



Response to the
Senate 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

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About NESA

The National Employment Services Association (NESA) is the peak body for Australian employment and related services. NESAs was established in 1997 to be the voice of the industry and provide inclusive representation regarding the effective and efficient delivery of Australian employment services. NESAs is the only National peak body whose membership includes community, not-for-profit, private and public sector organisations and which represents all employment and related services programs funded by the Australian Government.

Our membership includes extensive coverage of providers involved in the delivery of Australian employment and related services. Job Services Australia and Disability Employment Services are the largest programs and which deliver employment assistance to the majority of Australia's unemployed citizens. These services are delivered through a network of approximately 350 organisations delivering services from 3500 sites across metropolitan, regional and remote locations.

NESA represents and advocates for the development and continuous improvement of the Australian contracted employment and related services industry. Our priority is to ensure that Australia has a vibrant and sustainable industry which delivers quality services to jobseekers and employers and is valued by the wider community for its social and economic contribution. Of particular focus to NESAs is ensuring the provision of appropriate services to assist disadvantaged jobseekers overcome barriers and support improved opportunities for employment and inclusion. To achieve this NESAs is focused on ensuring that it facilitates strong partnerships with stakeholders and supports its members in the development and application of business excellence and better practice.

The National Employment Services Association welcomes the opportunity to contribute to the 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.

Background

Australians value and support the social safety net provided through our social security mechanisms and its contribution to a cohesive and civil society. There is also clear support for the principle that individuals should take responsibility for undertaking steps to improve their circumstance and not be dependent on the welfare system to the extent they have the capacity to do so. The provision of income support along with services that can meaningfully assist citizens to improve their financial independence and longer term security through employment, wherever possible, is vital.

A considerable investment is made by Governments to ensure the welfare of its citizens and to provide services to assist them to address circumstance. Australian employment services objective is to assist jobseekers to prepare for and engage in sustainable employment.

In examining the adequacy of the payment system consideration should be given to the broader labour market assistance policy and program response to address unemployment. The payment system including activity requirements, compliance mechanisms and employment assistance services to assist people overcome barriers to employment form an integrated response to unemployment. The integration of these elements means that adjustments can have a flow on effect including unintended consequences in other areas and we therefore urge the Committee to consider all elements in forming its recommendations.

Income support should be adequate to support the variable level of activity requirements that recipients must meet to remain eligible for payment. The contractual conditions for employment services programs are linked to the income support system. Ensuring there are effective services available to assist jobseekers find and maintain employment is essential to supporting transition to work and independent financial security. In particular we note that employment outcomes are largely defined by reduction in income support payments. Amendments to income support payments including taper rates have a direct impact on the performance and stability of the industry with a substantial portion of resources used to support jobseekers derived from outcome payments. There is no desire to see jobseekers caught in a poverty trap. We recommend that changes to the payment system are accompanied by commensurate measures to employment services contractual arrangements to maintain an effective response to unemployment.

This submission seeks to provide comments and feedback representing input from employment services providers, as well as other stakeholder experiences in service delivery interactions including service participants, employers and community service organisations.

Response to 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;

There is an absence of an evidence based argument to support the notion that the current levels of financial support provided by Newstart or Youth Allowance is sufficient to support reasonable living, effective job search and activity requirements. The full rate of single Newstart Allowance at \$489.70 per fortnight provides support of \$34.97 per day. The maximum Youth Allowance payment for those over 18 years and living at home with no dependents is \$265 or \$402.70 for those out of home.

The level of support provided by income support allowances typically can only maintain individuals without significant financial stress for a very short period such as in the event of frictional unemployment. However, it is clear that individuals are now spending longer periods unemployed and dependent on income support for living needs. To illustrate, while a portion of people are able to transition to employment relatively quickly the average jobseeker duration of registration is 24 months according to DEEWAR administrative data at June 2012. Sixty – nine per cent of Newstart recipients have registration duration of 24 months or more with 13 per cent being registered 36 months or more.

It is useful to consider the adequacy of the payment levels in the context of poverty. While we recognise there is no definitive measure of the poverty line the following table released by the Melbourne Institute of Applied Economic and Social Research in the publication POVERTY LINES: AUSTRALIA ISSN 1448-0530 MARCH QUARTER 2012 provides a reasonable basis for considering the adequacy of payments as well as the relativity between payment types.

