

Chapter 3

Impact of income inequality on access to services and entrenching disadvantage

If having a higher income simply meant you could go on more holidays and drink more expensive wine, then we wouldn't care very much about how equally or otherwise it is distributed, but when it's the difference between lifesaving health care or a quality education, then we should care a lot. A more equal society is one where you can compress income distribution and also reduce the relationship between income and the other things that matter to a good quality of life. Each individual distribution matters. Money matters. Education matters. Health matters. Job opportunities matter.¹

Introduction

3.1 This chapter will examine the capacity of those on low incomes to access a range of services within the community with a specific focus on health, education, employment, and housing opportunities. The following areas will be examined in detail:

- health—the deleterious effect of low income on different health outcomes; and impediments to access.
- education—disadvantage within the education sector; and the social and economic benefits of education.
- housing—affordability; availability of public and social housing; transport and participation in society.
- employment—impediments to joining the labour market; impact of childcare on the decision to enter the workforce; and the working poor.

This chapter will also look at how poorer access to these services leads to entrenched disadvantage at an individual, household and intergenerational level.

3.2 Access to these basic services are enshrined as fundamental human rights within the UN Human Rights Declaration:

[E]veryone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in

1 Professor Sue Richardson, *Economist warns of growing 'forces of inequality'*, Flinders University Blog, August 2014, <http://blogs.flinders.edu.au/flinders-news/2014/08/01/economist-warns-of-growing-forces-of-inequality/> (accessed 1 October 2014).

the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.²

3.3 The disadvantage endowed by income inequality is not as simple as comparing an individual's yearly income to others. There is a complicated inter-relationship between income inequality and a number of other factors that translates into poorer outcomes particularly for already disadvantaged people. The relationship that income inequality has with health, education, employment and housing is best described as multi-dimensional inequality. The committee received evidence from Dr Nicholas Rohde, Senior Lecturer at Griffith University, about his research:

I looked at income, education, leisure time and health scores. The fact that these things tend to be associated means that you have a higher level of disparity than you would think if you just look at income alone, because poorer people tend to have lower health scores and they tend to be less educated. I think leisure time, or free time, is more or less uncorrelated. But poverty is concentrated over multiple dimensions, and if you add them all up it is worse than it looks just on one dimension alone.³

3.4 Many submitters spoke not about equality of outcomes but equality of opportunity.⁴ All individuals within a society, regardless of household income, should be given the opportunity of access to good quality education (early childhood, schooling and tertiary training), healthcare, and good job opportunities regardless of where they live. A merit based society with intergenerational mobility is the objective not a society where 'everybody has the same income'.⁵

3.5 Inequality is not just a moral argument but also an economic one. This chapter discusses the increased cost that society must bear as low income individuals are more likely to be sick, less likely to participate in employment and more likely to rely on welfare payments and on public housing amongst other things. There are also benefits to society by reducing income inequality and improving service delivery for low income individuals. Through improvements to educational and training opportunities, individuals are more likely to work and pay tax, and be less reliant on welfare payments. By reducing impediments to the workforce, labour market participation can be improved. Higher incomes will result in better mental health and greater capacity

2 United Nations, *The Universal Declaration of Human Rights*, Article 25, <http://www.un.org/en/documents/udhr/> (accessed 1 October 2014).

3 *Committee Hansard*, Logan, 8 October 2014, pp 48–49.

4 For example, see: Dr David Morawetz, Board Member, Australia21, *Committee Hansard*, Melbourne, 18 September 2014, pp 43–44; Mr Matt Cowgill, Economic Policy Officer, Australian Council of Trade Unions, *Committee Hansard*, Melbourne, 18 September 2014, pp 3–4.

5 Dr David Morawetz, Board Member, Australia 21, *Committee Hansard*, Melbourne, 18 September 2014, pp 43–44.

for individuals to contribute to their own healthcare. The inter-related benefits of improving access to these services far outweigh the cost of delivering them.

Health

3.6 Income inequality is a significant barrier to people accessing preventive healthcare and even delay seeking medical assistance for some acute injuries. This ultimately leads to a higher incidence of chronic and other diseases.⁶

3.7 Health related outcomes are strongly correlated to a household's income, with a social gradient for health being observed for life expectancy and a range of chronic diseases.⁷ A recent study on health inequalities in Australia found:

Socioeconomically disadvantaged groups experienced more ill-health, and were more likely to engage in behaviours or have a risk profile consistent with poorer health status. Their use of healthcare services suggested that they were less likely to act to prevent disease or detect it at an asymptomatic stage. Socioeconomic inequalities for many of the health related indicators were found for both males and females and for each age group, and they were evident irrespective of how socioeconomic position was measured.⁸

3.8 This report also found that a higher proportion of those in the lowest income quintile were more likely to engage in riskier lifestyle choices including insufficient physical activity, regular tobacco use, high salt intake, no use of sun protection and food insecurity (running out of food). Lower income children were also less likely to have been breastfed as children. These riskier lifestyle choices combined with poor preventive capacities correlate with higher levels of chronic and other diseases such as obesity, hypertension, diabetes, emphysema, neoplasms (tumours) and arthritis. Although lower income individuals were more likely to visit a GP, they were less likely to do so for preventive reasons such as dental consultations, mammograms or Pap smears. Tellingly, those on lower incomes perceived their own health as being significantly poorer than those in higher quintiles.⁹

6 Social Determinants of Health Alliance, *Submission 43*, p. [6].

7 Professor Sharon Friel & Dr Richard Denniss, *Unfair economic arrangements make us sick*, Australia21, p. 5, <http://www.australia21.org.au/publication-archive/unfair-economic-arrangements-make-us-sick-how-should-australia-respond-to-the-expanding-financial-inequities-among-its-citizens/> (accessed 14 October 2014). See also, Public Health Association of Australia, *Submission 42*, p. 4.

8 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, p. xii, Canberra, QUT and AIHW, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442459734> (accessed 13 October 2014).

9 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, pp 52–92.

3.9 In a submission to the committee, the Social Determinants of Health Alliance (SDOH) stated that 'income is a fundamental determinant of health', adding:

[L]ow socioeconomic status determined by income will frequently give rise to exposure to a variety of stressors such as insecure housing and difficulties with managing household finances. Stress gives rise to changes in both the brain and body which can be adaptive in the short term, but if sustained over longer periods contributes to common forms of mental illness such as depression, and increased risk of conditions such as heart disease. Low income is also likely to be associated with other well recognised stressors such as insecure employment and unsafe neighbourhoods.¹⁰

3.10 In its submission, SDOH wrote that 'there is significant evidence available suggesting that the degree of income inequality matters for health across all levels of society'. Referring to modelling conducted by the National Centre for Social and Economic modelling (NATSEM), SDOH asserted that 'there are billions [of dollars] in savings that could be made in Australia's health system through improving the social determinants of health'. These include:

- 500 000 Australians could avoid a chronic illness;
- 170 000 extra Australians could enter the workforce, generating \$8 billion in extra earnings;
- Annual savings of \$4 billion in welfare support payments could be made;
- 60 000 fewer people would need to be admitted to hospital annually, resulting in savings of \$2.3 billion in hospital expenditure;
- 5.5 million fewer Medicare services would be needed each year, resulting in annual savings of \$273 million; and
- 5.3 million fewer Pharmaceutical Benefit Scheme prescriptions would need to be filled each year, resulting in annual savings of \$184.5 million each year.¹¹

3.11 It is also clear that there are specific low income disadvantaged groups with a greater demand for these health services. The next section will examine the deleterious effect of low income on health outcomes and also discuss impediments to access.

Deleterious effect of low income on health outcomes

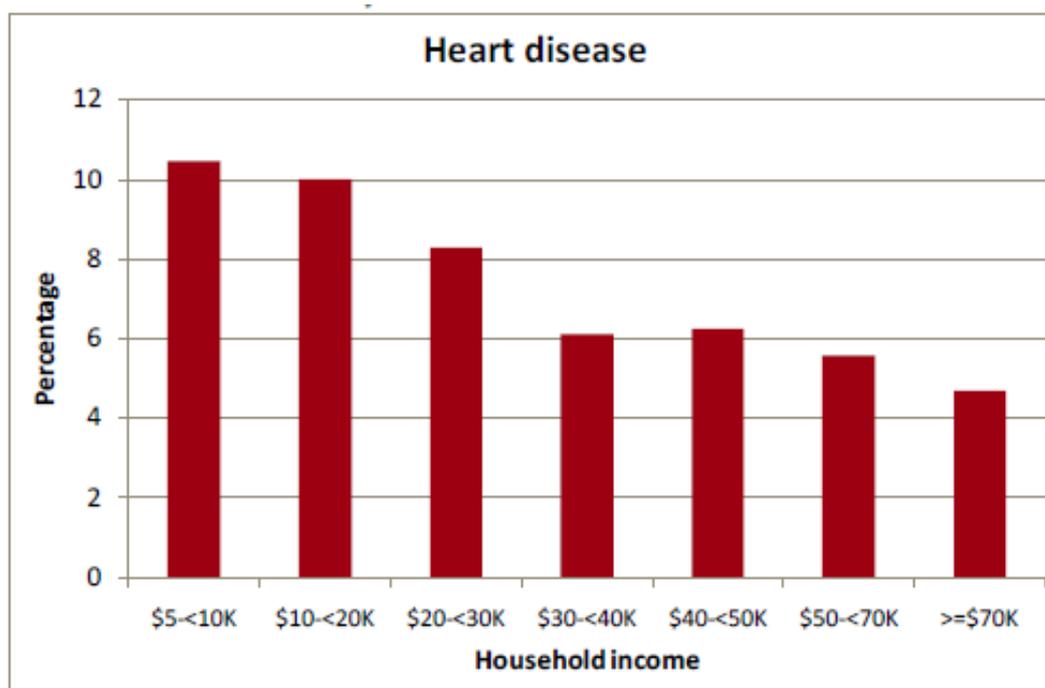
3.12 This section will explain in more detail a range of specific health outcomes and how they disproportionately affect low income earners. The socio-economic

10 Social Determinants of Health Alliance, *Submission 43*, p. 5.

11 Social Determinants of Health Alliance, *Submission 43*, p. [6]. See also: NATSEM, *The Cost of Inaction on the Social Determinants of Health*, University of Canberra, 2012, <http://www.natsem.canberra.edu.au/publications/?publication=the-cost-of-inaction-on-the-social-determinants-of-health> (accessed 4 November 2014).

gradient associated with a number of chronic and debilitating illnesses is well-documented, that is, individuals on low incomes are more likely to have poorer health outcomes than higher income groups.¹² This is seen below in Figures 3.1–3.4 which detail the incidence of heart disease, diabetes, cancer and depression indicating that higher rates of disease are registered amongst lower income earners aged 45 years and older.

Figure 3.1: Percentage of individuals suffering from heart disease within different household income groupings (Korda et al, 2014)



Source: Korda, R.J., Paige, E., Yiengprugsawan, V., Friel, S., 'Income-related inequalities in chronic conditions, physical functioning and psychological distress among older people in Australia: cross-sectional findings from the 45 and up study', *BMC Public Health*, 14(1):741.

12 Rosemary Korda, Ellie Paige, Vasoontara Yiengprugsawan, Isabel Latz, and Sharon Friel, 'Income related inequalities in chronic conditions, physical functioning and psychological distress among older people in Australia: cross-sectional findings from the 45 and up study'. *BMC Public Health*, 14:741, pp 1–10.

