



Consumer Credit
Legal Centre NSW

10 August 2012

By email: eewr.sen@aph.gov.au

Committee Secretary
Senate Education, Employment and Workplace Relations Committees
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Inquiry into the adequacy of the allowance payment system for jobseekers and others, the appropriateness of the allowance payment system as a support into work and the impact of the changing nature of the labour market.

The Consumer Action Law Centre (**Consumer Action**) and the Consumer Credit Legal Centre NSW (**CCLC**) welcomes the opportunity to comment on the inquiry into the adequacy of the allowance payment system and related issues. Background on our organisations are in the Appendix. We appreciate the opportunity to make this submission later than the original closing date.

Summary

This submission responds to items (a) and (b) of your terms of reference:

- (a) the adequacy of the allowance payment system for jobseekers and others, with particular reference to the adequacy of the Newstart Allowance payment as an income support payment for jobseekers and the adequacy of all other allowance payments that support a range of recipients who study or provide care;
- (b) the appropriateness of the allowance payment system as a support into work, with particular reference to:
 - i. the effectiveness of the payment as an incentive into work,
 - ii. the effectiveness of the allowance payment system in facilitating transitions between working and other activities, such as studying, caring and retirement, or in the event of illness or disability, and in helping or hindering recipients to overcome barriers to employment, and
 - iii. the impact of the differences between pensions and allowances on the transition between working and other activities

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We submit that:

- Regarding to term of reference (a), the payments available to jobseekers are clearly inadequate to meet the basic living costs of recipients because:
 - a reasonable estimate of the income that would be received by a jobseeker solely reliant on social security benefits is less than the Henderson Poverty Line;
 - average (or even minimal) rental costs are likely to take up between 65 to 100 per cent of the payments available to a single jobseeker with no children and between 36 to 55 per cent of payments made to a couple with no children. This means that households solely dependent on jobseeker allowances are almost necessarily put into a state of housing stress according to the formula used by the Australian Housing and Urban Research Institute;
 - even if jobseekers can afford housing costs, those solely reliant on social security would be unlikely to also be able to meet basic needs like utilities and groceries and would be reliant on family, friends and emergency relief;
 - payments are becoming less adequate with time as costs of living outstrip increases to Newstart Allowance and Rent Assistance.
- Regarding term of reference (b), the allowance system is not an effective incentive to move jobseekers into work, instead it erodes the ability of payment recipients to find and secure work.
- Keeping payment levels lower than the minimum required to meet basic needs also creates drivers to resort to harmful use of high cost credit like payday loans. This is a poor outcome for jobseekers who can be led into a destructive cycle of indebtedness. It is also an inefficient use of social security funds which are designed to meet basic expenses, not pay off high interest debt.

We recommend that

- As already argued by the Australian Council of Social Service, Newstart and other allowance payments should be increased and indexation of these allowances should be improved; and
- that the Productivity Commission be asked to provide advice on what an optimal level would be for jobseeker payments.

Our comments are detailed more fully below.

Term of reference (a): the adequacy of the payments system for jobseekers

It is beyond dispute that the allowances available to jobseekers are not adequate to pay for a basic standard of living. We note that the Australian Council of Social Service has argued for some time that these allowances are inadequate and we endorse their position.

One simple way to make this point is to demonstrate that a jobseeker solely reliant on social security benefits would be unable to afford average or even modest housing costs without experiencing severe financial hardship. Assuming a person receives the maximum rate of Newstart Allowance at the single, no children, rate as well as the maximum rent assistance and

pharmaceutical benefit, their total fortnightly income would be \$616.10.¹ A couple with no children each receiving the maximum rates of Newstart, Rent Assistance and pharmaceutical benefit would receive a total fortnightly income of \$1003.40.² We are aware that other payments may also be available and in particular that jobseekers with children will receive higher rates of Newstart and rent assistance and would also be eligible for Family Tax Benefit A. However, these figures are still a useful baseline and according to our financial counsellors are higher than the payments received by many of their clients.