Table 4: Comparison of Henderson Poverty Lines with the income of adults who receive maximum welfare payments and have no other income, March Quarter 2012
(Per capita household disposable income = \$754.61 per week)

	Basic Payment of Person 1 ^a	Basic Payment of Person 2 (Partner) ^a	Family Tax Benefit Part A	Family Tax Benefit Part B	Rent Assistance	Total Income ^h	Poverty Line ⁱ
Married couple							
Allowee ^a	219.70	219.70	0.00	0.00	56.30	495.70	629.21
Pensioner ^b	282.25	282.25	0.00	0.00	56.30	620.80	540.25
Couple with 1 child ^c	219.70	219.70	82.32	23.61	70.07	615.40	756.35
2 children	219.70	219.70	164.64	23.61	70.07	697.72	883.48
3 children	219.70	219.70	252.63	44.82	79.24	816.09	1010.61
4 children	219.70	219.70	365.33	44.82	79.24	928.79	1137.75
Single adult							
Allowee ^d	243.40	-	0.00	0.00	59.70	303.10	470.36
Pensioner ^e	374.40	-	0.00	0.00	59.70	434.10	381.40
Single with 1 child ^f	320.75	-	82.32	48.79	70.07	521.93	514.80
2 children	320.75	-	164.64	48.79	70.07	604.25	641.94
3 children	320.75	-	252.63	70.00	79.24	722.62	769.07
4 children	320.75	-	365.33	70.00	79.24	835.32	896.20

Source: Information booklets on benefits and allowances are published quarterly by Centrelink. The booklets provide details of eligibility criteria and rates of payment for all income support and non-income support payments made by Centrelink on behalf of the Australian Government Departments of Families, Housing, Community Services and Indigenous Affairs and Education, Employment and Workplace Relations.

Notes:

^a A married couple without children receiving Allowances is assumed to be receiving Newstart Allowance.

^b A married couple without children receiving Pensions is assumed to be receiving the Age Pension or Disability Support Pension.

^c A married couple with children receiving Allowances is assumed to be receiving Newstart Allowance or Parenting Payment Partnered.

^d A single person receiving an Allowance is assumed to be receiving Newstart Allowance.

^e A single person receiving a Pension is assumed to be receiving the Age Pension or the Disability Support Pension.

^f A sole parent is assumed to be receiving Parenting Payment Single.

^g All basic payments for Pensioners include the maximum applicable Pension Supplement.

^h Total income is the sum of allowances, pensions and benefits for persons who have no other income. To be comparable with the poverty lines, total income reported should be net of personal income tax. However, allowing for offsets/rebates, no income tax would be payable for welfare recipients who received no other income. Hence, direct comparisons of total income with the poverty lines are valid.

ⁱ Poverty lines for single persons and married couples with up to four children are shown here, inclusive of housing costs. For recipients of allowances, the income unit head is assumed to be in the workforce, since recipients of the most common allowance, Newstart Allowance, are usually required to search for employment to be eligible for payment. For pensioners and sole parent families, costs are based on poverty lines for income units where the head is not in the workforce.

NESA membership is diverse and includes a number of employment services providers who also provide community and welfare services. We are also in regular discussions with stakeholders across the community services and health sectors and consumer advocacy groups. Our consultation indicates that there is a high level of demand for welfare support from income support recipients to meet basic living necessities with the demand placing many agencies under considerable stress. We note, for the sake of clarity, that the feedback we receive most prevalently indicates that it is the level of income and not how it is used by recipients that is the fundamental problem.

As indicated in Australia's future tax system Report to the Treasurer December 2009, "access to adequate housing is integral to a decent life and enabling full participation in society". Income support recipients' capacity to meet housing costs is a critical concern. We agree with the findings of the report which indicate that the levels of rent assistance are too low for many people to secure an adequate standard of housing and rent assistance indexation measures are inadequate.