Figure 3.2: Percentage of individuals suffering from diabetes within different household income groupings (Korda et al, 2014)

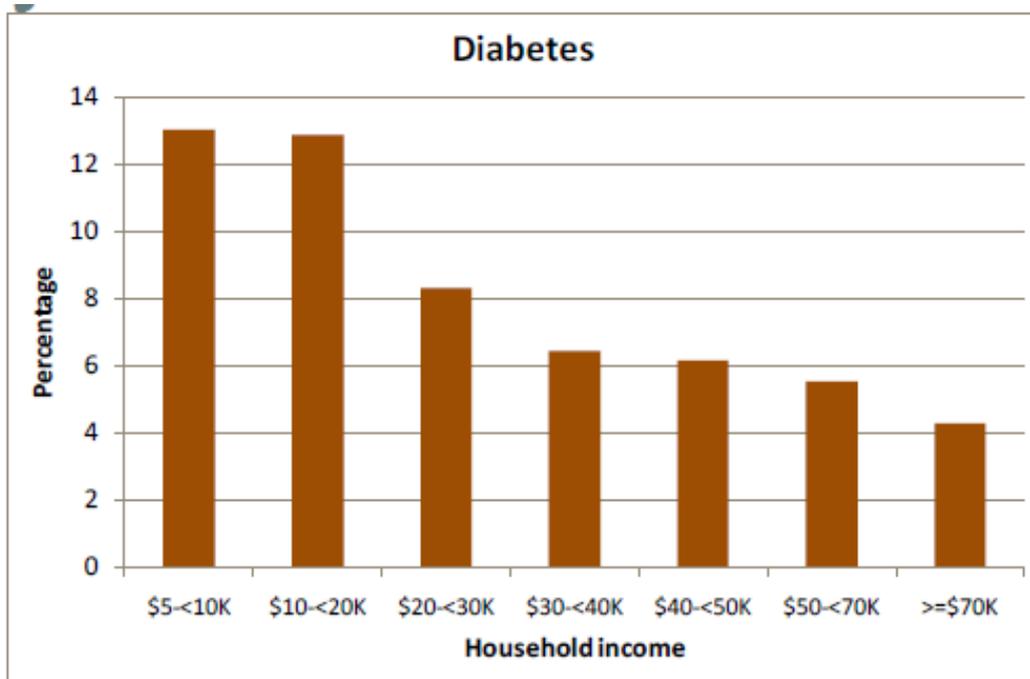


Figure 3.3: Percentage of individuals suffering from cancer within different household income groupings (Korda et al, 2014)

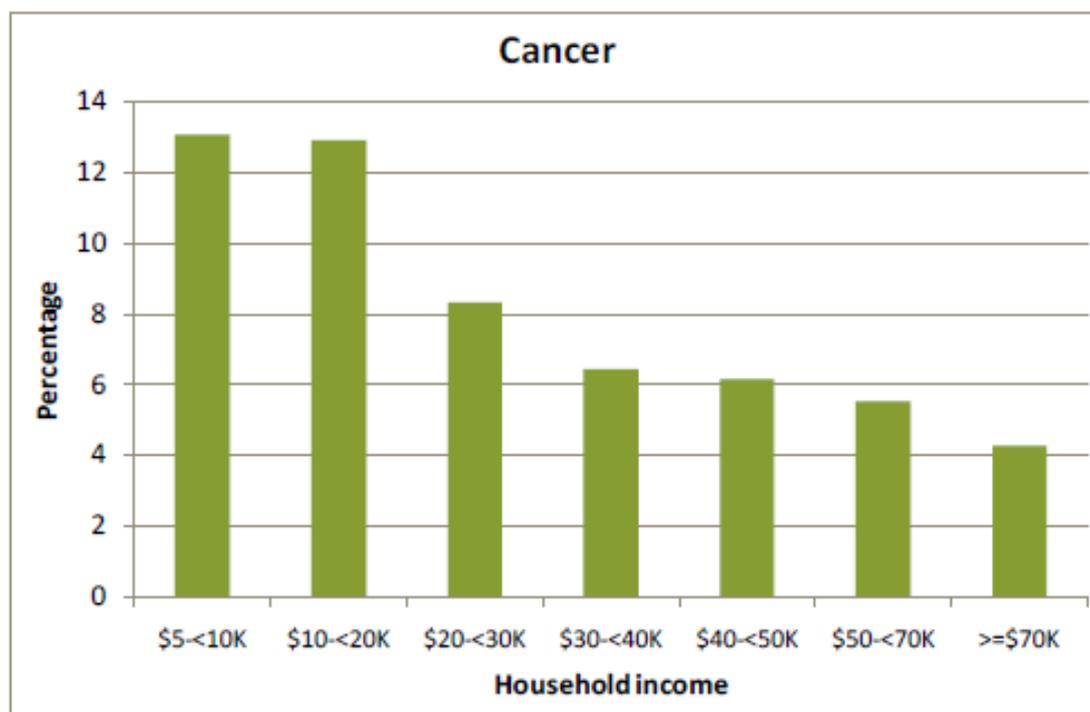
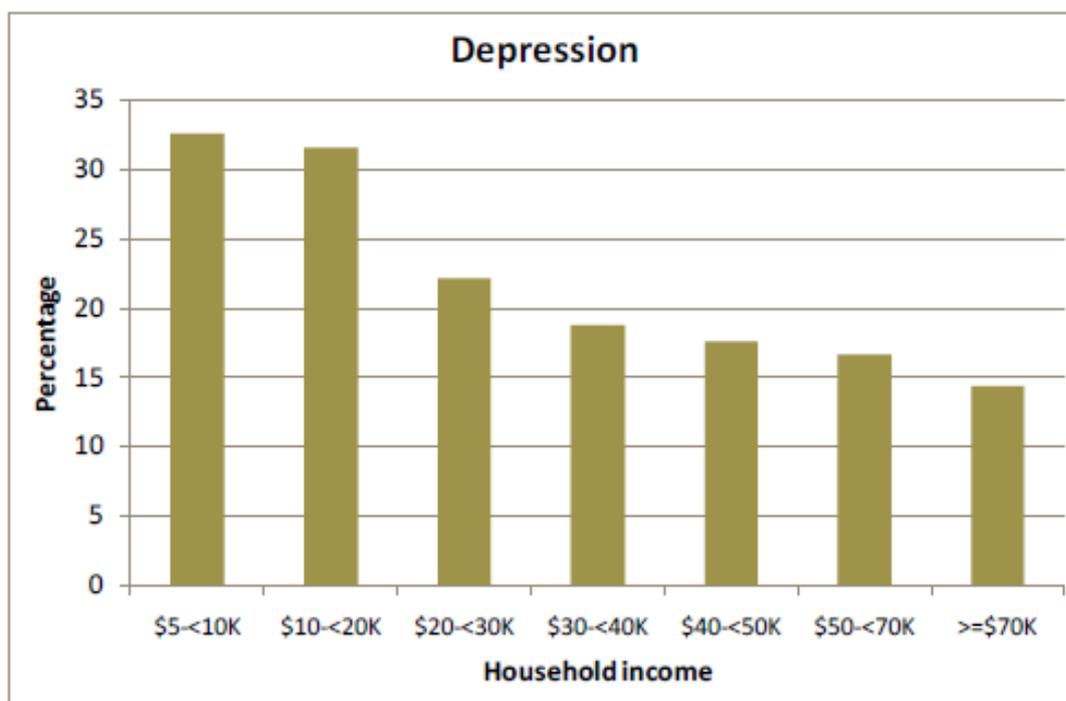


Figure 3.4: Percentage of individuals suffering from depression within different household income groupings (Korda et al, 2014)



3.13 This section will continue examining some of the statistics and trends for low income earners and health with specific reference to disability, mental illness, dental health, obesity and drug use.

3.14 A disability may impact on an individual's capacity to participate in society through less engagement in employment, education and community. The disability may be physical and/or mental and may manifest differently in its severity and presence—that is, it may be episodic or continuous. It may also require additional support such as medical and social services. As such, those with a disability are likely to have a lower income due to lower participation in the workforce and higher reliance on government allowances such as the Disability Support Pension. The effect of low income is further compounded by the additional cost of accessing these health and other social services.

3.15 The committee received evidence that 'people with disability with multiple health issues pay higher out-of pocket costs than the rest of the community.' These additional healthcare costs force the disabled to 'delay seeking healthcare due to cost' and 'make difficult decision[s] between everyday essentials and meeting their healthcare needs'. Further to this, those low income individuals without disability who delay treatment due to cost may find health issues 'become more serious by the time healthcare is sought, which has the potential to lead to long term impairment, disability and further inequality'.¹³

13 People with Disability Australia, *Submission 44*, pp 5 and 13.

3.16 A mental illness may impact on an individual's capacity to participate in society through less engagement in employment, education and community. It may also require additional support such as medical and social services. As such, those with a disability are likely to have a lower income due to lower participation in the workforce and higher reliance on government allowances such as the Disability Support Pension. The effect of low income is further compounded by the additional cost of accessing these health and other social services.

3.17 The committee received evidence from Dr Yvonne Luxford of the Public Health Association of Australia (PHAA) stating that '[p]eople with mental illness experience poorer health outcomes than the mainstream population'. Dr Luxford continued:

Multiple risk factors (e.g. alcohol and drugs, food insecurity) combined with a lack of protective factors (e.g. childhood experiences, income) can predispose a person to the development of mental illness. People experiencing mental illness or homelessness also face significant barriers to accessing services which [then] contribute to poor health outcomes.¹⁴

3.18 The inter-relationship between mental illness and other forms of disadvantage, in particular access to housing, was explained by Mr Josh Fear, the Director of Policy and Projects at Mental Health Australia (MHA):

Turning to housing, we know that rates of mental illness amongst people in the homeless population are three times higher than rates of mental illness more broadly. We, of course, have a huge shortage of affordable housing in this country and long waiting lists to enter public and social housing. At the same time, we know from much research that stable accommodation is vital to mental health. The lack of stable accommodation can escalate someone at risk of mental illness into homelessness and much worse situations requiring expensive intervention by government.¹⁵

3.19 The committee received evidence from Reverend Bill Crews, Superintendent of the Ashfield Parish Mission (UnitingCare Australia), about the lack of support for homeless people with a mental illness:

[I]f you have cancer and you go to hospital, the follow-up is enormous. You get lots of support, lots of all of this, lots of warm fuzzies—all of that. If you have a mental illness and go into hospital, you are thrown out. Recovery is the loneliest place to be in the world, and yet we expect people not only to be in that lonely place while they go through recovery but to deal with Centrelink, to deal with banks, to deal with a card that will not work, to deal with kids and all of that. You are just left on your own to struggle. Yet somebody who has breast cancer or prostate cancer gets all the

14 *Submission 42*, p. 6.

15 *Committee Hansard*, Canberra, 16 October 2014, p. 57.

supports in the world. That is what I mean. The inequality is just mind-boggling.¹⁶

3.20 The World Health Organization states that 'the interrelationship between oral and general health is proven by evidence' with strong associations between oral disease and a range of chronic diseases. Oral health is a 'key determinant factor for quality [and participation in] life' with 'oral diseases restrict[ing] activities in school, at work and at home causing millions of school and work hours to be lost each year'.¹⁷ ABS statistics show that nearly 30 per cent of the most disadvantaged defer access to a dental professional due to cost.¹⁸

3.21 In evidence to the committee, Ms Catherine Bartolo, CEO of YFS Ltd., said that '[t]o me some of the inequality in health is particularly around good dental health and oral health'.¹⁹ Ms Netty Horton of The Salvation Army noted that low income families 'cannot afford a yearly dental check-up for [their] children'.²⁰ Further to this, the committee heard that closure of some dental programs may lead to a reduction in accessibility.²¹

3.22 Individuals who are overweight or obese are at risk of a number of preventable diseases including heart disease, stroke, Type 2 diabetes, osteoarthritis, some cancers and sleep apnoea. In 2007–08, a study found that 25 per cent of Australian adults and 8 per cent of children were obese. This study also found:

A clear gradient can be seen in levels of obesity by socioeconomic disadvantage: people who live in the most disadvantaged areas are more likely to be obese than people who live in areas that are less disadvantaged.²²

16 *Committee Hansard*, Canberra, 16 October 2014, p. 47.

17 World Health Organization, *The World Oral Health Report 2003: Continuous improvement of oral health in the 21st century—the approach of the WHO Global Oral Health Programme*, http://www.who.int/oral_health/media/en/orh_report03_en.pdf (accessed 25 November 2014).

18 Australian Bureau of Statistics, *4839.0—Patient Experiences in Australia: Summary of Findings, 2013–14*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4839.0~2013-14~Main%20Features~Dental%20professionals~3> (accessed 25 November 2014).

19 *Committee Hansard*, Logan, 8 October 2014, p. 27.

20 Territorial Social Programme Director, *Committee Hansard*, Canberra, 17 November 2014, p. 22.

21 Dr Yvonne Luxford, Member, Public Health Association of Australia (PHAA), *Committee Hansard*, Canberra, 16 October 2014, p. 53.

22 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156, 2012, pp 209–214, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=10737422169> (accessed 31 October 2014). See also Dr Yvonne Luxford, PHAA, *Committee Hansard*, 16 October 2014, p. 52.

3.23 Low income is likely to lead to poor food choices that lead to obesity.²³ Further to this, those from low socio-economic backgrounds were also found to not engage in sufficient physical activity which is one of the factors leading to obesity.²⁴ It is likely that those from low income backgrounds do not have the means to meet the cost of participating in team sports, going to the gym or purchasing equipment to allow them to remain active.

3.24 The committee received evidence from the Alcohol and Drug Service at St Vincent's Hospital in Sydney noting that there are increases in narcotic and hallucinogen overdose mortality rates, alcohol and drug related harm—including crime and violence—as income inequality increases. Low income groups are predisposed to heavy episodic binge drinking with consequential health impacts ranging from acute injuries, caused by accident and violence, to more cumulative long-term chronic illnesses.²⁵

3.25 Tobacco is the single most preventable cause of ill health and death in Australia. It is a major risk factor in many preventable chronic diseases. Broadly speaking, tobacco use in Australia is falling with daily smoking rates for those aged 14 or over halving between 1985 (30 per cent) and 2010 (15 per cent). However, those with a low socio-economic background are one of a number of disadvantaged groups in Australia where tobacco use remains persistently high. For example, there are 15 per cent more people deemed unable to work who smoke tobacco than those who are currently employed; there are 10 per cent more people from the most disadvantaged socioeconomic status who smoke than the most advantaged groups; and there are 10 per cent more people from remote or very remote locations who smoke than those from major cities.²⁶ As a consequence, 13.5 per cent of all males aged 65 years and over in the lowest income quintile has emphysema compared to 0.5 per cent in the top income quintile. Furthermore, 11.9 per cent of all males aged 65 years and over in the lowest income quintile has diabetes compared to 3.3 per cent in the top income quintile.²⁷ Tobacco use plays a significant role in these statistics which result in an added burden to the health system and affect individuals from low income backgrounds disproportionately.