Before going on to discuss the cost of housing, it is worthwhile to mention that these incomes fall below the Henderson Poverty Line. Where the head of the family is not in the workforce, the poverty line for a single person with no children is \$381.40 per week including housing, and for a couple with no children \$540.25 per week including housing.³

This amount of income is not adequate to pay for average or even low cost housing. According to ABS data from 2009-10, the average cost of rent for households renting from private landlords was \$305 per week. Lower income households renting privately paid on average \$257 on rent per week and households renting from public agencies paid an average of \$119 per week. Those paying off a mortgage paid on average \$408 per week for housing.⁴ Our financial counsellors advise that a typical price for low cost private rental would be around \$250-300 per week.

Even if a person was able to secure cheaper than average accommodation, a brief search of realestate.com.au for one bedroom rental properties in the greater Melbourne area shows that very few are available for less than \$200 per week.⁵ We acknowledge however that a single person could find cheaper accommodation, for example by renting a room in a shared house.

Based on these figures, (and as shown in the table below) we can conclude that a single jobless person with no children will have trouble covering even cheap private rates of rent. Even if they managed to secure the cheapest private rent we found in Melbourne (\$200 per week), a jobseeker in this scenario would pay around two-thirds of their income on rent alone and would pay almost 40 per cent of their income on rent if renting publicly. Payments to a single recipient with no children would fall well short of the amount required to pay an average mortgage. Couples who are solely reliant on jobseeker benefits would also find it difficult to afford private rent, which would account for between 36 and 55 percent of their income.

¹ The maximum fortnightly rates for single, no children recipients are Newstart Allowance: \$489.70, Rent Assistance: \$120.20 and pharmaceutical benefit: \$6.20. All figures are sourced from www.humanservices.gov.au.

² The maximum fortnightly rates for couples with no children are Newstart Allowance: \$442 each; Rent Assistance: \$113.20 in total; pharmaceutical benefit: \$3.10 each. All figures are sourced from www.humanservices.gov.au.

³ Melbourne Institute of Applied Economic and Social Research (2012) *Poverty Lines: Australia: March Quarter 2012*. Accessed from <http://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-lines-Australia-March-2012.pdf>

⁴ ABS (2011) *Housing Occupancy and Costs: 4130.0: 2009-10* pp 8-9. Accessed 7 August 2012 from [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/7BA06D0612AAABF7CA257949000B9FBE/\\$File/41300_2009-10.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/7BA06D0612AAABF7CA257949000B9FBE/$File/41300_2009-10.pdf). We note that the ABS' averages will include houses with multiple bedrooms, and the average cost of a single bedroom house may be lower.

⁵ Searched on 6 August 2012.

Table: Amount paid for housing per fortnight as percentage of gross income of jobseekers and fortnightly income remaining after housing costs paid

Income Scenario	Amount paid in rent per fortnight as percentage of gross income (Fortnightly income remaining after housing costs paid)				
	Average public rental (\$238)	Minimum private rental (\$400)	Low income ave. private rental (\$514)	Average private rental (\$610)	Average for those repaying mortgage (\$816)
Single, no children \$616.10 p/fortnight	39% (\$378.10 remaining)	65% (\$216.10 remaining)	83% (\$102.10 remaining)	99% (\$6.10 remaining)	132%
Couple, no children \$1003.40 p/fortnight	24% (\$765.40 remaining)	40% (\$603.40 remaining)	51% (\$489.40 remaining)	61% (\$393.40 remaining)	81% (\$187.40 remaining)

For context, the Australian Housing and Urban Research Institute considers a household to be in 'housing stress' if it is in the lowest 40 per cent of the income distribution and spends more than 30 per cent of its income on housing.⁶ The figures above suggest that a person who loses their job and becomes solely reliant on social security payments is in almost all cases automatically put into a state of housing stress.