While seeking to find the right balance in the income support structure the aim to have a social safety net which ensures citizens have the means to have a dignified existence is essential. As stated by the Treasurer the Hon Wayne Swan MP in his John Button lecture titled Land of Hope and Dreams recently, "*Central economic imperative is actually to avoid the class warfare that is fomented when inequalities of wealth, opportunity and living standards are allowed to mount unchecked. When you widen the wealth gap, you increase resentment and division*".

In considering the adequacy of payments it is important to recognise that people are often under financial stress from commencement on income support. The liquid assets test applied to claims for income support requires people to deplete their assets prior to qualifying for full payment. It is reasonable to expect those who have the capacity to support themselves, to do so without reliance on the social security system. However, the level of liquid assets permitted to be held for an individual to qualify for full payments means that they have insufficient reserves particularly where in addition to general living expenses they have liabilities such as mortgage or credit debts. Failure to meet such obligations can have significant long term impacts on financial independence and security even after returning to work.

We note that access to employment services assistance is also linked to the income support system with non-allowees only eligible for a very basic level of assistance. With the changing nature of the labour force and particularly the decline in opportunity for low skilled workers we see an increasing number of jobseekers who are unable to secure employment without assistance. Many of these require guidance and investment in them, to build skills to meet labour market demand or they are likely to remain long term unemployed and suffer greater financial impacts. Often by the time these people do qualify for support they have become very disillusioned and negatively impacted through disengagement from employment and service assistance. A key role of labour market programs is to minimise skills depletion from inactivity and opportunities to minimise skills atrophy are missed through non-engagement.

NESA supports the call for increases to allowances for income support recipients. We also recommend that there is a change to the indexation processes to ensure that allowances maintain relevance to average earnings rather than CPI. Without such a change increases to payments will be lost in real terms relatively quickly.

(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.

There is little doubt that the prospect of being financially better off in work rather than reliant on income support is an incentive for people to find paid employment.

We recognise that there is a need to ensure that the income support payment level does not create financial disincentives to work. However an overemphasis on the payment rate as an incentive suggests that unemployment is an individual problem rather than recognising the complexity and varied causes of unemployment. There are many factors influencing a person's employment prospects, despite motivation to find work. We also recognise that persistent financial stress created by insufficient financial support can have significant impact on personal wellbeing. A necessary focus on making ends meet, juggling bills, protecting housing and other remaining assets can diminish effective work preparation and job search activity. Inability to maintain personal resources such as telephone, private transport and interview clothing impacts on job search and employment prospects. Rather than being an incentive, this situation can have the perverse outcome of reducing motivation with individuals often experiencing distress and hopelessness in their daily circumstance.

While Australia's official unemployment rate is relatively low, it must be acknowledged that there is a high degree of disparity between unemployment rates by location. As such while there is seemingly reasonable employment opportunity available it is often mismatched with the population spread. There are challenges in focusing on financial incentives to work through low benefit rates where depressed local economies are a factor contributing to duration of unemployment. In Australia's patchwork economy, incentives from low benefit rates are unlikely to have a positive impact on the transitions from welfare to work and have potential to compound disadvantage in depressed local economies.

Disparity in participation rates also exists between different groups within the population who face greater barriers to employment often related to issues they cannot change such as gender, age, disability and cultural background. There has also been a rise in the level of skill demanded by the labour market which is not aligned to the skills held by income support recipients. The majority of long term income support recipients are low skilled and have low educational attainment and no vocational qualifications. This trend is likely to continue with industry which has in the past provided employment for low skilled workers currently either in decline and/or making technological shifts which require higher skills.

To illustrate the challenges faced by jobseekers beyond motivation, Australian Bureau of Statistics (ABS) January 2012 release of Job Search Experience, Australia stated that the percentage of long-term unemployed (people unemployed for one year or more) was 19% in July 2011 compared to 18% in July 2010. Of these, around 83,000 (or three quarters of long-term unemployed people) were looking for full-time work. The report indicated that for long-term unemployed people the most common difficulties in finding a job were 'own health or disability' (17%), 'lacked necessary skills or education' (13%), followed by 'too many applicants for available jobs' (11%). For unemployed people aged 15 to 24 years, the main difficulty in finding work was 'insufficient work experience' (17%), while for those aged 45 years and over it was 'considered too old by employers' (18%). Four out of five unemployed people (80%) had not received any offers of employment in the current period of unemployment. Of the short-term unemployed people, 13% reported that they had no difficulties in finding another job.