23 Social Determinants of Health Alliance, *Submission 43*, p. [5].

24 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156., 2012, pp 203–208.

25 St Vincent's Hospital, Sydney, *Submission 32*, pp [1–2].

26 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156, 2012, pp 221–225.

27 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, p. 84, Canberra, QUT and AIHW, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442459734> (accessed 13 October 2014).

3.26 These socio-economic gradients for chronic disease and high risk health-related behaviours—tobacco and alcohol use—ultimately lead to the socio-economic gradient for death. A 2010 AIHW report found that in the lowest SES group men and women die younger—four years and two years respectively— than those from the highest SES group. Further to this, 'death rates among 15–64 year olds in the lowest SES group were 70 per cent higher than those in the highest SES group.'²⁸ These poor health indicators clearly relate directly to the poorer access for low income people to primary and preventive healthcare services. This will be discussed in the next section.

Impediments to access

3.27 A recent Senate inquiry found that individuals contributed 17.3 per cent of the total health expenditure funding in 2011–12. The committee heard that as a result of this, people would 'defer medical treatment or [defer] fill[ing] prescriptions because of financial reasons.' Further to this, these out-of-pocket costs were found to 'disproportionally impact on individuals with the greatest health needs, including Aboriginal and Torres Strait Islander people, people with chronic illnesses and people living in rural and remote areas'.²⁹ As explored further in chapter 4, these are the groups most likely to have a lower income.

3.28 Income inequality and its impact on housing outcomes will be discussed in more detail in a later section of this chapter. It is important to note here the relationship between income level and where individuals can afford to live and access services, specifically health services. Generally, those on lower incomes are likely to be living in outer metropolitan, regional, rural and remote areas. Poor access to public transport, health and employment opportunities can compound health problems for those who live in these areas.³⁰

3.29 Those living in rural and remote areas are likely to have poorer health outcomes due to a combination of access and higher costs. Higher costs are generally imposed due to a lack of services in a local area forcing those individuals to travel further and often pay for overnight accommodation to access healthcare. Dr Yvonne Luxford reported:

[P]eople living in rural and remote areas are more likely than those in the major cities to report that they do not attend medical and dental visits,

28 Australian Institute of Health and Welfare, *Australia's Health 2010*, Australia's health series no. 12. Cat. no. AUS 122, p. 253–254, Canberra, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442452962> (accessed 2 December 2014).

29 Senate Community Affairs References Committee, *Out-of-pocket costs in Australian healthcare*, 2014, pp 4 and 66, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Australian_healthcare/Report (accessed 20 October 2014).

30 Social Determinants of Health Alliance, *Submission 43*, p. 5.

treatments, tests and medications because of cost. This is exacerbated by a lack of funding in the system to support home visits, especially in rural Australia.³¹

3.30 The proposed introduction of the GP co-payment and increase in the Pharmaceutical Benefits Scheme co-payment will reduce access for low income individuals and households to medical advice and medication as they simply cannot afford this out-of-pocket expense. This is discussed further in chapter 5.

3.31 It is clear that those on a lower income not only have difficulty paying for health services but also tend to face higher costs. It is also well-documented that any policies—such as the GP co-payment—that move to increase these health costs will result in poorer health outcomes. Impediments to access for particular disadvantaged groups will be discussed in chapter 4.

Education

3.32 The link between education and opportunity has long been recognised. In 1972, the then opposition leader, Gough Whitlam, gave a speech where he noted that 'education is the key to equality of opportunity'. The equality of opportunity that high-quality universal education provides is that of the opportunity of social mobility. It is the principle that a 'student's merit rather than a parent's wealth' should decide the outcomes of that individual.³²

3.33 Education provides a series of benefits to an economy. Professor Thomas Piketty in his book *Capital in the 21st Century* noted:

...knowledge and skill diffusion is the key to overall productivity growth as well as the reduction of inequality both within and between countries...the best way to increase wages and reduce wage inequalities in the long run is to invest in education and skills.³³

It is this increase in skills and knowledge that enables employees to become more productive by producing increased marginal value for their employers. The employee's increased marginal value means the employer is able to pay them a higher wage for their improved productivity.

3.34 Dr James Heckman found that an individual's lifetime earning capacity is largely determined by age 18. Education is one of the most important contributors to

31 *Committee Hansard*, Canberra, 16 October 2014, p. 52.

32 Gough Whitlam, *Election Policy Speech for the Australian Labor Party*, Blacktown Civic Centre, 13 November 1972, <http://whitlamdismissal.com/1972/11/13/whitlam-1972-election-policy-speech.html> (accessed 15 October 2014).

33 Professor Thomas Piketty, *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, pp 21 and 313.

this finding.³⁴ The *Review of Funding for Schooling* (2011), known as the Gonski Review, states:

Individuals who reach their full potential in schooling are usually able to make better career and life choices, leading to successful and productive lives. Success in schooling also helps to provide the skills and capacities needed to keep a society strong into the future. It deepens a country's knowledge base and level of expertise, and increases productivity and competitiveness within the global economy... higher levels of education are associated with almost every positive life outcome—not only improved employment and earnings, but also health, longevity, successful parenting, civic participation and social cohesion. Countries that have significant numbers of people without adequate skills to participate socially and economically in society endure higher social costs for security, health, income support and child welfare.³⁵

3.35 Further to this, in developed countries—such as Australia—the provision of education:

[G]oes beyond the legal obligation of governments to provide the opportunity for schooling for all children that is secular, compulsory and free. Governments must also, through addressing the facets of disadvantage, ensure that all children are given access to an acceptable international standard of education necessary to lead successful and productive lives.³⁶

3.36 In its submission, The Smith Family said:

The clearest pathway to addressing inequality, inter-generational disadvantage and welfare dependency is to support children and young people to develop the knowledge, skills, attitudes and behaviours that set them up for participating in the complex employment market of the 21st century. Education is the key enabler of economic and social participation. Improving school attendance, Year 12 completion and post-school transitions is critical to addressing inequality.³⁷

34 Dr James J Heckman, *The Case for Investing in Disadvantaged Young Children* in *Big Ideas for Children: Investing in our Nation's Future*, University of Chicago School of Economics, p. 49, 2012, <http://www.heckmanequation.org/content/resource/case-investing-disadvantaged-young-children> (accessed 19 September 2014).

35 Australian Government, *Review of Funding for Schooling: Final Report December 2011* (Gonski Review_, p. 19, <https://docs.education.gov.au/system/files/doc/other/review-of-funding-for-schooling-final-report-dec-2011.pdf> (accessed 30 September 2014).

36 Gonski Review, p. 105.

37 *Submission 9*, p. 3.

The Gonski Review

3.37 In 2011, the Australian Government commissioned the Gonski Review which found:

Australia's schooling system is characterised by a strong concentration of disadvantaged students in certain schools, and conversely, a strong concentration of advantaged students in other schools. Australia also has a relatively low proportion of students who attend schools with average or mixed socio-economic backgrounds.³⁸

3.38 There is a strong correlation between a student's level of socio-economic disadvantage and their performance—that is, those with a higher level of disadvantage perform more poorly than those with fewer disadvantages.³⁹

3.39 Further to this, a number of factors are entrenched in schools with more students from a low socio-economic status (SES) background. These include less material and social resources, more behavioural problems, less experienced teachers, lower student and family aspirations, less positive relationships between teachers and students, less homework and a less rigorous curriculum.⁴⁰

3.40 The review also found that 'there are complex interactions between factors of disadvantage, and [that] students who experience multiple factors [of disadvantage] are at a higher risk of poor performance'. For example, Aboriginal and Torres Strait Islander students in remote areas are over-represented in the lowest SES, are likely to speak another language at home and to have a disability that affects their learning.⁴¹ The compound effect of these factors is so large that Aboriginal and Torres Strait Islander students for *all*⁴² levels and domains 'performed, on average, below the mean score of Year 3 non-indigenous metropolitan students'.⁴³

3.41 In response to this identified disadvantage, the Gonski Review recommended that the Australian Government prioritise reducing educational disadvantage in a new funding model. This new funding model would provide a base level of funding for students with additional funding provided in response to defined needs and

38 Gonski Review, p. 124.

39 The Gonski Review defines four main types of educational disadvantage—low SES, location, indigeneity, and a language background other than English (LBOTE).

40 Gonski Review, p. 124.

41 As an example of health disadvantage interacting with educational disadvantage, in 2009, a federal Health survey found that 74 per cent of Aboriginal and Torres Strait Islander children in remote communities had a middle ear infection, with at least 54 per cent recording some hearing loss.

42 Emphasis added.

43 Gonski Review, p. 123.

disadvantage.⁴⁴ A number of recommendations from this report were adopted by the Government at the time; however, there is no longer bipartisan support for these. As such, the school funding model will remain unchanged and not address disadvantage.

Educational segregation

3.42 The committee received evidence from the Victorian Council of Social Service (VCOSS) suggesting that the 'increasing disparity in education [is linked] to socio-economic status'. Lower income families are unable to afford the additional schooling expenses such as 'books, go on excursions and go on camps...that enable children to really participate in schools'. It was submitted that children may attend school but they are not fully participating and engaging due to their families' low income status.⁴⁵

3.43 Housing and the implications it has on inequality are discussed in a later section. However, it is important to note that rising housing costs impact strongly on where individuals and families live and go to school. Low cost housing is largely located on the fringes of cities where access to services, including education, is poor.⁴⁶ Mr Paul Donegan, a Senior Associate of the Grattan Institute, noted the presence of spatial inequality:

In places like Sydney, Melbourne and Brisbane higher income earners are clustered in inner suburbs and the income gap between households in the centre and everywhere else is widening.⁴⁷

The result is that housing is more expensive in the inner city. Those on low incomes are segregated into communities of disadvantage where schoolchildren are segregated into schools and classrooms with other disadvantaged children. The anecdotal evidence suggests that higher income families are purchasing homes in affluent inner city suburbs to access the enrolment areas for high performing government and private schools.⁴⁸ This is a clear example of how income inequality further exacerbates and entrenches the problem of educational disadvantage.

44 Gonski Review, pp 149–151.

45 Ms Emma King, CEO, Victorian Council of Social Service (VCOSS), *Committee Hansard*, Melbourne, 18 September 2014, p. 10. See also: Ms Terese Edwards, National Council of Single Mothers and their Children, *Committee Hansard*, Melbourne, 18 September 2014, pp 17–19; Ms Anne Hampshire, Head, Research and Advocacy, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 39. Ms Hampshire states that 'educational achievement in Australia is much more closely related to family characteristics than is desirable. If we had a reduction of the impact of family background on whether or not a young person achieves educationally, we would be shifting the dial.'

46 Ms Emma King, VCOSS, *Committee Hansard*, Melbourne, 18 September 2014, p. 10.

47 *Committee Hansard*, Logan, 8 October 2014, p. 40.

48 The Weekend Australian, *Power to choose: mums and dad vote on schools with their feet*, 11 October 2014, p. 6.

3.44 The Smith Family noted the importance of extracurricular activities in providing a child with a range of physical, social, emotional and cognitive development opportunities. The most important aspect is the opportunity to build strong social networks whereby 'the positive influence of non-parental adults, such as coaches and tutors, enable[s] young people to expand the networks of people they can draw on to support their development'. Of children aged 5 to 14 years, 47 per cent from disadvantaged backgrounds did not participate in extracurricular activities compared to 13 per cent from the most advantaged communities. The factors for this poor participation included cost of participating, lack of activities in the area, lack of knowledge of activities and a lack of confidence in accessing them. The Smith Family notes that 'this lack of participation [in extracurricular activities] can have negative short and longer term impacts'.⁴⁹

Social and economic benefits of education

3.45 This section discusses the social and economic benefits of action and the consequences of inaction for each of the key stages of education.

Early childhood learning

3.46 The Smith Family comments:

Differences in children's educational and developmental outcomes emerge very early on, with one in five children starting school behind in one or more key areas. For children, living in Australia's most disadvantaged communities, the figure is one in three. Children who start school behind are more likely to be in the bottom 20 per cent of students' scores on NAPLAN across primary and secondary school.⁵⁰

3.47 Professor Piketty says that 'pre-school education is the most important single weapon in promoting equality and in overcoming social, economic and language inequalities'.⁵¹ A paper by Dr James Heckman cites studies that demonstrate the 'substantial positive effects of early environmental enrichment on a range of cognitive and non-cognitive skills, schooling achievement, job performance and social behaviours'. Clearly, this foundation needs to be consolidated with continuing education, but it is clear that a focus on high-quality early education can partially compensate for early adversity. The study conservatively estimates the educational benefits of this approach are in excess of 14 per cent. This estimate is higher than standard stock market returns (7 per cent) and does not take into account other positive direct and indirect economic returns for physical and mental health, increased

49 *Submission 9*, p. 11.