Even where a jobseeker can afford to pay for housing, the experience of our financial counsellors is that few jobseekers solely reliant on social security could also afford other basic necessities like utilities, groceries and transport. A person in this position would before long be entirely reliant on family, friends and emergency relief⁷ to meet basic needs.

Further, prices of essential consumer goods are rising faster than the rate at which Newstart and Rent Assistance payments increase, meaning these payments are becoming less adequate over time. According to the ABS, total weekly household expenditure rose by 38 per cent between 2003-04 and 2009-10 with spending on food and non-alcoholic beverages increasing by 34 per cent. In the same time, the Consumer Price Index—which determines the rate at which Newstart and Rent Assistance increase—rose only 19 per cent.⁸ More recently, the ABS found that the Analytic Living Cost Index for households predominantly reliant on government

⁶ Australian Housing and Urban Research Institute (2006) *Housing Affordability In Australia: National Research Venture 3: Housing Affordability For Lower Income Australians*, p 16. Accessed from http://www.ahuri.edu.au/downloads/NRV3/NRV3_Research_Paper_3.pdf#nameddest=NRV3_04

⁷ Note also that access to emergency relief is itself limited -- in some regions it can only be accessed 3 or 4 times each year.

⁸ Australian Bureau of Statistics (2011) *Household Expenditure Survey 2009-10: Summary of Results*, p 8. Accessed from [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/CB07CC895DCE2829CA2579020015D8FD/\\$File/65300_2009-10.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/CB07CC895DCE2829CA2579020015D8FD/$File/65300_2009-10.pdf)

transfers (other than age pension or veterans affairs pensions) rose faster in the July 2012 quarter than CPI.⁹

Term of reference (b): the appropriateness of the allowance payment system as a support into work, with particular reference to... the effectiveness of the payment as an incentive into work

The allowance system is in our view not an effective incentive to move jobseekers into work. Instead, the critically low payment rates of these allowances actually erodes the ability of jobseekers to find and secure jobs.

A person who is living on the kind of income discussed above is simply not in a position to effectively search for work for a number of practical reasons. A person living on this income:

- will have trouble searching for jobs because they will not be able to afford internet access;
- will not be able to call prospective employers because they probably will not have a landline connection and cannot afford to recharge a prepaid mobile;¹⁰
- will not be able to afford the cost of transport to attend job interviews or meetings with Centrelink or job placement agencies;
- will not be able to afford clothes and other essentials to ensure they are well presented for an interview.

We submit that it cannot possibly be in the interests of jobseekers, business, governments or the broader public to keep jobseeker allowances at levels that prevent people from finding work. Any suggestion that keeping payments this low somehow enhances incentives to work is in our view naive and baseless.

The link between inadequate payments and harmful use of payday loans

Keeping payment levels lower than the minimum required to meet basic needs also creates drivers to resort to harmful use of high cost credit such as payday loans.

Research has demonstrated that insufficient income is the key driver for harmful use of payday loans. These loans are overwhelmingly taken out by borrowers on low incomes¹¹ and are

⁹ Australian Bureau of Statistics (2012) 'Results by Household Type', *Analytical Living Cost Indexes for Selected Australian Household Types, Jun 2012*. Accessed from <http://www.abs.gov.au/ausstats/abs@.nsf/Products/6463.0~Jun+2012~Main+Features~Results+by+Household+Type?OpenDocument#2718121728189953>

¹⁰ The experience of our financial counsellors is that low income clients usually choose prepaid mobile phone plans as it allows them to more easily manage their budget. Research suggests that that people with low incomes are more likely to have a mobile phone as their main or sole communications device, and that low income households with only one phone type are more likely to have a mobile than a landline. See Australian Communications and Media Authority (2011) *Numbering: Calls to Freephone and Local Rate Numbers: The Way Forward*, pp 6-8, http://www.acma.gov.au/webwr/_assets/main/lib410119/ifc37-2011_numbering-freephone_and_local_rate.pdf

¹¹ For example, Commonwealth Treasury reviewed a range of studies and found that around 40-49 per cent of borrowers had an annual income less than \$24,000 and between 50-74 per cent earned less than \$36,000. Treasury (2011), *The Regulation of Short Term, Small Amount Finance: Regulation Impact Statement*, Australian Government, Canberra, p 15, <http://ris.finance.gov.au/files/2011/09/RIS-Short-term-small-amount-finance.pdf>.

typically used to meet everyday, basic expenses like utilities, housing and groceries.¹² It follows that these loans are not typically used to cover one-off, unexpected expenses but to supplement an insufficient income.