[\(ii\) 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](#)

The Independent Review of the Job Seeker Compliance Framework 2010 indicated that an underpinning principle of our framework is “that unemployed people who wish to receive income support from the government should be required to make reasonable efforts to obtain employment. These requirements can appropriately include attendance at appointments and activities which are likely to improve the jobseeker’s prospects of employment, including assessing the kinds of barriers which he or she may face and the kinds of assistance which may be needed.”

Activity requirements applied to income support payments such as Newstart and Youth Allowance support development of employability as well provide strong incentives to work. Activity requirements have increased substantially over the past decade while payment rates have fallen in relative terms. A recent addition to activity requirements is compulsory activities phase (CAP) for activity tested income support recipients who have been unemployed for two years or more. CAP requires approved activities to be undertaken for eleven months of each year. There is participation costs associated with such requirements which puts further pressure on jobseekers’ financial circumstance. Jobseekers who receive income support and participate in Work for the Dole activities, including full-time Work for the Dole, may be entitled to a supplement of \$20.80 per fortnight to assist with the costs of participation. There is inequity with a range of activity requirements carrying equal cost but no participation supplement being made available which adds to financial stress, undermines engagement and increases the risk of compliance action. The Work for the Dole supplement has not been regularly indexed and has remained relatively stable since its introduction. While activity requirements vary the supplement is the same for all jobseekers including those with full time requirements. We recommend providing a participation supplement to all activity tested jobseekers properly engaged in activities to alleviate the financial burden and increase participation.

[\(iii\) the impact of the differences between pensions and allowances on the transition between working and other activities;](#)

The growth in the inequality between allowances and pensions is considered to be inappropriately high. The disparity in the payment rates, associated benefits and participation/activity requirements has also driven some unintended impacts. In cases where jobseekers are unsure of their capacity to participate they are sometimes inclined to focus on incapacity in order not to jeopardise their potential to successfully claim a pension. Likewise those on pensions can focus on the risk of losing eligibility for a pension with a higher payment and associated benefits if they test their capacity to work. Often such risks are about the long term sustainability rather than short term return to work. Risks are seen in relation to personal capacity as well as insecurity of employment within the labour market. Such perceived risks have been heightened with the increased eligibility requirements applied to the Disability Support Payment. The variation in payments also creates considerable stress for recipients as they move between payments at different life milestones such as from Parenting Payments to Newstart.

(c) the impact of the changing nature of the labour market, particularly the rise of insecure work and decline of unskilled jobs, on the:

(i) nature and frequency of individual interaction with the allowance payment system.

The Australian labour market has undergone significant change over the last decade. There is a stark contrast to the contemporary labour market to that of old in which Australian workers were predominantly full time and often had life-long work with a single employer. 'Blue collar' work was predominant a decade ago most often involving physical work, associated with trades and lower skilled jobs. The broad patterns of industrial change over the last 45 years can be seen in the occupations in which Australians work today. There has been a significant shift to the service sector as the major employer in the Australian labour market with the decline in production reducing opportunities for blue collar workers, and increased the opportunities for white collar workers. The most common occupations in August 2011 were Professionals (22%); Clerical and administrative workers (15%); and Technicians and trades workers (14%).

The ABS report, Forms of Employment Australia, released in April 2012 indicates that in November 2011, there were approximately 11.4 million employed persons aged 15 years and over. Of these, 4.3 million (38%) were employees without paid leave entitlements, that is, not entitled to paid sick and/or paid holiday leave. Of those without entitlements to paid leave 2 million were independent contractors or business operators and 2.2 million or 19% of the workforce is casual employees.

The change to the Australian labour market and particularly the strong component of part time and casual employment has implications for the income support system and the nature and frequency of individuals interaction with it.