50 *Submission 9*, p. 7.

51 Professor Thomas Piketty, *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, pp 21 and 313.

economic contribution and reductions in payments of other government assistance over the course of a lifetime.⁵²

3.48 Dr David Morawetz of Australia21 noted in his evidence:

I think it is well established that the period from zero to five—early childhood—is extremely important in what happens in the rest of life. To give you an anecdotal bit on that: a friend of mine was the principal of Williamstown Primary School, one of the inner suburban primary schools in Melbourne. It is a very mixed school—some rich parents, some very, very poor parents with drug addictions and so on. He said: 'We get kids coming here in grade 1 who are three years behind everybody else before you even start, and we can never catch them up. The others have learned to read before they come to school. The others have had books read to them night after night after night. Some of these kids have parents who are on drugs. Some of them have parents who are not on drugs but who are not coping and have had no early childhood education at all in any way, shape or form; and, when they arrive, they are so far behind that I just about cry, because we do everything we can to try and help them to catch up, but they stay behind.' So I think it is probably the single most powerful thing and, hopefully, something that would not politically be a problem for anybody. The single most powerful thing we could do to reduce inequality in Australia and try to give a fair go to all—because we used to care about that, and I think a lot of people still do—is to have really good early childhood education from zero to five. I would say that is priority No. 1.⁵³

3.49 In evidence, the Australian Council of Social Service (ACOSS) submitted that there is 'an inadequate level of resources and an inefficient direction of resources [to early childhood education and care]' highlighting:

[H]ow critical access to early childhood education and care is, particularly to disadvantaged children, and that there are much lower levels of access to these services by lower income households.⁵⁴

52 Dr James J Heckman, *The Case for Investing in Disadvantaged Young Children in Big Ideas for Children: Investing in our Nation's Future*, University of Chicago School of Economics, pp 51–52, 2012 <http://www.heckmanequation.org/content/resource/case-investing-disadvantaged-young-children> (accessed 19 September 2014).

See also; Mr Mark Henley, CEO, Queensland Council of Social Service (QCOSS), *Committee Hansard*, 8 October 2014, p. 17. Mr Henley compares the Australian investment in early childhood learning with Scandinavian countries. See also: Gonski Review, pp 107–108.

'Maintaining a fair and inclusive education system is one of the most powerful levers available to make society more equitable.' The report cites evidence that 'strengthening equity in education can be cost beneficial'. Investment in education at an early age may actually provide the foundational skills that some disadvantaged children do not learn in the home.

53 *Committee Hansard*, Melbourne, 18 September 2014, p. 42.

54 Ms Jacqueline Phillips, Director of Policy, *Committee Hansard*, Canberra, 17 November 2014, p. 24.

3.50 Ms Emma King, CEO of VCOSS, impressed the importance of investing in early childhood learning:

For every dollar that you invest in early childhood education there is a \$16 return. [Governments must continue to] increase the participation rates of children in high-quality early learning and care at the earliest possible opportunities, and looking to increase participation in kindergarten et cetera. We know that it has a significant impact, particularly for the most vulnerable children, but actually for all children.⁵⁵

3.51 The Gonski Review found that 'educationally disadvantaged students are more likely to be developmentally vulnerable when they arrive at school than their peers'. Consequently, it also found that 'strategies to address educational disadvantage in school are most effective when integrated with, and complimentary to, approaches to support early childhood development'.⁵⁶

3.52 Service providers at the hearing in Logan highlighted the benefit of early childhood learning not just for children but also for families. Ms Catherine Bartolo, CEO of YFS Ltd, stated:

[E]ven connecting them to other people to learn some social skills before they get to school. In our families area we say that everyone should be part of a playgroup or be booked into a childcare centre even just for a day a week so that they get into that routine and habit...⁵⁷

3.53 Ms Lin Hatfield Dodds, National Director of UnitingCare Australia, added:

That may be the moment that you want to try to use those childcare opportunities as a soft entry point to start working with the whole family.⁵⁸

The importance of nutrition in the early years, specifically the provision of breakfast in schools, was also raised by members of the committee and witnesses.⁵⁹

Primary and secondary education

3.54 People from disadvantaged backgrounds tend to perform poorly in standardised testing. For example, in Year 3 NAPLAN testing, eight per cent of students from low SES backgrounds and 16 per cent from Aboriginal and Torres Strait Islander backgrounds do not meet the national minimum literacy standard. This compares with 4.7 per cent of the total Year 3 cohort that does not meet this standard. For those in Year 9, 18 per cent from low SES and 32 per cent from Aboriginal and

55 *Committee Hansard*, Melbourne, 18 September 2014, p. 14.

56 Gonski Review, p. 112.

57 *Committee Hansard*, Logan, 8 October 2014, pp 34–35.

58 *Committee Hansard*, Canberra, 16 October 2014, p. 51.

59 Ms Catherine Bartolo, CEO, YFS Limited, *Committee Hansard*, Logan, 8 October 2014, pp 34–35.

Torres Strait Islander backgrounds do not meet the national minimum numeracy standard compared with 9.4 per cent of the total Year 9 cohort. Seventy-four per cent of disadvantaged youth and 54 per cent of Aboriginal and Torres Strait Islander students complete Year 12 compared with 93 per cent completion in the most advantaged SES.⁶⁰ Only 36 per cent of disabled children complete Year 12 schooling. This is despite more than 90 per cent of disabled children attending a mainstream school.⁶¹

3.55 These low Year 12 completion rates have subsequent repercussions with 41.7 per cent from low SES and 60.6 per cent from Aboriginal and Torres Strait Islander backgrounds not engaged in post school work or study. This compares with 17.4 per cent from the most advantaged groups.⁶²

3.56 The consequences of failing to achieve in primary and secondary education is quite profound. Poor educational outcomes impact on an individual's capacity to engage in further training, and in turn, on employment. These employment opportunities will influence an individual's level of income and the certainty of that income.⁶³

3.57 There are many different programs funded at all levels of government that seek to engage with disaffected youth to ensure that they complete their schooling and are able to engage with post school study or work. Some are successful, others are not. Those that work should have their funding extended and be rolled out into other communities where there is an identified need. A lack of co-ordinated program evaluation was identified as the key impediment to successful program delivery in this area:

[E]vidence rarely seems to be collated at a national level and it rarely seems to be available in a timely fashion. If we could reach a time where those things were published, it would enable those people running those programs to benchmark themselves against the best outcomes for those. It would also allow us to truly look at what programs are doing at the time.⁶⁴

60 The Smith Family, *Submission 9*, pp 7–8.

61 *Submission 44*, p. 11. The National Plan for School Improvement, based on the Gonski Review, created a specific disability loading for schools. This funding is not guaranteed past July 2015.

62 *Submission 9*, pp 7–8.

63 *Submission 9*, p. 8.

64 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 37. See also: Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 39. Ms Hampshire cites the closure of the COAG reform council and the loss of yearly data collated at the Commonwealth level for low and high SES as something that needs to be addressed.

3.58 Further:

Early intervention and prevention approaches, particularly those focused on the school transition space, require coordinated cross-sectoral and cross-jurisdictional responses if they are to be effective. No one sector or jurisdiction has all of the resources, skills or level of responsibility to respond to the size and complexity of the school-to-work transition challenge currently facing Australia.⁶⁵

3.59 Evidence to the committee noted that engagement with young people ideally should be through one focal point, rather than multiple state and federal agencies. This would assist in ensuring accountability from government to the individual and then, in turn, accountability reciprocated from the individual to society:

I think one of the problems sometimes is that they have too many people working with them. So they are on this merry-go-round of welfare and going to child safety meetings and meetings about housing. It is almost like [we need] one intense lead agency that they had to be accountable to. Often they will say, 'I can't come because I am going to this appointment' and things like that. It is a concern.⁶⁶

Tertiary and vocational training

3.60 The growth industries in the Australian economy will require highly skilled employees. This, in turn, will require a high quality mass-education system. An Australian Government report into the future Australian economy found:

In the medium and longer term, competitive pressures—as employers navigate a complex mix of supply costs and market opportunities – will mean that all employees will be subjected to the demands of new systems and technologies. The need to combine new operational skills with communication, teamwork and decision-making skills will intensify. The flexibility and resilience to change jobs, apply skills in different contexts and go on learning will be essential...

Along with specialist skills, these workers will need strong basic skills and an ability to quickly adapt and pick up new skills, to make the most of new opportunities.⁶⁷

3.61 Access to tertiary and vocational training is predicated on the cost of the course—whether debt deferred or paid up-front—and capacity to pay for the cost of studying, food, rent and other living essentials. The National Union of Students (NUS) submitted that more than 76 per cent of full-time, low SES undergraduates worried

65 Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 35.

66 Ms Catherine Bartolo, YFS Limited, *Committee Hansard*, Logan, 8 October 2014, p. 34.

67 Australian Government, *Skills for all Australians*, 2012, p. 30, http://www.dpmc.gov.au/publications/skills_for_all_australians/pdf/skills_for_all_australians.pdf (accessed 27 October 2014).

about their financial situation.⁶⁸ Mr Jack Gracie of the NUS stated that 'more than 50 per cent of students believe that their studies are negatively affected by their financial situation'.⁶⁹ These statistics clearly focus on those who have commenced tertiary studies and find it difficult to survive and achieve to their potential at their studies. Universities Australia found that 'people from low SES backgrounds are about one-third as likely as people from high SES backgrounds to participate in higher education'.⁷⁰ Even within the current system, there still remains inequitable access to tertiary education for those from low SES backgrounds.

3.62 The committee received evidence that the recent increase in TAFE fees will dissuade many from undertaking vocational training particularly in low paid industries. Mr Sameh Gowegati, CEO of SMYL, provided the following example in the Western Australian context:

A child-care diploma is an essential requirement now to work in a child-care centre. We provided that free of charge last year. Under the Future Skills funding, that is now nearly \$9,000, none of our clients have the capacity—in any way, shape or form—to pay that. It is one of the negatives of trying to have a more user-pay system. Take the policy side of it. We work with people who have no way in humanity to pay \$9,000 for a course and they will not even try to. To a trainee, you have to up-front show people the course fees. They look at that figure. That is more than a year's income for them. They are out of there. A sad part too is that even if they could afford to pay it they would be looking forward to entering an industry where they start work at between \$15 and \$16 an hour and have to pay back \$9,000.⁷¹

3.63 In this section on education, the importance of engagement with disadvantaged and disengaged youth is discussed. It is important that young Australians undertake further training if they are to participate in the economy of the future. Engagement is critical in showcasing to young adults the possibilities that exist. Equally as important is an equitable tertiary and vocational training system that facilitates participation based on merit rather than family background or income.

68 *Submission 21*, p. [3].

69 *Committee Hansard*, Melbourne, 18 September 2014, p. 32.

70 Universities Australia, *Participation and Equity: A review of the participation in higher education of people from low socio-economic backgrounds and indigenous people*, March 2008, p. 2, <https://www.universitiesaustralia.edu.au/ArticleDocuments/210/Participation%20and%20equity.pdf.aspx> (accessed 25 November 2014). See also, People with Disability Australia, *Submission 44*, p. 11. Only 15% of people with a disability complete a Bachelor degree or higher compared to 26% of people without a disability.

71 *Committee Hansard*, Rockingham, 11 November 2014, p. 38.

Building an education and training culture

3.64 For some families and communities the effects of low income can have a lasting impact as the disadvantage is conveyed inter-generationally. This not only occurs through educational disadvantage where disadvantaged children are segregated from children from advantaged backgrounds, but also through inequality changing the 'aspirations, norms and values of [low socio-economic] people'. As Wilkinson and Pickett have noted:

While education is viewed by the middle class and by teachers and policy makers as the way upwards and outwards for the poor and working class, these values are not always subscribed to by the poor and working class themselves.⁷²

3.65 Professor Jonathon West of the University of Tasmania describes a culture of low aspiration in Tasmania fuelled by intergenerational disadvantage.⁷³ Some of these attitudes may be reflected in Tasmania's Year 12 retention rate of '64 per cent compared to 76 per cent [nationally]'. The committee received further evidence finding that those who live in poorer communities or concentrated areas of disadvantage are often fearful to seek further education as that means they have to leave that community—even simply to complete Year 11 and 12. In Tasmania, this trend is even more pronounced as the consequence of attaining further education often means needing to move to the mainland for employment options, leaving friends and family behind.⁷⁴

3.66 The Tasmanian Youth Forum conducted a forum and survey in September 2013 entitled 'Should I Stay or Should I Go?'. The Forum examined some of the factors that made young people think about leaving Tasmania to 'learn, earn, work or play'. Most participants indicated that they have thought about leaving Tasmania primarily because of 'a lack of jobs in Tasmania'. Sixty-four per cent said they would have to move away from Tasmania to 'do everything they wanted to do in the future'. However, most agreed it was 'okay' to leave and return with a range of experiences. The survey suggested that increased opportunities for education, transport, youth-focused events and jobs would entice young Tasmanians to stay.⁷⁵

3.67 In contrast, some disadvantaged groups are noted for a positive attitude to education and the opportunities for improving the living standards for themselves and

72 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why more equal societies almost always do better*, Penguin Books, Camberwell, 2009, p. 115.