It is not beneficial either for individual borrowers or for the broader community for jobseekers to feel they have to 'supplement' insufficient income with high cost credit. While taking out a payday loan may provide some short term relief for borrowers, in most cases this kind of borrowing only exacerbates financial distress in the longer term. A person who turns to a payday lender one fortnight because they cannot meet their ordinary expenses is unlikely to be able to afford the same regular expenses as well as the repayments on a payday loan in the next fortnight.¹³ Rather than the payday loan helping them manage lumpy expenditure, it puts them deeper in debt and drives many to return to the payday lender for more loans—RMIT's study of payday lending, *Caught Short*, found that the third most common reason cited for taking out a payday loan was 'to pay back another loan'.¹⁴ This can begin a cycle of indebtedness that in our experience may last years.¹⁵

The following case studies demonstrate the impact of continued use of payday loans on social security recipients:

Case study - Matthew

Matthew (not his real name) is a Disability Support Pensioner with an income of \$749 per fortnight. When Matthew approached a community legal centre for advice he had two payday loans from different providers with around \$2000 to repay total.

Matthew's bank statements showed that these loans had not been isolated. Statements from mid September to late December 2011 show fortnightly repayments on 3 small payday loans from different providers totalling about \$321 per fortnight. After rent, a lease payment for a household appliance and repayments for a Centrelink lump sum advance previously received, Matthew had \$132 per fortnight for all other expenses.

When asked how many loans he had, Matthew responded that

¹² Consumer Action's research found that 75 per cent of payday loans were taken out to cover basic living expenses. Zac Gillam (2010), *Payday Loans: Helping Hand or Quicksand?*, Consumer Action Law Centre, pp 59-60. RMIT research found that the seven most commonly cited reasons for first taking out payday loans were "regular, weekly-type needs and expenses". When asked about the purpose of all loans (rather than just the first loan), these regular expenses were cited twice as often as one-off expenses. Marcus Banks (2011), *Caught Short: Exploring the role of small, short term loans in the lives of Australians - Interim Report*, RMIT University, Melbourne, pp 14-15.

¹³ See for example Consumer Action's media release 'Ombudsman asked to consider lending practices of payday loan provider', 6 March 2012, <http://www.consumeraction.org.au/downloads/Ombudsmanaskedtoconsiderlendingpracticesofpaydayloanprovider-060312.pdf>

¹⁴ Banks (2011), p 15.

¹⁵ For example, see Consumer Action's media releases 'Payday Lending Practices Challenged in Court', 17 October 2011 <http://www.consumeraction.org.au/downloads/paydaylendingpracticeschallengedincourt-171011.pdf>.

"I used to get cash advances from [one lender] pretty much every fortnight. They started out at about \$70 or \$80 and went up to \$100 or so (I think) once I proved I would pay. I was doing this for months, possibly a year. I also had other loans from [the same lender]—they would let me get it down to about \$180 each time before they would lend me another \$600, so I would get about \$420 in the hand by the time they paid out the previous loan.

[A second lender] would not let me get a new loan until I had paid off the old one. I would go in with my bank statements as soon as I had paid one off and they would give me another one right away. I am not sure [how long this was going on for], certainly months, maybe years... I think one year at least. It was always the same lenders and always pretty much back to back loans."

When asked what he lived on, Matthew responded that he "didn't eat much", that he occasionally got food vouchers from the Salvos and Vinnies and food hampers from friends. Matthew also mentioned that he "never bought clothes" and was "always behind" on his power bills.

