—I was looking for it on your website and I had difficulty finding it.

**Mr Farrelly**—I think the reference there was to whether fact sheets should refer to future policy changes, but usually they do not. Fact sheets are fact sheets; it is the policy as it currently is today. But certainly on the website people have access to the June edition of Vet Affairs which has an article on partner service pensions.

**ACTING CHAIR**—Thank you, Mr Farrelly. There being no further questions, I thank officers from the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Veterans' Affairs and Centrelink for making themselves available at short notice. I thank committee staff, Hansard and my colleagues.

**Committee adjourned at 12.40 pm**