73 Professor Jonathon West, *Obstacles to Progress*, Griffith Review No. 39, 2012, <https://griffithreview.com/articles/obstacles-to-progress/> (accessed 15 September 2014).

74 Associate Professor Daphne Habibis, Director, Housing and Community Research Unit, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, pp 13–14.

75 Tasmanian Youth Forum, *Should I Stay or Should I go?*, Final Report, September 2013, http://www.dpac.tas.gov.au/_data/assets/pdf_file/0019/234820/Stay_or_go_what_you_said_final_report_Dec_2013.pdf (accessed 6 November 2014).

the next generation. Dr Peter Shergold, the Vice-Chancellor of the University of Western Sydney, has commented on the drive of some disadvantaged groups:

Migrants (and refugees) bring entrepreneurial drive and ambition for their children. Young people brought up in two cultures possess an additional asset that can enhance their educational qualifications in business, law, medicine, nursing, teaching, engineering or community work.⁷⁶

3.68 In addition to this innate drive, there are examples of programs that assist schools and communities in creating a culture that values education, training and employment. The committee received evidence from Reverend Sandeman of the Automotive Transformation Taskforce on the Northern Adelaide State Secondary Schools Alliance (NASSSA) and Northern Connections:

It is really about making sure the intensity of experience of employment at school is high, that it works for local employers and works for local students. That is where we can assist schools to better provide for post-school opportunities for their young people.⁷⁷

3.69 Chapter 6 of this report will discuss the power of engaging disadvantaged and disengaged youth. Teachers and social workers helping young people and their families understand the opportunities that education and further training bring is helping to break the cycle of disadvantage in places like Logan in south-west Brisbane. Issues around structural unemployment and geographic disadvantage will be discussed in chapter 4.

Housing

3.70 Baptcare, in its affordable housing position paper, has noted that 'safe, secure, appropriate housing is a basic human right for all Australians and is foundational to the wellbeing of individuals, families and communities.'⁷⁸ Previous sections have noted the complex relationship that exists between housing and access to services and opportunities. A number of submitters have also noted the deleterious impact that insecure housing arrangements have on stress levels.⁷⁹ Further to this, there are those

76 Dr Peter Shergold, *Graduation ceremonies a celebration of Australia's cultural diversity*, 20 October 2014, <http://www.smh.com.au/comment/graduation-ceremonies-a-celebration-of-australias-cultural-diversity-20141019-1189v3.html> (accessed 20 October 2014).

77 Board Member, *Committee Hansard*, Elizabeth, 10 November 2014, p. 26.

78 Baptcare, *Baptcare Social Policy Position Paper: Affordable Housing*, 2014, p. 1, <http://www.baptistcareaustralia.org.au/documents/item/221> (accessed 31 October 2014).

79 For example, see: Social Determinants of Health, *Submission 43*, p. 5; Tabled Document, QCOSS, *Indicators of Poverty and Disadvantage*, October 2014, p. 15, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Income_Inequality/Additional_Documents (accessed 8 October 2014).

who have been excluded from housing altogether. The number of homeless in Australia has increased from 89 728 in 2006 to 105 237 people in 2011.⁸⁰

3.71 This section will address issues relating to housing affordability, availability of public housing and homelessness, and the interface between housing, transport and participation.

Affordability

3.72 The cluster of high income earners in the inner city areas of the major metropolitan centres and the consequent growth in inner city housing prices has been discussed in the education section of this chapter. This trend also has implications for access to employment opportunities. In evidence, Mr Donegan stated:

We have seen that since 2006 more than three-fifths of the employment growth in Australia's five biggest cities has occurred within 10 kilometres of the city centre, where somewhere like Western Sydney has seen zero net private sector employment growth. So opportunity is to some extent concentrating closer in...

Since 2006 more than half of the population growth in the five biggest cities in the country has occurred 20 kilometres or more from the CBD. That creates a growing gap between housing and employment. For some households it means it is harder to access the higher incomes on offer closer to city centres. Others have to make tough trade-offs—long commutes, higher living costs, more pressures on family time—the kinds of trade-offs that households living closer to the city centre do not have to contemplate. The most important thing policymakers can do is give people genuine choices about where they live, including in areas with good access to jobs and transport. That means making it easier to build homes in established inner and middle suburbs.⁸¹

3.73 The issue of housing affordability is not about everyone being able to live in fashionable addresses. Affordable housing is about living close to employment opportunities and services. An individual's postcode should not set an upper limit on their income earning potential.

80 Australian Bureau of Statistics, *2049.0—Census of Population and Housing: Estimating Homelessness, 2011*, <http://abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/2049.0Main%20Features22011?opendocument&tabname=Summary&prodno=2049.0&issue=2011&num=&view=> (accessed 25 November 2014).

81 *Committee Hansard*, 8 October 2014, p. 40. See also: Social Determinants of Health Alliance, *Submission 43*, p [5].

Mortgage and rental stress

3.74 A household is experiencing 'mortgage stress' if it is in the lowest 40 per cent of the income distribution and is spending over 30 per cent of its income on mortgage repayments. A 2009 Senate report noted:

Financial institutions have traditionally applied a rule of thumb of not allowing households to take out home loans requiring more than 30 per cent of gross income to service. A government inquiry which looked into housing in the early 1990s concluded that people on low incomes could not afford to pay more than 30 per cent of their income on housing.⁸² This proportion has since become a benchmark.⁸³

3.75 National residential property prices increased by 10.1 per cent in the 2013–14 financial year,⁸⁴ clearly outstripping minimum wage growth (3.0 per cent)⁸⁵ and indexation to the base *Newstart* allowance (2.7 per cent) over this period.⁸⁶ The most recent rental data shows median weekly household rent increased by 49.2 per cent between 2006 and 2011. This is more than double the rate of increase for wages in the same period.⁸⁷

3.76 In 2011–12, more than 90 per cent of those in the lowest income quintile were renting compared to 3.5 per cent in the top quintile.⁸⁸ In the same year, 45.5 per cent of low income households in Queensland spent more than 30 per cent of their gross

82 Australian Government, *National Housing Strategy*, Canberra, 1991, p. 7.

83 Senate Select Committee on Housing Affordability, 'A good home is hard to find: Housing Affordability in Australia', June 2008, p. 35, http://www.aph.gov.au/~media/wopapub/senate/committee/hsaf_ctte/report/report_pdf.ashx (accessed 17 November 2014).

84 ABS, *6416.0—Residential Property Price Indexes: Eight Capital Cities, June 2014*, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0> (accessed 2 October 2014).

85 Fair Work Commission, *Media Release: Fair Work Commission Annual Wage review increases national minimum wage*, <https://employment.gov.au/news/fair-work-commission-annual-wage-review-increases-national-minimum-wage> (accessed 2 October 2014).

86 Australian Government, *Historical versions of 'A guide to Australian Government payments' booklet*, <http://www.humanservices.gov.au/corporate/publications-and-resources/historical-rates-for-co029> (accessed 2 October 2014).

87 ABS, *1380.0.55.013—Perspectives on Regional Australia: Housing Arrangements—Rental Rates in Local Government Areas, 2011*, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/1380.0.55.013> (accessed 7 October 2014).

88 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6554.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6554.0&issue=2011-12&num=&view=> (accessed 19 September 2014).

income on housing costs.⁸⁹ Dr John Falzon, Chief Executive Officer of the St Vincent de Paul Society National Council, cited the following evidence:

47 per cent of low-income households are paying more than 30 per cent of their income on rent and 217,000 households are now on the waiting list for social housing. These are concrete manifestations of a ramping up of inequality in prosperous Australia.⁹⁰

3.77 The committee heard that '36% of households affected by a disability and renting paid more than 30% of their gross income for housing compared with 26% of households with no disability'.⁹¹

3.78 The growth in housing and rental costs reflects clearly adds to the number of households experiencing mortgage and rental stress and severity of those experiencing this stress. VCOSS submitted that the problem is:

[Q]uite well evidenced in terms of there being pockets of significant mortgage and rental stress, significant unemployment and...a range of other social issues such as increased problem gambling, lower educational attainment et cetera.⁹²

3.79 Professor Alan Duncan, the Director of the Bankwest Curtin Economics Centre, explained that 'housing costs impose a proportionately greater burden on those on low incomes in WA'. A household on median income living in a house with median rent would pay about 30 per cent of their disposable income on rent. A household with an income in the lowest quintile would have to pay 50–70 per cent of their disposable income to afford a lower quartile rental property. Professor Duncan outlined the impact on a household of having to pay such a high proportion of their income on housing costs:

Once one has taken housing costs out of the equation, the amount of income remaining for those at the bottom of the income distribution to afford other necessities of life is preciously small. So local housing markets and the lack of availability of affordable housing for those on low incomes really do have an important bearing on income disadvantage.⁹³

3.80 The 2009 Henry Review recommended that if rent increases faster than government allowances or wages, the most efficient response is to index the growth of housing to a rental index:

89 Tabled Document, QCOSS, *Indicators of Poverty and Disadvantage*, October 2014, p. 16, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Income_Inequality/Additional_Documents (accessed 8 October 2014).

90 *Committee Hansard*, Canberra, 16 October 2014, p. 46.

91 *Submission 44*, p. 5.

92 Ms Emma Keys, Chief Executive Officer, VCOSS, *Committee Hansard*, Melbourne, 18 September 2014, p. 11.

93 *Committee Hansard*, Rockingham, 11 November 2014, p. 2.

[t]he maximum rate of Rent Assistance should be increased to assist renters to afford an adequate standard of dwelling. To ensure that Rent Assistance can be maintained at an adequate level over time, the rent maximum should be indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients.⁹⁴

This issue is revisited in chapter 6 of this report.

Negative gearing and Capital Gains Tax concessions—The housing price drivers

3.81 According to the Australian Bureau of Statistics (ABS), on average, most individuals hold the majority of their wealth in property and superannuation. Residential property is the highest value asset that most hold. There is a positive correlation between income and wealth across the different income quintiles. There is also a substantial difference in the net value of such assets between the bottom quintile (-\$3 000) and top quintile (\$1.11 million).⁹⁵ Those on higher incomes accumulate more wealth reflecting a capacity to service higher mortgage payments from a higher income. The Australia Institute states in a recent report that 'high incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes'.⁹⁶ Housing investment is a vehicle for wealth creation, wealth disparity and income inequality that is reinforced over generations.

3.82 There are a number of tax concessions that real estate investors can use. The main concessions relate to negative gearing and capital gains tax (CGT) exemptions:

- negative gearing occurs when a 'rental [or investment property] is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings'. This rental loss can be claimed against other forms of income (for example, salary or business income resulting in less tax being paid). The purpose of this type of investment is to minimise tax initially and assumes that the property

94 Australian Government, The Treasury, *Australia's Future Tax System: Final Report [Chapter 12]*, http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_12.htm (accessed 14 November 2014).

95 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19. In this section, non-equivalised data sets have been used. Equivalised data adjusts total household income to facilitate comparisons of households of differing sizes and compositions. It is worth noting that equivalised data shows a smaller difference in housing wealth between quintiles.

96 Mr David Richardson and Dr Richard Denniss, *Income and Wealth Inequality in Australia*, July 2014, p. 10, <http://www.tai.org.au/content/income-and-wealth-inequality-australia> (accessed 19 September 2014).

value increases over time allowing the investor to realise a profit when the property is sold at a later date;⁹⁷

- CGT is applied to all asset sales including houses where the asset value has increased over time. The tax is applied to the difference between the purchase price and the sale price. There are a number of exemptions to CGT, notably the exemption for 'main residences'. This exemption is not means tested.⁹⁸

3.83 These taxation arrangements clearly favour those with a high disposable income, allowing them to purchase an investment property. While the practice increases the stock of rental housing, it serves to limit the stock of owner-occupied dwellings for sale. Many have attributed the use of negative gearing to the record growth in house prices in Australia.⁹⁹

3.84 Current taxation policy is exacerbating the problem of increasing housing prices and decreasing housing affordability. In a consultation paper, Treasury suggests that a central tenet of a tax system should be the 'remov[al of] tax biases that negatively affect business and household investment decisions, offering the potential to increase productivity and Australia's long-term prospects for economic growth'.¹⁰⁰ Targeting these housing tax concessions, and the skewed investment incentives created by them, would assist in making housing more affordable for more Australians whilst creating substantial revenues for budget.