Matthew also said that:

I knew they were sharks and I was feeding them but I was stuck in a cycle I couldn't get out of. They got me to sign petitions and things supporting them which I did because I wanted the money at the time but I also resent that now.

Case study: Edward

Edward (not his real name), an aged pensioner in his seventies, was referred by a financial counsellor to a community legal centre in November 2011. At the time of the referral, Edward had four concurrent loans, of \$300, \$400, \$600 and \$2020 respectively from four different lenders.

Edward says he borrows the money because he can't keep up with living expenses on the pension any more. He says he gets a loan half paid off and then another bills comes in so he gets another loan partly to refinance the old loan and partly to pay the latest expense. Edward says it's easy to get the money—if you are new to the lender you have to take in a Centrelink statement and bank statements but once they know you they just refinance without anything further required.

Case study: Maria

Maria (not her real name) was referred to a community legal centre in 2012. She has been a victim of domestic violence and experienced long-term homelessness. Her recent income has been predominantly worker's compensation with bouts of intermittent part-time employment. She has a teenage son.

Maria went bankrupt in 2008 (and was discharged in 2011) and a debt to payday lender was among her provable debts. The same lender provided her with two more loans totalling \$1500 while she was still bankrupt (Maria answered 'no' when asked if

she was or had been bankrupt on her application). Also while bankrupt, Maria received another loan from an online lender for around \$400, and a fourth from a telephone lender which started at \$300 and is now over \$1200 as a result of default fees. She is considering a second bankruptcy.

As well as being a poor outcome for the borrower, this is an inefficient use of social security funds which are designed to meet basic needs of recipients, not to pay off high interest debt. We note that the Commonwealth Government is currently considering options to reduce demand for payday loans.¹⁶ One way would be to remove the driver for payday lending for jobseekers by ensuring that their income is sufficient to meet basic needs.

Conclusion and recommendations

We believe it is beyond dispute that these allowances are inadequate to meet basic needs and that requiring jobseekers to live on such low income makes it less likely that those jobseekers will find work. It is in nobody's interest to keep these payments as low as they are.

We urge the Committee to

- endorse the recommendations of the Australian Council of Social Service that the single rate of Newstart and other allowance payments should be increased by at least \$50 per week and that payments should be indexed to wage movements and not only prices; and
- recommend that the Productivity Commission be asked to provide advice on what an optimal level would be for jobseeker payments—that is, the level at which payments should be set to ensure that jobseekers are capable of finding work without removing incentives to continue to look for work.

Thank you for the opportunity to provide a submission to this inquiry. Please contact us if you have any questions about this submission. Our contact details are in the appendix.

¹⁶ See Treasury (2011) *Strategies for Reducing Reliance on High-Cost, Short-Term, Small Amount lending*, <http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2012/Strategies-for-reducing-reliance-on-high-cost-short-term-small-amount-lending>

Appendix - Background on the contributors

Consumer Action Law Centre

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

We also operate MoneyHelp, a not-for-profit financial counselling service funded by the Victorian Government to provide free, confidential and independent financial advice to Victorians experiencing financial difficulty.

Consumer Credit Legal Centre NSW

Consumer Credit Legal Centre (NSW) Inc (CCLC) is a community-based consumer advice, advocacy and education service specialising in personal credit, debt and banking law and practice. CCLC operates the Credit & Debt Hotline, which is the first port of call for NSW consumers experiencing financial difficulties. We provide legal advice and representation, financial counselling, information and strategies, and referral to face-to-face financial counselling services, and limited direct financial counselling. CCLC also operates the Insurance Law Service, a national service assisting consumers with disputes with their insurance company.

A significant part of CCLC's work is in advocating for improvements to advance the interests of consumers, by influencing developments in law, industry practice, dispute resolution processes, government enforcement action, and access to advice and assistance. CCLC also provides extensive web-based resources, other education resources, workshops, presentations and media comment.