The OECD paper Increasing Financial Incentives to Work: The Role of In-work Benefits (2005) noted that ensuring that the provision of welfare benefits is consistent with work incentives had become a major policy priority in many OECD countries. Maintaining gaps between benefit levels and work income provides some incentive however other strategies for increasing the degree to which people are better off in work should also be considered. In-work benefit programmes have been introduced by several OECD governments as a means of raising the financial returns to working. These programmes vary widely in terms of characteristics such as the generosity and the income level and rate at which benefits are withdrawn. The report states "*only in-work benefit programmes that have a sufficiently large impact on financial incentives to work are likely to translate into potentially significant increases in employment rates*". When in-work benefit levels are very low, they are unlikely to have much impact on employment outcomes.

In examining the effectiveness of the payment system consideration should be given to the experience and impact of unemployment itself on employability. Simply being unemployed disadvantages people in the labour market and the loss of skills that can occur when people are disengaged makes finding work more challenging. Most observers would agree that some work is better than no work. In considering incentives to work jobseekers report that a major motivator to find substantial work is being able to remove themselves from the 'system'. Activity requirements will continue to provide a strong incentive even if financial drivers are reduced through higher payments. However, many consider that the current taper rates provisions for Allowances and particularly Newstart create a disincentive to seek partial employment as a transitional pathway into more substantial work.

With a reduction in Newstart Allowance commencing after the first \$62 (less than 4 hours work per week at the minimum wage) people are often not better off in work if they take up partial employment particularly where consideration is given to the cost of participation (travel, work clothing etc.). We also note the cut off points for allowances can be less than the minimum wage. For example the cut off for Newstart (single no

dependents) is \$909.50 per fortnight or income of \$454.75 per week whereas the minimum wage is \$606.40 per week. We also note that the loss of associated benefits such as a Healthcare card and transport concessions also reduces the financial benefits from work.

Given the prevalence of casual employment in the Australian labour market such pathways should be encouraged to maximise participation. In saying this, the employment services industry strongly considers that improved in-work employment support for career advancement should be made available to ensure people do not transition from welfare to working poor. We note the OECD Employment Outlook 2012 indicates that at 7.2% Australia's underemployment rate is much higher than the OECD average of 5%. As indicated earlier, assistance to non-allowees to improve the quality of labour market engagement is generally not available through Australian employment services. While we recognise that services are rationed to those most in need, investment in services to assist the underemployed has potential to support improved workforce participation, productivity as well as alleviating poverty.

The Australian Social Inclusion Board in its paper *Breaking the Cycles of Disadvantage* noted that an income support recipient will often weigh the risk of taking a job, which may not have long-term prospects and may involve costs in terms of transport, public housing eligibility and childcare, against the security of a regular, albeit lower, payment in the form of a Newstart Allowance, Disability Support Pension (DSP) or other associated benefits such as a Healthcare Card.

Experiences of income support recipients engaging with income support in the first instance impacts on their confidence to withdraw. The greater initial challenges and processes the more reluctant people become to disengage. This was also identified by the Australian Social Inclusion Board in *Breaking the Cycles of Disadvantage* who noted that *"the various waiting times to get back on Newstart Allowance and the hurdles required to get back on the system once you were out of it, act as serious disincentives to taking short term or insecure work. They were also a source of ongoing anxiety for many people"*.

This reluctance to withdraw was particularly noted in relation to people who were not confident in their capacity to participate such as those with episodic conditions such as ongoing mental illnesses. We note for clarity that many people with such conditions are in receipt of activity based payments and amendments implemented to Disability Support Pension are likely to see these numbers increase.

While amendments to taper rates are recommended we stress that commensurate amendments are made to the contractual arrangements for Australian employment services to ensure that adequate employment assistance support can be provided.

[\(ii\) over and underpayment of allowances to recipients.](#)

The social security system is complex with a range of payments and supplements available to assist citizens. A lack of transparency has resulted from the complexity of the system with many people finding it difficult to understand what they are entitled to. This complexity also results in income support recipients being unable to properly assess how they may be better off in work. The income support cycle and working pay periods are most often not in sync and result in errors in declared earnings (over and under). With casual incomes having potential to be highly variable there is also greater risk of over and under payment particular by those who are on extended reporting periods.

There would be benefits for all parties if reduction in the overall complexity of the social security system could be achieved. Where there is an over payment of allowances to recipients as a result of administrative error or interactions with the Child Support Agency recovery should be at a rate which does not further compound disadvantage or discourage participation.