Availability of public housing and rent assistance

3.85 Many low income earners have difficulty accessing the private rental market as they simply cannot afford the rent. There are a number of state and federal government initiatives in place to financially support low income earners with access to housing. Commonwealth Rent Assistance (CRA) is available to those who

97 Australian Tax Office, *Rental properties 2012–13: Negative gearing*, <https://www.ato.gov.au/Individuals/Tax-return/2013/In-detail/Publications/Rental-properties-2012-13/?page=16> (accessed 7 October 2014). See also: Dr Richard Denniss, Executive Director, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, pp 13–20.

98 Australian Taxation Office, *Capital gains tax*, <https://www.ato.gov.au/General/Capital-gains-tax/> (accessed 7 October 2014).

99 See for example: Alan Kohler, *The two certainties in housing: debt and taxes*, The Drum (originally published in Business Spectator), <http://www.abc.net.au/news/2014-10-02/kohler-the-two-certainties-in-housing-debt-and-taxes/5784272> (accessed 3 October 2014). Alan Kohler states that 'in the past 20 years the shares of total lending by businesses and for housing have basically flipped—housing has gone from 25 to 61 per cent of total credit and business credit has fallen from 64 to 34 per cent.' There is a concern that current taxation policy has skewed borrowing to non-productive sectors (i.e. established housing stock) away from productive sectors that create jobs (i.e. business investment).

100 Australian Department of the Treasury, *Australia's future tax system—Section 6: Taxing business and investment*, http://taxreview.treasury.gov.au/content/ConsultationPaper.aspx?doc=html/publications/Papers/Consultation_Paper/section_6.htm (accessed 7 October 2014).

currently receive a pension or the maximum rate of Family Tax Benefit. This payment ranges from \$85.07—single, no children, share-house—to a maximum of \$168.98—single or couple family with three or more dependent children—per fortnight. This maximum rate is only available if your fortnightly rent is higher than a defined threshold for your family situation.¹⁰¹ The second mechanism is access to social or public housing whereby the state government provides eligible individuals or households with access to housing for a means tested rent of 25 per cent of household income.¹⁰²

3.86 Despite this support, Bapcare has noted that affordable housing is becoming more difficult to access for low income earners. It identified the following trends:

- loss of low income private rental housing in inner city areas—for example, as inner city areas in Melbourne have become gentrified, up to one-third of low income families have been forced to move between 2001 and 2006;
- unaffordable housing is exacerbated by income—every recipient of income support (except for the aged pension) provides an income (including CRA) below the poverty line.¹⁰³ As such, many on these benefits are paying a larger proportion of their income on housing. For example, 'in 2013, 60 percent of people on *Newstart* were paying more than 30 per cent of their income in housing costs and a quarter were paying more than 50 percent of their income in rent'; and
- a decline in public housing—state housing departments are struggling to meet demand for public housing. For example, waiting lists for public housing in Victoria (34 000 people), Queensland (20 000) and Tasmania (2 500) are extensive whilst operating costs of these departments exceed revenue. This indicates that without change to the way that state and federal government's approach housing issues, this problem will only get worse.¹⁰⁴

3.87 The National Rental Affordability Scheme (NRAS) was a federal government program established in 2008 to provide financial incentives to investors to encourage investment in new housing developments for low income renters. Several submitters

101 Department of Human Services, *Rent Assistance*, <http://www.humanservices.gov.au/customer/services/centrelink/rent-assistance> (accessed 21 October 2014).

102 This varies from state to state; however, Queensland charges 25 per cent, whereas NSW charges 25–30 per cent depending on household and income status.

103 Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, ISSN 1448-0530 June Quarter 2014, https://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-Lines-Australia_June2014.pdf (accessed 31 October 2014).

104 Bapcare, *Bapcare Social Policy Position Paper: Affordable Housing*, 2014, pp 6–7, <http://www.baptistcareaustralia.org.au/documents/item/221> (accessed 31 October 2014).

to this inquiry expressed disappointment that the scheme is being discontinued.¹⁰⁵ Although the Queensland Department of Housing and Public Works noted that the Scheme could have been slightly better targeted, NRAS delivered good outcomes for provision of affordable housing:

I think the product was not well targeted to investors and we could have got more out of it. But I think the product, as far as getting tenants into accommodation, is a very good product. Seventy-six per cent of households tenanted through NRAS since 2008 have been on incomes less than \$5[0],000 per annum. NRAS has been very successful in Queensland...We administer around \$125 million per annum, delivering services for homeless people who are probably the people who experience the greatest effects of income inequality and often have no income at all.¹⁰⁶

Homelessness

3.88 Homelessness is defined by the Australian Institute of Health and Welfare (AIHW) as someone living in no shelter, improvised shelter such as a motor vehicle, short-term temporary accommodation or 'couch-surfing' with no tenure.¹⁰⁷

3.89 A recent report released by the AIHW noted that 'in the two and half years [starting] 1 July 2011, Specialist Homelessness Services provided support to over 400 000 people in Australia. Although a range of factors influenced housing outcomes—including domestic violence, drug and alcohol use, mental health issues, or young people living alone—most clients were also likely to be unemployed with either no income or receiving income support'.¹⁰⁸

3.90 The committee received evidence from the Equality Rights Alliance (ERA) that:

Housing unaffordability is a driving force of economic disadvantage, creating and sustaining poverty and homelessness and thereby stagnating efforts to address and reduce inequality.

105 For example, see: Ms Mary D'Elia, State Operations Manager, Tasmania, Baptcare, *Committee Hansard*, Hobart, 19 September 2014, p. 4; Mr Neil Castles, Director-General, Queensland Department of Housing and Public Works, *Committee Hansard*, Logan, 8 October 2014, pp 2 and 7.

106 *Committee Hansard*, Logan, 8 October 2014, p. 2.

107 Australian Institute of Health and Welfare, *Australia's Welfare 2013*, p. 214, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544561> (accessed 25 November 2014).

108 Australian Institute of Health and Welfare, *Housing outcomes for groups vulnerable to homelessness*, Cat. No. HOU 274, Canberra, 2014, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129548949> (accessed 27 October 2014).

Further to this, ERA noted that women were especially vulnerable to homelessness. Specific groups of women most exposed include single and older, Aboriginal and Torres Strait Islander people, disabled and those with care responsibilities.¹⁰⁹

3.91 Representatives of UnitingCare Wesley Port Adelaide spoke to the committee about the:

[S]ignificant link between unemployment or underemployment and poverty and homelessness. It sets up a cycle of disadvantage that I have described as a perfect storm of disadvantage. People who get trapped in that cycle find it extraordinarily difficult to escape from it without significant support... without early intervention, without prevention programs, it is going to be more and more difficult for people to get off that treadmill of underemployment or unemployment and poverty and homelessness.¹¹⁰

3.92 Further to this, evidence was received that detailed the changing face of homelessness:

We are seeing in our Port Adelaide office a growing number of people who we would classify as the working poor: people who have been affected by one or a couple family members losing their jobs, which throws all of their life plans and their circumstances into disarray. So we have people presenting for emergency relief who feel significant embarrassment and a sense of shame at having to ask for something they have never had to ask for before. So it is not only people who are on a disability support pension, a Newstart allowance or some other sort of allowance who are now coming to us for support; it is people who are in employment but have had hours cut or one person lose a job. We are seeing those across our services in all our areas.¹¹¹

3.93 Joe Gannon described how 'most people are only three pay packets away from a housing crisis' and dismissed the stereotype of 'homeless people sleep[ing] in a park':

That is probably about five per cent of the people we deal with in homelessness. It is not the person sleeping in the park we are dealing with. We are dealing with homeless families. We are talking about mum, who has left her husband, walking in with about four to five children...¹¹²

[O]ver 60 per cent of those are children, under 14 years of age, presenting in a homelessness-crisis situation.¹¹³

109 *Submission 36*, pp 4–5. See also: Mr Chris Twomey, Director, Western Australia Council of Social Service, *Committee Hansard*, Rockingham, 11 November 2014, p. 13.

110 Ms Meredith Perry, Senior Manager—Community Services, *Committee Hansard*, Elizabeth, 10 November 2014, p. 11.

111 *Committee Hansard*, Elizabeth, 10 November 2014, p. 14.

112 Manager—Homelessness Services, *Committee Hansard*, Elizabeth, 10 November 2014, p. 13.

113 *Committee Hansard*, Elizabeth, 10 November 2014, p. 16.

3.94 Evidence the committee has received indicates a surge in demand for emergency relief and financial assistance, and an increase in homelessness.¹¹⁴ Reverend Crews noted that 'in Sydney there are at this moment 100 more homeless people in the inner city than there were this time last year'.¹¹⁵

3.95 The Queensland Department of Housing and Public Works expressed concern that the proposed budget measures 'that impact low-income families [will] increase the risk [that] they will become homeless'.¹¹⁶

3.96 In 2009, the National Partnership Agreement on Homelessness (NPAH) was established through the Council of Australian Governments (COAG) to help 'people who are homeless or at risk of homelessness achieve sustainable housing and social inclusion'. The objective was to create a coordinated approach to housing and homelessness. The four year agreement expired on 30 June 2013. NPAH has been given a one year extension while the Commonwealth conducts a review. Further to this, the role of the Commonwealth and state governments with regard to housing will also be reviewed as part of the White Paper on the Reform of the Federation.¹¹⁷ The committee is concerned that Commonwealth housing and homelessness policy appears to be in a hiatus with no apparent federal leadership on the issue.

The Queensland experience

3.97 The Queensland Department of Housing and Public Works estimates that there are over 200 000 low income households in Queensland who currently receive CRA. Of these people, 72 000 are living in public housing. The Department views its role as providing 'high-subsidy social housing assistance to those most in need while ensuring that other low to moderate income earners can access assistance to stay in or move to the private rental market'.¹¹⁸

3.98 The Department told the committee that 20 years ago, public housing was provided primarily to families whereas today it is provided to people with high needs. In '55 percent of social-housing dwellings there is at least one tenant who has a disability and around 25 per cent of all tenants in a social house have a profound disability'. The Director-General told the committee that the State Government has had to review its housing stock away from 3-bedroom family homes on large blocks to 1–2 and 5–7 bedroom housing to reflect current demand.¹¹⁹

114 *Committee Hansard*, Logan, 8 October 2014, pp 27–38.

115 *Committee Hansard*, Canberra, 16 October 2014, p. 46.

116 *Committee Hansard*, Logan, 8 October 2014, p. 3.

117 The Hon. Tony Abbott MP, Prime Minister of Australia, 'Federation White Paper—Release of First Issues Paper', Media release, 12 September 2014.

118 *Committee Hansard*, Logan, 8 October 2014, p. 1.

119 *Committee Hansard*, Logan, 8 October 2014, pp 1–3.

3.99 As discussed earlier, the Queensland Department of Housing and Public Works charges public housing tenants a rent of 25 per cent of their income. Eighty per cent of public housing tenants receive a Commonwealth allowance as their primary source of income. The Department told the committee:

Obviously any reductions in benefits coming out of the Commonwealth budget reduces our income which reduces our capacity to put money back into social housing. At the moment we estimate our subsidy per household per year to be around \$8,000 per year.¹²⁰

The committee expresses its strong concern at this impact of the proposed budget measure, not only in Queensland but nationwide. There is clearly a need to invest more in social housing options in Australia and any measures—direct or indirect—that curtail this investment are to be strongly opposed.

Transport

3.100 Access to transport—whether private or public—is important to participate in society. Transport provides people with the means to socialise, access shops, services, healthcare, education, and jobs. Without transport people are isolated from society and less likely to participate and prosper.

3.101 Income is one of the key determinants of where individuals live. Those on lower incomes are more likely to live where housing costs are lower—invariably this is on the peripheries of cities. Although Australia is one of the most urbanised societies in the world, our cities are largely designed with the following two underlying principles. First, medium to high density housing in the inner and middle metropolitan areas is supported by strong public transport systems. Second, the lower density outer metropolitan, regional, rural and remote areas are largely designed with cars being the primary means of transport. This clearly presents constraints for those on low incomes—often unable to afford to buy and operate private transport—who are forced to live in areas with inadequate public transport and as a consequence are alienated from essential services and job opportunities.¹²¹

3.102 Mr Donegan told the committee that 'living costs for households that are entirely reliant on car transport are substantially higher than those for people living closer in and who have good access to public transport'.¹²² Other witnesses also raised cost of living pressures:

The other thing that is changing is the cost of housing and the cost of transport for people. All of that is taking a bigger chunk out of casualised,

120 *Committee Hansard*, Logan, 8 October 2014, p. 3.

121 See also Mr Paul Donegan and Mr Ross Elliott in *Committee Hansard*, Logan, 8 October 2014, pp 39–51.

122 *Committee Hansard*, Logan, 8 October 2014, pp 42–43.

inadequate wages and thin and inadequate welfare payments. It is just harder for people to make ends meet.¹²³

3.103 Griffith University publishes a report known as the VAMPIRE¹²⁴ index which examines the distribution of household exposure to higher petrol prices, interest rate rises on mortgages and general price inflation due to the increased price of oil. This report confirms that those living in outer metropolitan areas are more likely to have a mortgage, more likely to use a car as the primary means of transport and are more sensitive to general price inflation. In the face of peak oil with higher petrol prices, and poor or non-existent public transport, lower income households living in these areas are forced to make decisions about what to prioritise in their lives. Reducing car use—with no substitution options for affordable public transport—will undoubtedly mean less participation in society for that individual or family.¹²⁵

The digital divide

3.104 In the modern world, technology is ubiquitous in every aspect of our lives. In The Smith Family's submission to the committee, it was noted:

[A]ccess to technology, including both home computers and the internet, is now seen as a key resource for young people's participation in education.¹²⁶

3.105 Several submissions noted 'a lack of home access' to internet and other technologies was an issue facing low income families with only 67.8 per cent of children aged 5 to 14 years being able to access internet at home. This compares with 90.5 per cent of children in the most advantaged communities.¹²⁷ The Smith Family described the impact of inequitable access:

The more limited access to technology that many young disadvantaged Australians experience can impact their acquisition of digital literacy skills and the educational outcomes they achieve. This in turn can [a]ffect their post school pathways, their ability to secure employment, and their income.¹²⁸

123 Ms Lin Hatfield Dodds, National Director, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 48.

124 VAMPIRE (Vulnerability assessment for mortgage, petroleum, and inflation risks and expenditure).

125 Jago Dodson and Neil Sipe, *Unsettling Suburbia: The New Landscape of Oil and Mortgage Vulnerability in Australian Cities*, Griffith University, 2008, http://www.griffith.edu.au/_data/assets/pdf_file/0003/88851/urp-rp17-dodson-sipe-2008.pdf (accessed 10 October 2014).

126 *Submission 9*, p. 10.

127 For example, see: The Smith Family, *Submission 9*, p. 10; Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 35.

128 *Submission 9*, p. 10.

3.106 Mr Brendan Markey-Towler of the University of Queensland went further, describing internet access as essential infrastructure to allow individuals to participate in the economy, particularly those in rural and regional areas. As he told the committee:

The challenge for policymakers, as I see it, is to be able to provide services which allow individuals in the country to integrate; just making it easier to obtain even something so simple as internet access which allows them to communicate with economic centres.¹²⁹

3.107 Connectivity to affordable and accessible high-speed broadband is as important as connectivity to affordable and accessible public transport options in order to participate in the modern world.

Employment

3.108 A number of submissions to this inquiry highlighted participation in paid employment as the most effective mechanism to lift individuals out of poverty. Employment is critical to provide individuals with structure, social networks, self-sufficiency in life and retirement, and to achieve a sense of value and contribution. Mr Roland Manderson, Deputy Director at Anglicare Australia, told the committee that the 'notion of participation is much in the public sphere and certainly having a job [or] occupation is a key form of participation'.¹³⁰

3.109 This section focuses on a number of broad issues affecting employment. Employment issues relating to specific disadvantaged groups will be discussed in the next chapter.

Unemployment

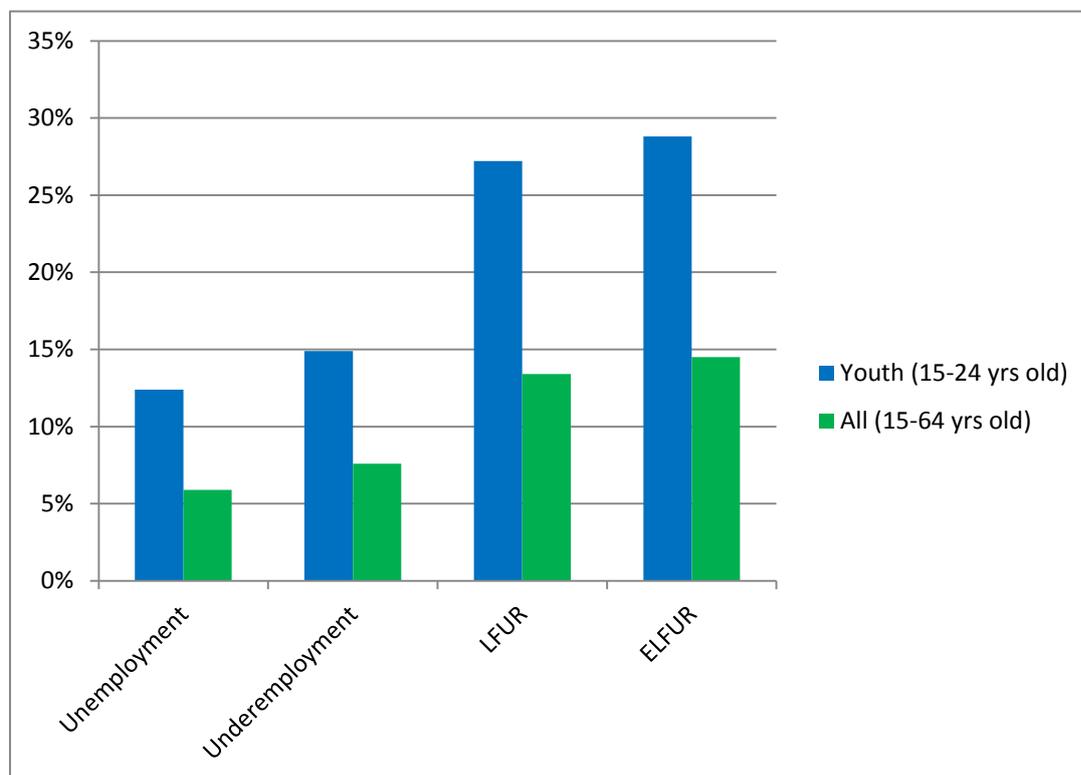
3.110 The unemployment rate—a headline rate of approximately 5–6% for the total population over the last decade—is a deceptive statistic that does not capture the lack of employment opportunities in the labour market, particularly for young people. There are three other important statistics when measuring people's engagement with the labour market. These are the unemployment rate, the underemployment rate,

129 *Committee Hansard*, Logan, 8 October 2014, p. 42.

130 *Committee Hansard*, Canberra, 16 October 2014, p. 34.

the labour force underutilisation rate (LFUR), and the extended labour force underutilisation rate (ELFUR).¹³¹ These can be seen below in Figure 3.5.

Figure 3.5: Comparison of labour force statistics between young people (15–24yrs) and all people (15–64 yrs) on August 2013¹³² (ABS 6105.0 & 6202.0)



3.111 It is important to note that a large proportion of the Australian labour force are eager to work but cannot access a job or sufficient hours. This is the case for nearly 30 per cent of young people and nearly 15 per cent of the total population. If an individual is unemployed, underemployed or engaged in insecure work, he or she is likely to have poorer access to services. In most cases, these are services required to participate in the labour market.

131 ABS 1301.0. Definitions *Year Book Australia*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Featu res~Underutilised%20labour~297> (accessed 6 November 2014). **Unemployment rate** is defined as the unemployed as a percentage of the labour market (unemployed plus employed); **underemployment rate** are those part-time workers are those who are available and would prefer to work more hours; **labour force underutilisation rate** is the sum of the unemployed and the underemployed as a percentage of the labour market; **extended labour force underutilisation rate** is the sum of the unemployed, underemployed, discouraged job seekers and those looking for work but unable to start work in the reference week, but available to start in four weeks.

132 August 2013 was the most recent date of **all** of these labour force statistics.

Working poor

3.112 The advent of flexible work conditions has led to the development of an 'underclass in the workforce'¹³³ exposed to casual, insecure and low paid employment. Dr Falzon submitted that '[w]e are aware of this growing category of the 'precarariat'—people who are precariously employed. There is an increasing trend towards casualisation, insecure work and low paid work.'¹³⁴

3.113 Dr Mark Zirnsak from the Uniting Church gave an example of the impact that insecure work has on individual well-being:

[A Uniting Church inquiry that] took evidence from people about far more insecure forms of work—people whose job now involves getting up at six o'clock in the morning and ringing up their employer to find out whether they have a job for that day and, if so, where it is going to be. That clearly impacts on people. They might be able to get an adequate income, but it is clearly going to affect their ability to plan and to have relationships and affect their sense of wellbeing and security in their life. Even if the income might be adequate, or a higher income than they had in the past, it does impact on those other aspects of their life. So, if you simply say that because their income has improved their lives are better, that does not necessarily follow. And those things—that sort of work security issue, for example—are things that government policy does affect.¹³⁵

3.114 Ms Kasy Chambers, Executive Director of Anglicare Australia, noted the difficulties experienced by low income earners when attempting to participate in the labour force and society:

Like the government and in fact most people, Anglicare Australia believes strongly in the value of participation, of being connected and of belonging. However, we contend when someone's income is too low it can actually prevent them from participation. The benefits of participation are well documented. However, participation also costs. The cost of participation is currently ill met by the lowest of government benefits. Anglicare is again in agreement with the government in believing that nobody should exist on government benefits over a long period. We believe that we owe it to members of society to give them far more than that.¹³⁶

3.115 In a recent speech, the Treasurer, the Hon. Joe Hockey MP, spoke of the importance of self-sufficiency in retirement.¹³⁷ There are many groups in our society

133 The Australia Institute, *Submission 37b*, p. 12.

134 *Committee Hansard*, Canberra, 16 October 2014, p. 50.

135 Director, Justice and International Mission Unit, *Committee Hansard*, Melbourne, 18 September 2014, p. 49.

136 *Committee Hansard*, Canberra, 16 October 2014, p. 34.

137 The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, 'The Case for Change', Speech, 23 April 2014, <http://www.liberal.org.au/latest-news/2014/04/23/case-change-address-hon-joe-hockey-mp-treasurer> (accessed 13 November 2014).

who are unlikely to ever attain this self-sufficiency. A recent industry survey found that a superannuation balance of \$510 000 (couple) and \$430 000 (single) is required to sustain a comfortable retirement. This survey also found that only 11 per cent of respondents have more than \$400 000 in superannuation and that 25 per cent of respondents have less than \$50 000. Further to this, more than two-thirds expect to rely on the aged pension.¹³⁸ Clearly, there is a large gap between current superannuation balances and self-sufficiency. There is also a large group of people currently reliant on government allowances and exposed to intermittent, insecure employment. For those who are underemployed, unemployed or reliant on low paid employment, there is likely to be a greater reliance on government support for those people in their retirement. The issue of self-funding retirement is discussed further in chapter 4.

Transition—Safety net to the workforce

3.116 There are many impediments to individuals who are trying to transition from government allowances to the labour market. These include financial disincentives such as earnings thresholds and the removal of benefits as an individual transitions into the workforce offering low or no marginal benefit in working; and non-financial disincentives such as discouraged job seekers, and inadequate workplace flexibility for those with children, the disabled and carers.

3.117 In their submission to the committee, People with Disability said:

Pervasive inequality and societal barriers block many people with a disability from improving their situation through work. The labour force participation rate for those aged 15–64 years with disability in 2009 was 54%, much lower than that for those without a disability (83%).¹³⁹

3.118 The committee received evidence from Ms Terese Edwards, CEO of the National Council of Single Mothers and their Children, on the issue of earnings thresholds for payments, in particular Newstart:

We have this crazy, counterproductive system known as the threshold allowance. To give you an example, a mum with three children on parenting payment single can earn and keep about \$113 per week. Once her little one turns eight, she is allowed to keep \$50 per week. These losses are unrecoupable. National Welfare Rights estimates that a mum working 15 hours per week on the minimum wage will have to work 28 hours once she has moved across to Newstart just to retain that same amount. We question whether there is the capacity and whether those hours are available.¹⁴⁰

138 REST Industry Super, *The Journey Begins: Australia's Journey to Retirement*, June 2014, <http://www.rest.com.au/restpension/rest-the-journey-begins.pdf> (accessed 2 December 2014).

139 *Submission 44*, p. 7.

140 *Committee Hansard*, Melbourne, 18 September 2014, p. 18.

In this example, there is no incentive for a mother to find three childcare places, organise the children and her employer, and then pay for the places in order to attend work and then receive no marginal benefit until she has worked 28 hours. For a mother who can only access insecure, intermittent work, the incentive is even less due to the increased difficulty in finding a casual position in childcare, and perhaps not having access to 28 hours per week. In September 2013, there were over 265 000 individuals caring for children who wanted to work but were not looking for work.¹⁴¹ This is most likely due to the lack of incentive as described above.

3.119 According to the ABS, there are over 117 000 discouraged job seekers in Australia with 'the most commonly reported main reason for not actively looking for work was *considered too old by employers* (33 per cent) [and] followed by *no jobs in locality or line of work* (20 per cent)'.¹⁴² Discouraged job seekers are people who want to work but have been worn down by discrimination and a lack of opportunities before becoming disengaged from the labour market.

3.120 Many submitters brought up intergenerational unemployment as an impediment to labour market access.¹⁴³ These intergenerational issues reflect a complex interplay of factors including lack of work opportunities, poor understanding of the benefits of education and training, and a lack of resources to assist the next generation. The phenomenon of intergenerational unemployment has arisen over the last 30 years, however, the welfare payment system has not adapted to these changes. Ms Hatfield Dodds explained that the welfare system was 'designed in a world where unemployment was short term and sporadic [and payment] was really a bridge to get you from job to job.' Ms Hatfield Dodds continued:

What we have seen since the late 1980s is the emergence of intergenerational unemployment. So you do have people unemployed for two, three or four years. We are working with people who have never had a job as well. We work with those people. There are people growing up in areas of locational disadvantage, the poverty postcodes, where no-one in a community has ever had a job.¹⁴⁴

141 Australian Bureau of Statistics, *6220.0—Persons not in the Labour Force, September 2013* (accessed 13 November 2014). See also: *Submission 44*, p. 12.

'DSP [Disability Support Pension] recipients are also not eligible for Jobs, Education and Training (JET) childcare although people receiving working age payment including Newstart are. This means that DSP recipients who are studying or are want to study must pay for their childcare from their DSP. For the majority of parents on DSP this will make the pursuit of further study too costly.

142 Australian Bureau of Statistics, *6220.0—Persons not in the Labour Force, September 2013* (accessed 13 November 2014).

143 See for example: Mr Joe Gannon, Manager, Homelessness Services, UnitingCare Wesley Port Adelaide, *Committee Hansard*, Elizabeth, 10 November 2014, p. 13; Dr Ian Goodwin-Smith, Director, Australian Centre for Community Services Research, Flinders University, *Committee Hansard*, Elizabeth, 10 November 2014, pp 40–41.

144 *Committee Hansard*, Canberra, 16 October 2014, p. 49.

3.121 Government support for the unemployed is too simplistic and does not attempt to really engage with the range of complex issues that affect the long-term unemployed. Ms Hatfield Dodds divided these into hard issues and soft issues:

The hard issues are things like skilling people up for labour market attachment and thinking around the health, transport, dental and housing issues that we all know about. Then those really intractable issues at the core are about people's expectations and hopes for themselves and their communities. My [Port Adelaide] chair talks about loss of hope and fear of failure being the two least tractable and most difficult things that we work with people around. When you are working with people who are very deprived and very excluded, they do not even dare to hope things can go right because right from the minute they were born into a disadvantaged family in a disadvantaged area they have been excelling at failing on almost any social or economic dimension.¹⁴⁵

3.122 In evidence, Ms Sarah Walbank from Carers Queensland Inc. described the difficulties experienced by a carer:

My daughter is 24 years old but has funding for only 42 hours per week. This means that we are together for no less than 110 hours per week. As a consequence, I have no time to socialise, no assets and no way back into the workforce.' The consequence of a parent carer's decision to leave the workforce and accept more marginalised work is not merely a budgetary inconvenience; it is a significant decision that has the potential to negatively impact the family's financial capacity not only in their working years but also longer term in their retirement years.¹⁴⁶

Ms Walbank continued, explaining the importance of the pensioner education supplement for carers re-entering the workforce:

We have carers who have said to us, 'I'm actually qualified in this but I'm completely unemployable because I've been out of the workforce for 10 years. My qualifications are out of date. I'm not skilled in the software. I'm not using the same language,' et cetera. The supplement is important because it does provide some financial backup, particularly for single-parent carers who we know are the most disadvantaged in Australia.¹⁴⁷

3.123 The issue of childcare is one that affects many Australian families and acts as an impediment to the labour market. Although there are a number of impediments to entering the labour market, the next section will focus specifically on the issue of access to childcare and its impacts on labour force participation.

145 *Committee Hansard*, Canberra, 16 October 2014, p. 49.

146 Policy and Research Officer, *Committee Hansard*, Logan, 8 October 2014, p. 13.

147 *Committee Hansard*, Logan, 8 October 2014, p. 17.

Childcare

3.124 Households with dependent children generally have a number of options regarding childcare and employment. Those households with two parents can decide that one adult will remain in the workforce whilst the other remains home to care for the children; both parents can work part-time and care part-time; or both parents can work full-time whilst the children are placed in childcare full-time. Single household parents with dependent children make similar decisions.

3.125 These decisions are influenced by many factors including personal choice, financial circumstances, workplace flexibility and opportunities for the child's intellectual and social development. These decisions are also influenced by the age of the youngest child—that is, toddlers will require longer day-care whereas school age children may require after-school care or no care depending on school and parental work hours. This section will examine factors that determine these decisions and the impact this has on both current and future earnings capacity.

3.126 For middle and higher income families, the decision to access childcare generally reflects personal circumstance. This may mean that in a two parent household, the parent with the higher income continues working whilst the lower paid partner cares for the children. As discussed in the next chapter, often this partner is the woman. Alternatively, childcare may be used on a full-time or part-time basis to allow both parents to work either in a full-time or part-time capacity.

3.127 In lower income families, deciding whether to access childcare is largely a matter of disincentives or impediments rather than a positive choice. If potential income earned through entering the labour market is less, the same or only marginally better than the cost of childcare, then that household's adults (or adult) may choose to remain outside of the labour market. In most cases, this will mean relying on social security allowances. As seen in chapter 5, these allowances provide a level of income support below the poverty line.

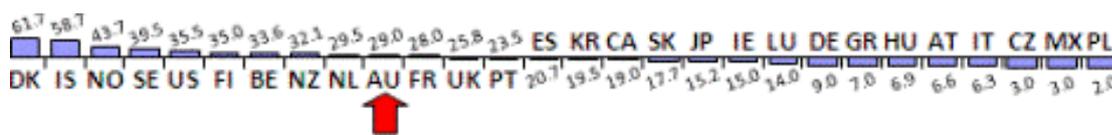
3.128 Although Australia has some of the most expensive childcare fees in the Organisation for Economic Co-operation and Development (OECD), there are a number of rebates that assist in reducing the cost of childcare close to the OECD average.¹⁴⁸ The Australian Government currently offers two forms of assistance to those families using childcare—the Child Care Benefit (means tested) and the Child Care Rebate (not means tested). The Child Care Benefit pays a maximum of \$4.10 per hour of care tapering off as income increases. The Child Care Rebate is available to all

148 OECD 2014, *PF3.4: Childcare support*, http://www.oecd.org/els/family/PF_3_4_Childcare_support_May2014.pdf (accessed 2 October 2014).

families and pays a maximum of 50 per cent of child care costs up to \$7,500 per annum.¹⁴⁹

3.129 Figure 3.6 below outlines that participation in childcare services in Australia is above the OECD average but employment within single parent households is well below the average. This is primarily due to high average effective tax rates (AETR). When moving from a government benefit to employment, single parents are taxed at a high AETR due to benefits being removed and income tax being paid. The AETR is at a rate of 50 per cent and generally higher at the lower income levels. This compares with dual parent households with an AETR of 50 per cent or less. AETR also decreases at higher prospective employment income of all households.¹⁵⁰ This means that those with lower earning potential and particularly single parent households have weak financial incentives to re-enter the labour market. Over fifteen per cent of households in the lowest income quintile are single parent households, this compares with 1.3 per cent in the top quintile and an average of 5.8 per cent across all quintiles.¹⁵¹

Figure 3.6: Participation in childcare services for children aged under 3 years related to OECD average of 22.9152



Source: OECD 2011

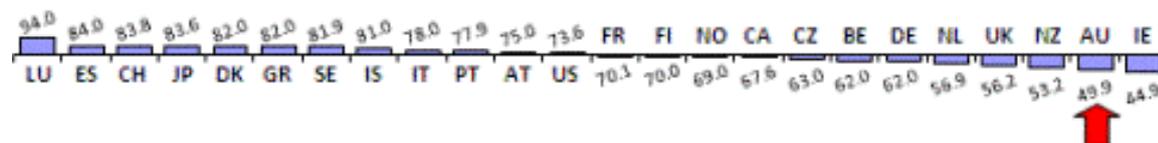
149 Centrelink, *A guide to Australian Government payments: 20 September–31 December 2014*, 2014, pp 10–12, <http://www.humanservices.gov.au/spw/corporate/publications-and-resources/resources/co029/co029-1409.pdf> (accessed 2 October 2014).

150 OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*, pp 79–80, 87.

151 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6554.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6554.0&issue=2011-12&num=&view=> (accessed 19 September 2014).

152 OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*, http://www.keeppeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/babies-and-bosses-reconciling-work-and-family-life_9789264032477-en#page86 (accessed 2 October 2014).

Figure 3.7: Sole parent employment rate related to OECD average of 70.6%¹⁵³



Source: OECD 2011

Committee view

3.130 This chapter has noted the particularly severe impact that low income has on an individual's ability to access basic services. It is critical that the Commonwealth Government maintain policies and programs, and the delivery of these services, to ensure that inequality in Australia does not continue to rise. Further to this, a number of principles that should guide the retention and improvement of these services are outlined below.

Health

3.131 The committee accepts that access to health services is impeded for low income and other disadvantaged groups. It is important that out-of-pocket expenses do not prevent timely and appropriate access to healthcare and pharmaceuticals for low income and other disadvantaged groups. This will be examined in more detail in Chapter 5. Funding for public healthcare needs to be increased with a renewed focus on primary healthcare and preventive health programs.

Education

3.132 The committee received a range of evidence confirming the importance of education. The committee considers that improved access and outcomes for disadvantaged groups must be prioritised. As such, funding levels must be predicated on the level of disadvantage. That is, more funding and resources need to be provided to ensure that outcomes—such as, standardised testing, Year 12 completion, transition to study or the labour market—for identified disadvantaged individuals and schools are brought in line with the broader population. The Commonwealth must provide both leadership and funding to ensure that all Australians, regardless of background or income level, are able to access education and training that will lead to employment.

Housing

3.133 The committee is concerned that the Commonwealth Government is backing away from its commitments in housing and homelessness (see paragraph 3.93).

¹⁵³ OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*.

Evidence presented to the committee suggests that there needs to be a greater co-ordination of housing policy at a Commonwealth level. The committee considers that national urban planning guidelines should be developed to ensure that new and existing developments have access to public transport, health, education and other services. Further to this, national planning guidelines for new housing be developed which require a social mix of public and private housing with a minimum target of affordable and public housing for low income and other disadvantaged groups.

3.134 The committee received evidence on the issue of rental stress as rents continue to rise in excess of CPI and wages growth. The committee considers that increasing rent assistance commensurate with a rental index that reflects real rental growth would assist with housing cost pressures.

3.135 The committee also notes the negative impact of the favourable taxation treatment of residential property assets on housing affordability. The Commonwealth Government should consider these taxes in its proposed white paper on the reform of Australia's tax system.

Employment

3.136 This chapter has identified a number of systemic and cultural barriers to those with low or no income. This includes disincentives for working mothers, and discrimination against older workers, people with disability and those with caring responsibilities.

3.137 The committee received evidence about a number of successful programs engaging disaffected youth and a number of other disadvantaged groups. The committee recognises that the current funding model does not deliver the best outcomes when considering the need for continuity and the realisation of longer term objectives. This can only be achieved through the provision of secure, longer term project funding which allows service providers to establish a more permanent presence—including continuity of staffing—within a community. Longer term funding arrangements allow social workers to build a real rapport with a community, making change and project success more likely. The committee accepts that programs reliant on government funding need to be accountable and subject to rigorous evaluation. However, greater collaboration and communication between government and service providers to create partnerships with real objectives rather than isolated projects may better assist the community and individuals these projects are designed to serve.¹⁵⁴ A number of these programs are explored in more detail in chapter 6.

3.138 Flexibility within workplaces for those with children, people with disability and carers, and financial disincentives when moving from welfare to work are the major impediments for those wanting to enter the workforce. Employers need to recognise the value of all employees and, in turn, be recognised for employing

154 See, for example: Mr Sameh Gowegati, *Proof Committee Hansard*, Rockingham, 11 November 2014, pp 34–47.

disadvantaged groups such as older (45 years and over), disabled and episodically disabled, working parents, and carers.¹⁵⁵ The Commonwealth Government should consider the income tax burden on low income earners as part of its proposed white paper on the reform of Australia's tax system. The committee considers that low income earners should not be financially penalised as they move from welfare to work. Finally, access to affordable childcare particularly for those with insecure, intermittent employment needs to be prioritised by the Government.

3.139 The committee notes that in many sections of the Australian economy insecure work—including short-term contracts, casual or work in declining industries—poses real challenges to employees. Chapter 6 of this report considers the need for a targeted planning program for workers facing retrenchment. This program would assist workers to gain the necessary skills to transition to more secure employment.

155 See, for example: *Committee Hansard*, Melbourne, 18 September 2014, p. 5; Ms Sarah Walbank, *Committee Hansard*, Logan, 8 October 2014, p. 17 on flexible working options for carers.

